Lloyd's List

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Skou says big ships not to blame for port congestion

LA and Long Beach slow to recover as number of ships at anchor climbs to record high

LA and Long Beach ports have been slow to recover as the number of ships waiting to berth remains at record high.

CHINA Shipping's 8,500 teu *Xin Da Yang Zhou* has been waiting to berth in Los Angeles for almost three weeks, one of some two dozen containerships still stranded in anchorages off southern California despite a tentative agreement on a new labour contract for longshore workers inked a fortnight ago, *writes Janet Porter.*

Although operations in the giant LA/Long Beach complex are now returning to normal after months of work slowdowns, this has had no discernible impact yet on the number of ships at anchor in San Pedro Bay.

The two ports are managing the process to clear the backlog to ensure quaysides are not clogged with containers.

That has left the anchorages both within the harbour and just outside packed, with the total number of ships waiting soaring to 36 on Friday, and falling by just one to 35 on Sunday morning as some ships went to berth and others arrived. At the last count, there were 23 containerships a anchor.

Many of these are 8,000 teu or larger, with the biggest currently in the anchorage the 12,500 teu *CMA CGM Alaska*, which arrived on Friday.

Some, though, have been stuck for more than a fortnight, including Maersk's 7,600 teu *Gerner Maersk* which arrived in southern California on February 20, having set sail from Shanghai on January 27, according to AIS sightings.

Consequence of alliances

Although Maersk Line's sister company APM Terminals operates the Pier 400 facility in Los Angeles, which has had fewer delays than some, *Gerner Maersk* is waiting to berth at Total Terminals International's Pier T in Long Beach.

This is one of the consequences of the new alliances, with Maersk's 2M partner Mediterranean Shipping Co having interests in two Long Beach terminals.

As in other alliances, that means ships in a particular service string will not all call at the same terminal.

Some of the other consortia have been hit even more badly by this situation. The G6 alliance consisting of APL, OOCL, MOL, NYK Line, Hyundai Merchant Marine and Hapag-Lloyd, of which the first five have their own terminals in LA/Long Beach, has suffered severe delays.

So too has the CKYHE alliance. Cosco Container Lines' 8,500 teu *Cosco Korea* has been at anchor for several days.

China Shipping, a member of the brand new Ocean Three alliance, appears to have been one of the worst affected, with five vessels at anchor at one stage over the weekend, according to the Marine Exchange of Southern California, including the just-arrived 10,000 teu *CSCL East China Sea*.

The 10,000 teu *CSCL Spring* was one of five ships that finally berthed on Saturday.

These big ships have been blamed by some for adding to the logjam, a view discounted by Søren Skou, chief executive of Maersk Line which operates ships of up to 13,000 teu on the Pacific through the 2M alliance.

"I just don't get it," he told Lloyd's List.

"I simpy fail to understand the argument. How could

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bringing in a big ship so that you can work all the containers on one ship be a negative in terms of productivity?"

Generally, container terminals respond to complaints about low productivity by saying there are too few moves on smaller ships which nevertheless take the same time as a larger vessel to bring in and out of the port, said Mr Skou.

"So how can bigger ships contribute to low productivity, especially in a place like Long Beach where pretty much everything on the ship has to be offloaded."

The difficulty associated with the alliances is not so much one ship calling at multiple terminals. Confusion has been caused by the fact that the cargo of maybe five or six different carriers will be on the same vessel. Those containers then have to be repositioned within the port complex, creating congestion in the yards as freight trains are loaded or truckers call to pick up consignments.

Oakland has said it expects to clear its vessel backlog, currently down to six ships, within 10 days.

Los Angeles and Long Beach have not specified how long it will be before the anchorages are empty, but have said port operations should be back to normal within three months.

All US west coast ports are also hoping for a lull in ship arrivals as fewer were loaded in Asia during the Chinese new year holidays.

More immediately, though, another 11 newcomers were expected off LA/Long Beach yesterday, of which five will be containerships, followed by 13 more today, including five boxships.

Of those at anchor over the weekend, four had capacities in excess of 10,000 teu.

The cost to cargo owners, carriers, terminal operators, railroads. hauliers and others caught up in the gridlock runs to billions of dollars.

In addition to the specific delays caused by congestion at west coast ports, shippers are also having to have more stock in the pipeline because of slow-steaming.

Dan Cronkright, global logistics procurement manager for Dow Corning, told last week's TPM conference that longer transit times probably cost the company about $10m, while another beneficial cargo owner with some $5m worth of merchandise per container noted that average sailing times from New York to Shanghai had increased from about 28 days to 40.

Alliances have also complicated the picture, say shippers who are not always sure whose ship their cargo will be on as ocean carrier partnerships "form and re-form".

Alliances not the answer to container shipping's financial woes
Morgan Stanley's Doug Hayes says only full-scale consolidation will lift industry profits to a sustainable level
http://www.lloydslist.com/ll/sector/containers/article458341.ece

Korea Eximbank launches $898m eco-ship fund

Government-owned lender signs initial deals with HMM and Korea Lines

KOREA Eximbank has launched a Won1trn ($898m) eco-ship fund to support South Korean carriers and yards, with two financing deals totalling $43m done with Hyundai Merchant Marine and Korea Lines initially, *writes Max Tingyao Lin.*

With Won250bn from Kexim and the rest from pension funds, insurers, commercial and investment banks, the three-year fund aims to support South Korean carriers that wish to operate or acquire energy-efficient tonnage built in the country.

The fund has relatively low criteria for eco-ships, only requiring them to meet the International Maritime Organization's Energy Efficiency Design Index benchmarks, yet it also comes with a strong focus on local content.

The fund is to buy $27m bonds issued by Hyundai Merchant Marine to fund four capesize bulk carriers from Hanjin Heavy.

"Vessels built in foreign yards are not eligible for this scheme... purchases of Korea-built ships from foreign owners by South Korean carriers are not preferred," said a Kexim official.

The export credit agency will lead the fund's transactions but the participation of each institutional investor is subject to its own discretion.

The fund, which can be denominated in either the US dollar or the Korean won, mainly aims to provide junior debt or equity to shipping companies purchasing eco-ships.

In its first deal, the fund agreed to buy $27m bonds issued by Hyundai Merchant Marine to fund four capesize bulk carriers under construction at Hanjin Heavy Industries & Construction, Kexim said on its website.

Separately, Kexim and ABM Amro signed senior debt deals to contribute $72.5m each to fund the newbuilding vessels, which will be delivered this year and next. Those ships, booked for a total of $181m in 2013, will carry thermal coal from Western Australia to the South Korean coast for Korea Electric Power Corp subsidiaries for 18 years.

The eco-ship fund's second deal was a $16.4m loan to support the operation of Korea Lines' two 180,000 dwt bulkers tied to 11-year charter contracts.

Of the two 2009-built ships, one is carrying iron ore for Hyundai Glovis and the other shipping coal for Posco.

"Our co-investors generally have bigger appetite for vessels attached to long-term charter deals," which can reduce financing risks, the Kexim official said.

To complement the loan, Kexim has separately led a senior debt deal to lend $65.6m to Korea Lines.

Yangzijiang confirms Beijing asked it to take stake in loss-making Rongsheng

Yangzijiang founder Ren Yuanlin will quit as chief executive and taps his son for role

YANGZIJIANG Shipbuilding has been approached by the Chinese government to take a stake in severely ailing Rongsheng Heavy Industries, Yangzijiang said in a clarification announcement to the Singapore Stock Exchange, *writes Tom Leander.*

News that Yangzjiiang was in talks over Rongsheng was disclosed by Upstream, an offshore new publication.

"Yangzijiang has been approached by relevant government agencies and company to explore the possibilities for Yangzijiang to consider an acquisition of some stake in the said company," the Singapore-listed shipbuilder said in the statement.

"As of the date of announcement, the management of Yangzijiang Shipbuilding has not made any decision regarding the acquisition"

Ren: Stepping down as chief executive at Yangzijiang

More shipbuilding news online

CIMC Raffles grabs back $72m in dispute with Brazilian driller

http://www.lloydslist.com/ll/sector/ship-operations/article458354.ece

The acquisition of an unspecified stake in the ailing company by Yangzijiang would pair the comparative biggest loser with the biggest winner in China's non-state-owned shipbuilding market.

Rongsheng has said that it will get out of shipping entirely after years of losses as orders collapsed and liquidity woes. It announced last year that it would refashion itself as an energy company following the acquisition of a property Kyrgyzstan.

Rongsheng was the yard that won a huge order from Vale to build some of Brazilian miner's fleet of 400,000 dwt mega bulkers. But the yard got caught in the political cross-fire when China's government imposed a ban on the big ships entering China ports under pressure from local shipping companies.

Yangzijiang, in contrast, reported $515m in profits for 2014 and has won orders from a diversified group of owners including Fortescue Metals Group and Seaspan.

Meanwhile, Yangzijiang also announced that its founder and chief executive, Ren Yuanlin, would step down as chief executive, allowing his son, Ren Letian, to assume the post. The younger Mr Ren is currently the general manager of Jiangsu New Yangzi Shipbuilding. He will take up the post as of May 1.

The elder Mr Ren will stay on as executive chairman of the company.

Ocean Victory case: Kashima and other ports are safe again

UK Court of Appeal brings relief to charterers in safe port claims

HOW could a modern port with a strong safety record become "unsafe" in the legal sense? *writes Max Tingyao Lin.*

The case of *Ocean Victory* shows vessel charterers could have faced more liabilities arising from alleged breaches of the safety port warranty in standard contracts when sailing to and from most ports in the world — if the Court of Appeal didn't bring them relief in a recent decision praised by legal experts.

The 2005-built, 174,148 dwt bulk carrier was owned by Ocean Victory Maritime and bareboat chartered as a newbuilding ship to associated company Ocean Line Holdings.

Both entities are affiliates of Hong Kong-based owner Ocean Longevity.

In 2006, *Ocean Victory* was chartered to China National Chartering (Sinochart), a Sinotrans & CSC Holdings' subsidiary that subsequently sub-time-chartered the ship to Daiichi Chou, a Japanese dry bulk operator whose largest shareholder is Mitsui OSK Lines.

All charter parties are obliged to trade the ship between safe ports.

In October 2006, *Ocean Victory* arrived at Kashima, Japan to discharge iron ore from Saldanha Bay in South Africa.

The discharge operation was halted due to strong winds and heavy rain.

Then, the vessel sought to leave the port for open water amid long waves and severe northerly gales, but was driven back onto a breakwater wall.

Ocean Victory was grounded, broke apart and become a total loss, while the crew was rescued.

The owner and bareboat charterer claimed Kashima was an unsafe port and received $70m from hull insurers. One of the insurers, Gard, took an assignment of their rights in regards to the grounding and total loss in 2008.

As a subrogated underwriter, the Norwegian insurer launched a case in the Commercial Court against Sinochart for damages from the vessel loss in 2010. In turn Sinochart initiated its own

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proceedings against Daiichi Chuo.

In July 2013, the court ruled the charters were in breach of the safe port warranty and the liabilities were passed on the last charterer, Daiichi Chuo. As a result, Gard was entitled to nearly $138.2m claims from the Japanese operator, including $88.5m for the loss of vessel, $12m for salvage services, $35m for wreck removal, and $2.7m for loss of earnings.

In particular, the judge, Mr Justice Teare, deemed Kashima unsafe as long waves and gales were both prevailing characteristics of the port and the coincidence of them was rare but "at least foreseeable." Therefore, the judge said the weather condition at the time of casualty was not an "abnormal occurrence."

Legal implications

The first instance decision was described as "surprising and somewhat controversial" in a note from Holman Fenwick Willan. Many charterers in Japan and other countries were worried about its legal implication on the definition of "safe ports," especially when Kashima, commissioned in 1969, has not encountered any similar accidents before or after *Ocean Victory*.

"The real concern for the first instance is any port on the plant could be considered unsafe," Clyde & Co's Shanghai-based partner Andrew Rourke told Lloyd's List. "The number of unsafe port claims has risen since the first ruling."

Following the ruling, Kashima, along with many other ports, can be considered 'safe' again. *Kamisu Ibaraki/WikiCommons*

Daiichi Chuo, which has faced heavy losses in recent years, decided to bring the case to the Court of Appeal. In a welcome development to charterers, the court overturned the first instance in January, suggesting that Kashima, along with many other ports, can be considered "safe" again.

The court reckoned Teare J failed to consider the frequency of long waves and gales happening at the same time. While the two might be considered port characteristics, their coincidence based on historical evidence was not. Therefore, the court ruled the Ocean Victory casualty indeed resulted from events of "abnormal occurrence," which effectively gave the charterers a waiver of safe port warranty.

"We consider with all due respect that the logic of the judges' approach to the issue of abnormal occurrence is flawed," the writ reads.

'Evidence is king'

The Court of Appeal's decision has generally drawn praise from law firms. "The… judgment should be welcomed, if only to re-confirm that the correct approach as to whether an event is 'abnormal' for the purposes of a safe port warranty," a note from Reed Smith said. "Without doubt evidence is king."

The court also found the liabilities cannot be passed down from the bareboat charterer to Daiichi Chuo in the Ocean Victory case.

As the owner and the bareboat charterer were insured in joint names while the latter paid the premium, the court ruled the two were planning together to insure the ship against loss or damage. As such, the bareboat charterer cannot recover claims from other charterers after receiving money from insurers.

"The effect of the Court of Appeal's construction of the insurance arrangement clause in the demise charter will…be felt positively for those charterers and sub-charterers who are in a chain of charterparties where there is a demise charterer who has agreed to pay for the insurance for the joint benefit of themselves and the owners," HFW's London-based partner Jean Koh said in a note.

"Effectively, they will get a 'free ride' in the event of a breach of the safe port warranty, although there is still the possibility of a direct claim in tort (or bailment) from the owners."

Gard is eligible to petition to the Supreme Court for permission for a further appeal. It declined to comment on whether it plans to do so.

So, how will Maersk Line manage to improve profitability in 2015?

Danish carrier has worked hard to cut costs but improving profits this year could be challenging given that freight rates are on the decline

MAERSK Line delivered another impressive set of results last year as profits increased to $2.3bn in 2014 from $1.5bn in 2013, revenues increased 4.4% to $27.3bn and earnings before interest and tax rose 59.4% to $2.5bn, *writes Damian Brett*.

The improvements were mainly derived from the carrier's cost reduction programme that saw its unit cost per feu decline from $2,731 in 2013 to $2,630 last year.

But the carrier has been driving cost out of its business since it recorded a net loss of $553m in 2011, when unit costs stood at $3,108 per feu.

But it begs the question of how Maersk Line will manage to improve profitability in 2015? After all, there is only a certain amount of costs that can be removed.

It certainly doesn't seem like Maersk Line will be able to rely on improved freight rates to boost profitability. The carrier's average revenue per containers has declined for the last three years, dropping from $2,881 per feu in 2012 to $2,630 last year and the trend looks set to continue.

Maersk Line has been keen to emphasise that the industry must learn to live with overcapacity and therefore declining freight rates, a regular refrain from executives from the Maersk group

This year overcapacity will increase. Maersk is predicting

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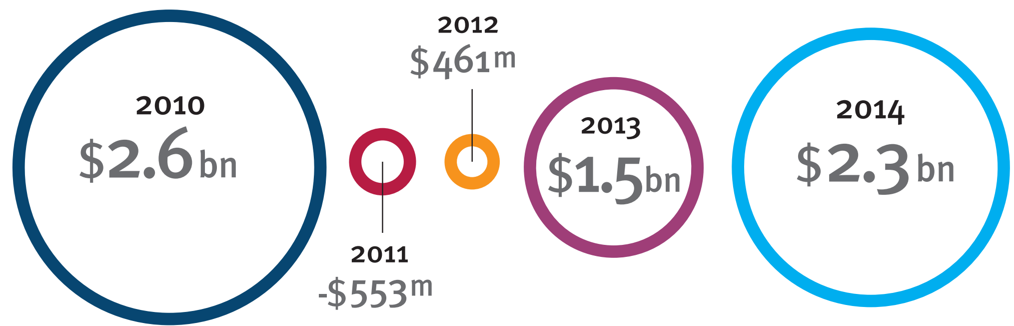
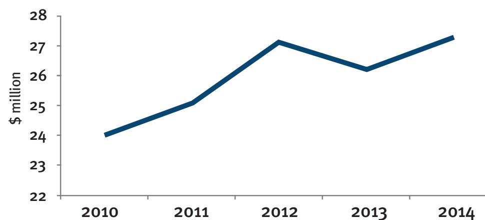
MAERSK FINANCES

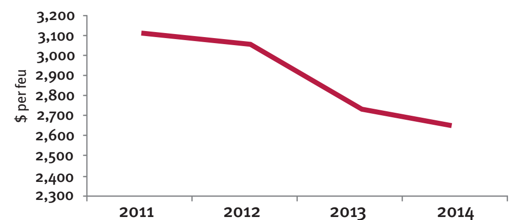
Net operating profit in 2010-2014



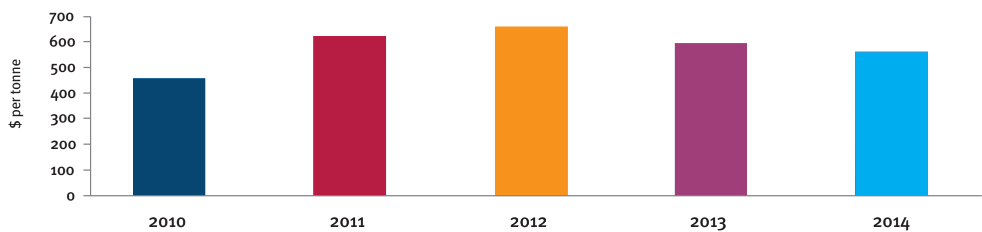
Revenues 2010-2014



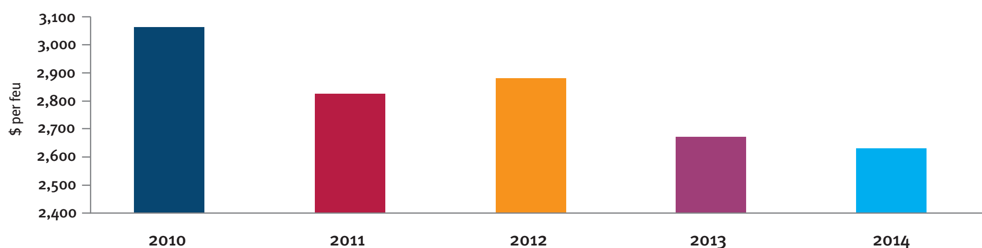
Unit cost 2011-2014



Average bunker 2010-2014



Average container revenue 2010-2014



Source: Containerisation International

volume growth of 3%-5% for 2015 while Lloyd's List Intelligence data shows that the world container fleet, including predicted scrapping activity, will increase by around 9%, adding further to oversupply.

Maersk Line's growth estimates are perhaps below that of other pundits and there have been suggestions it is the market leader's interest to adopt rhetoric around ongoing overcapacity, but in the short term the facts speak for themselves.

So far this year rates look like they are coming under pressure. The Shanghai Containerised Freight Index composite index has averaged at 1,054 points over the first eight weeks, compared with 1,176 points last year.

While this decline is largely being driven by lower bunker charges, congestion experienced at US west coast ports has temporarily boosted rates to the east coast and eaten through some of the excess capacity as carriers bring in extra loaders to mitigate delays.

But even with these lower rates in mind Maersk Line believes it will be able to improve on its 2014 performance.

Savings from 2M

The most obvious area of saving will come from the start-up of the 2M alliance with Mediterranean Shipping Co in January.

In an interview with Containerisation International shortly after Maersk Line announced its full-year 2014 results, the shipping line's chief executive, Søren Skou, said: "In our guidance we are saying we are expecting an improvement of the underlying result of $2.2bn that we achieved in 2014 and that is driven by a number of things, but the 2M is a big part of that.

"At our capital markets day [in September] we said we expected $350m in annualised cost savings from [2M] when it is fully implemented.

"We still actually expect savings to that level despite the fact that the fuel price is lower than it was when we went into this and that means that we have been able to make it even more efficient than we thought we would be able to when we started out."

Further improvements would be made on the operational side of the business, he said, but also on its sales, general and administration costs.

"We made savings in SG&A last year and we hope to do the same again by making sure that we don't grow our organisational footprint or our admin costs, but we grow our volumes. That means that our average cost per unit will continue to come down."

Port cost increases, which were up 7.6% last year, may also be limited by the operation of fewer but larger ships, which in turn result in fewer port calls.

Another area where Mr Skou said Maersk Line, as well as others in the industry, will derive savings next year is lower bunker costs.

Although Rotterdam IFO 380 bunker prices have increased over the last few weeks to around $320 per tonne compared with a low of around $240 recorded in mid-December, they are still far below the level of $590 per tonne that was being recorded this time last year.

Analysis carried out by Alphaliner show that if bunker prices remain at current levels it will reduce Maersk Line's bunker outgoings by $2.1bn based on the consumption of 8.8m tonnes of fuel.

While not all of these savings will benefit Maersk Line, because it offers customers

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a floating bunker charge, Alphaliner says that the carrier will retain around 20% of the fuel cost savings, with the rest passed onto customers.

Investment bank RS Platou expects the lower bunker prices to translate into a $400m-$450m saving for the shipping line in 2015.

However, these savings could also be eaten away by carriers using the lower bunker prices to offer customer reduced rates, or increases in the cost of fuel in the future.

Vessel speeds

One area where Maersk Line doesn't expect to make any further savings is through vessel speed increases.

Mr Skou insists that it would not be in the shipping line's interest to speed up ships, even though some analysts have suggested that the low fuel prices mean carriers can reduce costs by increasing sailing speeds and removing vessels from loops.

At a bunker price of $300 per tonne, 11 vessels on an Asia-Europe service is in fact the optimal number of vessels, he said. "On Asia-Europe, we have gone from nine ships to 11 ships over the last seven years in a weekly rotation, but we should have gone to 13 ships if we wanted to reach the optimal where the cost savings from slower speeds was more than the cost of adding ships.

"We never got to 13 ships because of course we couldn't sell it to the customers.

"We are not planning to speed up the network because 11 ships is the optimal number with bunker prices at $300 per tonne.

"On top of that, a number of other things have happened such as the time we spend at port has increased by a week in Asia-Europe so we can never go back to nine ships again."

Looking further ahead, the continued purchasing of fuel efficient and larger ships seems to be where the shipping line intends to carve out further savings in the future.

Maersk Line has $3bn a year to invest between 2015 and 2019. Mr Skou said this would be split between investments in ships, containers, retrofitting for efficiency gains and IT systems. It has been widely reported that vessel orders will include more Triple-E size ships, which can carry 18,270 teu.

With the fuel price declines and savings achieved through the 2M alliance in mind, it is hard to see Maersk Line not beating its 2014 performance this year and perhaps even rivalling its record profit of $2.6bn recorded in 2011, as the industry bounced back from the global financial crisis.

RS Platou certainly expects the carrier to beat this record on the back of fuel price savings, the 2M alliance and an estimated 6.9% increase in volumes. Overall, it has forecast a $3.2bn profit for the container carrier in 2015.

More containers news online

Box Ships sees rising rates for container vessels
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Hamburg Süd 'profitable', Gast confirms
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SITC reports 7% higher net profits in 2014
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OOIL's profits soar to $270.5m
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Fresh warnings issued over VLGC oversupply

Spot rates on the rise, but it's hard to ignore swelling fleet

VERY large gas carrier spot rates are back on their upward trajectory, but fresh warnings have been issued over a future oversupply of tonnage, *writes Hal Brown*.

Lower oil prices limiting oil drilling, and consequently future production of oil and gas by-product liquefied petroleum gas, is creating concern over potential vessel oversupply, according to shipbrokers Banchero Costa.

In 2014, there were 38 orders placed for new VLGCs, the broker said in a newly-published study.

In 2015, the VLGC industry is expecting the delivery of 36 new VLGCs into the fleet, leading to a 23% growth in fleet capacity.

Similar levels are expected in 2016, with a 22% fleet growth as a result of 43 deliveries, the study noted.

"The decrease in oil prices and the negative impact on US LPG production and the resulting availability of LPG for exports, in combination with the large number of deliveries in 2015 and 2016, may create an issue of oversupply," the broker warned.

For now, though, the industry is enjoying the positives that have developed over the last year or so.

Lower bunker prices are a boon.

Moreover, the LPG export capacity of Middle Eastern producers is increasing, as a number of new projects are expected to come online, especially in Qatar and Abu Dhabi, according to Banchero Costa.

Qatar has surpassed Saudi Arabia as the biggest LPG exporter in the region, it noted.

However, growth in US LPG exports is currently the biggest structural change in the trade, allowing Asian consumers to diversify their imports which are mostly sourced from the Middle East, it added.

VLGC spot rates on that Middle East to Asia trade, the traditional benchmark, are now $100.81 per tonne, up from $99.62 per tonne a week ago, according to the latest Baltic Exchange data.

This represents high earnings on the spot market of more than $97,000 per day for owners of modern VLGCs sized 82,000 cu m, according to Clarksons' data.

At these high levels of earnings in the spot market, it's hardly surprising that owners are being tempted to expand fleets.

Kyoei Line has placed an order for a VLGC at Mitsubishi Heavy Industries in Japan, delivery scheduled for April 2017. The vessel will enter into a long-term time charter with Astomos.

VLCC market is still promising, says China Merchants Energy Shipping

Oil demand from developing countries and floating storage are the two key factors

CMES sees the market being bolstered by increasing oil imports into China and India, and the rising demand for floating storage.

CHINA Merchants Energy Shipping remains upbeat about very large crude carrier prospects, as it sees the market being bolstered by increasing oil imports into China and India, and the rising demand for floating storage, *writes Cichen Shen*.

The Shanghai-listed shipowner, which has 44 VLCCs in its fleet, said in a recent report that despite the falling imports by Organisation for Economic Co-operation and Development countries, tankers' utility would remain high as oil demand in developing countries was high.

China's appetite has grown bigger and bigger in recent years. Data from China's National Bureau of Statistics shows that the country imported 310m tonnes of crude oil last year, a 9.5% increase compared with 2013. Some even predict that it will outstrip the US and become the largest oil importer soon.

Offset falling imports

By contrast, imports from OECD countries decreased at an average rate of 2% over the past five years, according to the International Energy Agency.

"China's rising demand for crude oil will offset the US's falling imports, which boosts cargo volume of long-distance shipment," the report said.

An October Clarkson report supported the view, showing that US imports of Caribbean crude have declined by an average annual rate of 4.3% between 2007 and 2013, whereas China and India have increased their imports from the region by 20.6% and 38.7% respectively between 2007 and 2014.

It said: "With a voyage distance of roughly 13,000 miles to China and 10,000 miles to India (compared with approximately 2,000 miles to the US), the growth in these shipments has boosted Caribbean crude tonne-mile exports significantly. Total crude tonne-mile exports from the Caribbean are forecast to hit 1,109bn in 2014 (640bn more than in 2004), growing by a CAGR of 9.0% from 2004-2014."

VLCCs there have benefited most as they are used to transport the majority of crude from the region to China and India.

CMES also pointed to floating storage as an important factor.

"The demand for crude oil storage is rising constantly while the on-land facilities are saturated," it said.

"Floating storage might be the only option to expand the room."

Figures from observers

The company's assertion is based on figures provided by industrial observers such as the International Energy Agency, the Energy Information Agency in the US, the Organisation of the Petroleum Exporting Countries and investment banks, who forecast the spread between the oversupply of world crude-oil — average stock building — could range from 600,000 and 1.3m barrels per day in 2015.

Under this scenario, some 80-110 VLCCs could be put to use as floating storage by June this year.

Other observers, such as Poten, think it is unlikely to occur, at least not through the end of the year, as demand will not grow quickly enough to absorb the current excess supply, and the likely production cuts will raise oil prices and dispel the incentive to store crude.

However, CMES remains optimistic about the future. It predicts the VLCC oversupply ratio will be narrowed to 14% this year and further to 10% in 2019, down from 16% in 2014.

As a result, the company has adoped a strategy of expanding its VLCC fleet size while lifting its financial leverage level, according to its report.

By taking over 18 VLCCs from Sinotrans & CSC's Nanjing Tanker last year, the company now has 31 such type of vessels on the water, with 13 more newbuildings expected to be delivered in the next three years. It will possess the world largest VLCC fleet by 2017.

Its debt-to-asset ratio has edged up to 39% by the end of September 2014, compared with 37% for 2013.

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Norwegian Cruise Line opts for underwater bubble technology

Cruise operator to install air lubrication system in bid to cut fuel bills

NORWEGIAN Cruise Line is the latest shipowner to invest in underwater air bubbles to help reduce fuel bills, *writes Craig Eason*.

The New York-listed cruise operator will have a newbuilding at Germany's Meyer Werft shipyard constructed with a system designed by Silverstream Technologies, the UK-based green technology innovator that was previously known as DK Group.

The newbuilding, *Norwegian Bliss*, will be delivered in early 2017, and the shipowner has an option for two more vessels with the technology. In 2012 NCL's competitor Carnival said it would install a similar system, developed by Japanese engineering firm Mitsubishi Heavy Industries, on a cruiseship for subsidiary Aida Cruises.

In both systems, the technology consists of blowing air bubbles under the hull of a vessel to reduce the friction created when water passes under the ship when it is under way. By controlling the flow, a carpet of bubbles is formed, and the vessel can glide more easily through the water and therefore use less fuel to achieve the same speed.

Shipowners such as Norwegian Cruise Lines that operate in emission control areas face a rise in fuel bills.

What are your key issues with current sulphur emission regulations and the impact on shipowners? Please take a few minutes to complete our industry insight survey to add your voice to the debate. **http://informa.cvent.com/Surveys/Welcome.aspx?s=0fde9f5f-db45-40b5-97f0-bf9987310117**

Shipowners such as Norwegian Cruise Lines, that operate in emission control areas, now have to use more expensive low-sulphur distillate fuels than the relatively cheaper fuel oils that have a sulphur content exceeding the mandated minimum 0.1%.

While fuel prices are lower due to the drop in price of crude oil, there is still a significant price difference between distillates and fuel oils that adds pressure to reduce fuel costs.

Earlier this year, Silverstream said tests onboard a 40,000 dwt oil tanker *Amelienborg* had been verified by Lloyd's Register, and shown the potential to save up to 4.3% fuel consumption under certain conditions.

Tests on the tanker, which is owned by Danish tanker operator Dannebrog, were sponsored by energy major Shell. The tanker installation replaced an order Dannebrog and Silverstream announced previously in 2012 for a system to be installed on a drybulk vessel.

Silverstream chief executive Noah Silberschmidt said at the time of the tanker results that net fuel savings accounted for the energy the Silverstream system needed to continually generate the air bubbles.

Asia's ambition on ice

China, Korea and Japan are all keen to build up Arctic competence, and Russia seems to be welcoming the opportunity

ON the face of it, the much-heralded opening of the Asia-Europe northern sea route has been underwhelming, *writes Craig Eason*.

After transits grew significantly in 2013 amid high-profile test runs from companies seeking to capitalise on growing investment, interest has tailed off. Last year showed a significant decline, with only two non-Russian vessels with non-Russian cargoes making the transit as the reality of difficult operational restrictions, uncertain timing and bureaucratic obstacles imposed on non-Russian operators hit home.

Statoil, Chevron, Dong Energy and GDF Suez have all pulled back on planned Arctic activity in recent months, while Russian sanctions forced ExxonMobil to pull out of planned exploration with Rosneft in the Kara Sea.

But while a combination of political risk and a more than 50% collapse in oil price may have prompted oil companies to put Arctic projects on ice, Asian interests vying to stake a claim in the region are still creating opportunities for maritime businesses willing to make a longer-term play.

China, South Korea and Japan are all still vying to impose their Arctic clout, through geopolitical influence at the Arctic Council, stakes in oil and gas or mineral developments, or in ice-class shipbuilding and navigation.

Russian businesses, many in collaboration with entities in China, are driving ahead with long-term oil and gas developments, with investments committed before the oil price slump.

While Arctic exploration

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only really happens when oil prices are high, and even at $100-plus prices there have been few substantial recent finds, for those projects with several billion dollars already invested, turning back now as a result of relatively recent oil price fluctuations seems unlikely.

The Port of Sabetta development, from where natural gas will be exported by a fleet of 15 or 16 dedicated ice-class LNG carriers, is one such example. Asian businesses are heavily involved in the Yamal development which is scheduled to begin export in 2018.

According to Rosatomflot, the state-run business controlling the Russian nuclear icebreakers that escort commercial shipping in Russia's Arctic waters, a total of 3.9m tonnes of cargo was recorded in the Russian Arctic in 2014, with 1.1m tonnes bound for the Sabetta Port developments.

Finnish shipowner ESL took a cargo of Norwegian aggregate to the Yamal peninsula with the 56,348 dwt supramax vessel *Kumpula* to help build the port late last year.

It noted that the voyage took a lot longer than planned due to the ice conditions and there are still some bureaucratic difficulties relating to commercial non-Russian activity in the region, despite the Russian attempts to commercialise Arctic business.

Another company, ZPMC-Red Box Energy, a newly formed joint venture, has a pair of heavylift vessels under construction which will be chartered to the Yamal liquefaction plant developers when delivered.

Red Box was formed last year by the former management of Fairstar, the Oslo-listed heavylift firm that was bought out by Dockwise in 2013, and which in turn was bought out by Boskalis. It has teamed up with the Chinese conglomerate ZPMC, the Chinese conglomerate, well known for crane and heavylift manufacturing.

This is a Dutch-Chinese venture servicing a French, Russian, Chinese venture. The Yamal project is controlled by Novatek with Total and China National Petroleum Corp taking 20% stakes.

Asian interests vying to stake a claim in the Arctic are creating opportunities for maritime businesses on a longer-term outlook.

China, with 20% of global trade and a drive to diversify its energy sources, will be unlikely to pull back on its Arctic commitments, according to Dr Baozhi Cheng, research fellow at the Shanghai Institute for International Studies.

China still has high industrial demands despite its economic growth slowing in recent months, and still has a desire to diversify its energy sources, particularly by involving its Russian neighbour.

As part of the country's involvement in the Yamal project it has contracted to supply 3m tonnes of LNG a year for 15 years, with the price indexed to the Japanese crude cocktail.

Tourism heading north

China also has an eye on the Arctic from a tourism perceptive, according to Dr Cheng. Increasing affluence in China will lead to more tourism, and the cruise industry is a booming sector in Asia. International cruiseships frequently go to the Arctic and Antarctic in the summer months, but now low oil prices are likely to see interest in cruises increase. Wealthy Chinese tourists love the Arctic, Dr Cheng says.

But the accelerated cruiseship traffic has intensified concerns over risk. In example, ice experts have focused attention on a planned transit of the North West Passage next year by Crystal Cruises, a US operator owned by Japan's NYK Group.

Their 2003-built vessel *Crystal Serenity*, which has no ice class and is therefore susceptible to damage if trapped, will sail from Anchorage to New York with 1,070 passengers and 655 crew.

At the recent Arctic Shipping Forum in Helsinki, a number of ice experts revealed their private concerns over the project. The vessel will be accompanied by one, or may be two, support vessels and have two ice navigators on board. But the experts nevertheless questioned whether all necessary safety measures and crew training have been addressed.

Crystal Cruises, which is selling places at over $21,000 each, has not responded to questions regarding the details of the back-up vessels and the level of competence of the added support being deployed during the planned transit that will see passengers hundreds of miles from the nearest communities.

A touch of ice class

Cruising is only the tip of the iceberg when it comes to NYK's arctic interests, however. The Japanese giant has 60% stakes in two ice-class 1C LNG carriers, Grand Aniva and Grand Elena. Russia's Sovcomflot has the other 40% stakes. The vessels are on the Sakhalin to Japan trade from 2007 to 2027.

NYK also has an ice-class 1A panamax bulk carrier, *Sagar Samrat*, which was delivered this month and will be on long term contract to Tata Steel through its Singapore subsidiary.

Mitsui OSK Lines, meanwhile, has taken three slots at Daewoo Shipbuilding & Marine Engineering in South Korea, to build ice-class LNG carriers for the future Yamal exports. There will be 16 vessels built, with Asian businesses having a majority stake in the vessels. While one vessel is being built for Sovcomflot, two Chinese energy firms have invested in two separate partnerships for the remaining 15 along with Mitsui and Teekay.

South Korea has also been pushing its capabilities in building ice-class tonnage. Recent examples include the Sovcomflot shuttle tankers such as *Vasily Dinkov* in 2007, or the *Stena DrillMAX* ice-class drill ship.

Also, the South Korean government has also said it will be investing Won88.8bn ($79.9m) to establish a deepsea offshore engineering research centre and test basin by next year which will include Arctic competence, according to Korea Maritime Institute researcher Dr Kim Se Won.

Russia's Yamal gas is destined for China and Europe, but not for Japan, says Hiroyuki Goda, manager of integrated research at NYK. Japanese industry believes the supply of Yamal LNG will be too unpredictable, so have not bought into it.

When Yamal begins producing LNG it will be shipped east to Asia only during the summer months when there is not such thick ice conditions to hinder voyages.

Committed

With oil prices expected to remain low for at least the medium term, investment in harsh environment and Arctic drilling projects is currently on hold. But the Arctic's maritime story is only partly about energy.

The rise of Asia's economies has ensured that governments are seeking to establish long-term influence in both energy and transport now. That almost guarantees that Russia will sustain its key projects and that it will find maritime partners among its Asian neighbours.

For enterprising shipping companies that don't mind a long-term risk, the Arctic is still in play.

Rates stable, but a quiet week in scrapping

Breakers look set to wait and see how the market will evolve

BROKERS reported a slow week in the demolition sector after the recent spate of sales, *writes Brian Reyes.*

Rates across the Indian subcontinent remained stable in the high $300s per ldt but only two deals were reported in recent days.

After embarking on a significant buying spree in the first two months of the year, many breakers in the region's key demolition centres now look set to wait and see how the market will evolve.

London-based Clarkson Research Services estimated that some 9.3m dwt of tonnage was sold for scrap in the first two months of the year, up 41% on the comparable period in 2014.

Some 2.7m dwt was sold into Bangladesh, an increase of 105% over the same period last year, while buyers in India and Pakistan purchased 2.1m dwt and 1.6m dwt respectively, up 21% and 11%.

There were few major developments following the recent Indian budget, though the fine detail revealed a 5% tax on machinery and spare parts that drew strong objections from breakers.

The hope now is that the move will be rescinded.

"Price levels in India and Pakistan are stable at this current juncture with enquiry still evident to procure new tonnage," Clarksons said.

"Bangladesh appears to be the weaker destination of the Indian subcontinent markets and rates have softened slightly on the back of the serious volume of larger bulkers now arriving at its shores."

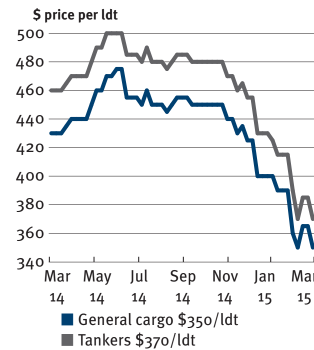
A key concern across the region is the continued impact of Chinese steel imports, which have driven down demand for recycled ship steel.

Indian breakers had hoped for a hike on duty on these products but this did not materialise in the country's recent budget.

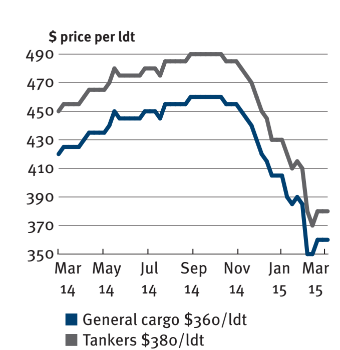
"As Chinese New Year holidays drew to a close this week, the key item for the market to address will be the export of cheap Chinese billets," said US-based cash buyer GMS. "Pakistani end buyers are lobbying to impose a massive 40% duty to curtail the imports that continue to kill domestic prices.

"There are negligible duties on the steel in Pakistan and India currently and all subcontinent locations are pressing hard to raise further taxes and prevent the inventories on their yards from being considerably undercut."

Recent sales included Nasco's 1983-built, 7,312 ldt general cargoship *Yong Jia Men*, which was reported sold for delivery to a buyer in India for $365 per ldt, or nearly $2.7m.



Source: *Global Marketing Systems*



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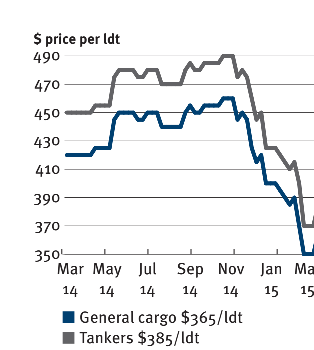

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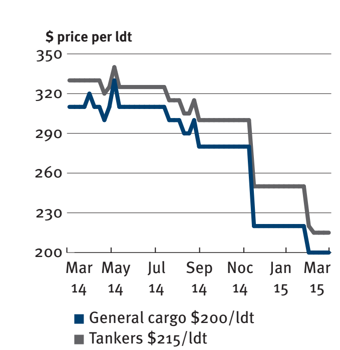
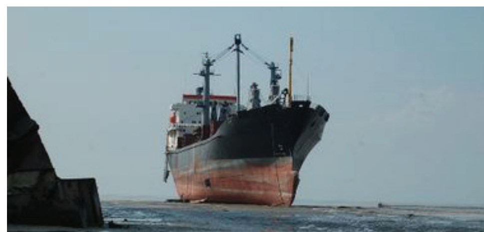


Source: *Global Marketing Systems*

In another deal that came to light over the past week, the 1984-built, 9,700 ldt bulk carrier *Efram M*, operated by Mallah Ship, was reported sold for delivery to Bangladesh at $360 per ldt, or nearly $3.5m.

There were no market sales to report from China, where yards continue to rely on a steady supply of state-subsidised domestic tonnage.

"The aggressive scrapping policies adopted by the major state Chinese owners is set to continue this year with the government subsidies still in place until the end of 2015, meaning China's recycling yards can expect to be busy throughout this new year of the sheep," GMS said.



Clarksons estimates 9.3m dwt of tonnage was sold for scrap in the first two months of the year, up 41% on the same period in 2014.

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