

NEWSLETTER

14 – May 2011



Japanese carrier gearing up for a tough year.

NYK, MOL and K-Line have performed very strong in the past fiscal year ending in March 2011). They warn, however, a severe downturn in the current year for various reasons. The three major Japanese shipping companies have put down a strong financial performance in the last financial year after a disastrous year 2009.

NYK had a record net profit of 78.5 billion Japanese yen, after it had to swallow a loss of 17.4 billion yen during the financial year 2009/10.

MOL completed the last fiscal year with a net profit of 58 billion yen against a profit of 13 billion yen a year earlier.

Also K-Line was in black figures again, referring to a net income of 30.6 billion yen after a loss of 68.7 billion yen a year earlier.



The three carriers are particularly pessimistic in their outlook for the current year, because a large number of indicators points to a difficult year. There are primarily the consequences of the disaster that hit Japan recently and the owners have so far been tainted as easily surmountable. When announcing the results, they already sounded a little different, mainly with a mostly disastrous result for the car carrier division.

The declining freight rates, an oversupply in the dry bulk market, rapidly rising bunker costs and the continued depreciation of the yen, the optimism of the carriers is fading away very quickly.

New flag ship for OOCL

Orient Overseas Container Line (OOCL) has taken a new flag ship into service last April. The new built was delivered in Shanghai and was named "OOCL Beijing". The vessel has a total capacity of 8.800 teu's.

Recently OOCL was employing his largest vessels of 8.063 teu's on the trade between Europe and the Far East. However the "OOCL Beijing" will be operated between the Far East and the Middle East, where OOCL has a cooperation with Cosco with their weekly MAX-service using tonnage between 5.390 till 5.816 teu's.



The Chinese wharf Hudong Zhonghua Shipbuilding has another seven vessels in his order book for account of OOCL, all with a capacity of 8.888 teu's. Meantime the Hong Kong carrier has other new buildings under construction.

End of March the mother company OOIL had ordered another six units with a capacity of 13.100 teu with Samsung in Korea for delivery in 2013.

Senior Temasek executive to head NOL

Temasek Holdings senior executive Ng Yat Chung will take over as group president and chief executive officer of container shipping giant Neptune Orient Lines next year. He will succeed Ron Widdows, 57, who will retire from the posts at the year end but remain as a senior adviser.

Ng, 49, spent 28 years in key leadership roles in the Singapore Armed Forces (SAF), including a stint as chief of Defence Force, before joining Temasek in 2007 as portfolio management managing director. He ran Temasek's energy and resources portfolio last September, while also being co-head of Australia and New Zealand and co-head of strategy.

NOL said that Ng's appointment stemmed from the company's ongoing succession planning and leadership renewal process. Ng will leave Temasek and initially become an executive director at NOL on May 1, and will work closely with Widdows before taking on the roles of group president and CEO on January 1.



"With Ron's assistance in the transition period, Yat Chung will build upon the present team we have, taking the group into the next phase in its exciting future," said NOL chairman Cheng Wai Keung.

Temasek Holdings owns about 68 per cent of NOL, according to Singapore Exchange filings. A shipping industry veteran, Widdows became NOL's CEO in 2008 after heading its container shipping business APL from 2003. He has been with the firm for 30 years.

NOL staged a strong turnaround last year to recover from the global trade downturn. It recorded profits of US\$460.9 million for the year to Dec 31, following a loss of \$740.8 million in 2009. CIMB Research executive director Song Seng Wun said Ng is a suitable person for the job, given his experience in heading a large organisation and in dealing with parties like analysts and fund managers.

He added that Ng would also have experience in logistics from running the defence forces. "It's not a bad time to hand over the reins, and the worst of the crisis is behind us," Song added. "It's not a surprise that you look for a new person to drive the company in a different environment from the last two years."

Song said that while trade volumes are picking up, the shipping industry is still fragile, with Japan's earthquake adding to the uncertainty. A retail shareholder, who wanted to be known only as Madam Tan, expressed surprise when she learnt of Ng's appointment. She said managing investments at Temasek and defence at the SAF seem very different from shipping. But some industry observers feel the stint in the SAF would have given him experience in logistics, plus an in-depth knowledge of processes and systems, which will come in handy at NOL.



Terminals under huge pressure

On the fifth Short Sea Conference, recently held in Bilbao, Steve Wray of Ocean Shipping Consultants (OSC) gave an overview of the future capacity needed by the Northern Europe terminals. His message was loud and clear: owners will continue the expansion of their fleets with larger vessels, which will lead to other demands to the ports and terminals. The use of larger vessels will lead to a concentration of ships in certain ports and a massive growth of the transshipment volumes. Forecast shows that the Northern European region will handle over 40 million teu in 2012 and by 2020 over 60 million.

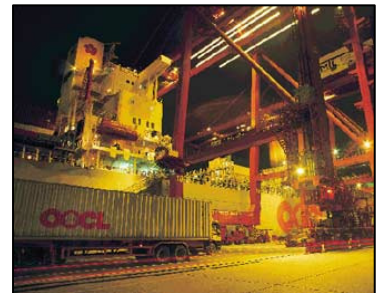
Owners will massively switch to vessels of over 10,000 teu on the east-west routes, driven by the need for cost saving. The daily cost per teu of a 3,500 teu vessel in a port is about us dollar 10.81. For a 8,500 vessel the cost reduces to us dollar 7.64/teu , and for a vessel of 18,000 TEU to 5.12 us dollars / teu. This increase in scale on the large itineraries brings a cascade of vessels along the Atlantic route (an effect that will be further enhanced by the new possibilities of the Panama Canal), the north-south routes and even short sea routes.

Ten years ago, the average capacity of a feeder vessel in intra-European traffic (North West-Europe/Scandinavia) was 420 teu with a maximum of 1,100 teu. In 2010, the average was already 600 teu with a maximum of 1,500 teu. Within ten years, this will be respectively 950 teu and 1,800 teu. At the same time marine fuel is more expensive, which will lead to more and more slow steaming. All this will lead to further concentration of port calls and more transshipment activities.



In order to treat these larger vessels, terminals must not only get bigger, but must make better use of existing facilities. Steve Wray therefore pleads for an increased terminal productivity. If a ULCS vessel (ultra large container ship) calls a port, the terminal often handles 5,000 teu or more. He admits that the overall productivity has risen, but still sees major differences between terminals and fears that those who will not follow, soon are to lose market shares. "A lot can be achieved in this area. It is evident that the productivity of the terminals will have to increase in proportion to the scale in shipping. The pressure to handle ULCS' in no time " will certainly increase.

Moreover, the terminal equipment will have to follow the growth in ship size, said Steve Wray. Some ports have done that already, such as the Polish container terminal DCT Gdansk, which still can grow as transshipment hub. It was calculated that the cost of transshipment to a Baltic port - for container cargo delivered by a deep sea ship between 10 and 12,500 teu and carried away by a feeder vessel of 1,000 teu comes at the following cost : - through the port of Rotterdam at 729 Euros / feu. Via Hamburg at 774 Euros / feu and from Gdansk at 723 Euros / feu.



Nearly 20% more vessels capacity between EU and Far East

In April new records have been set with the delivery of 32 new built container vessels. One could conclude this means that every single day of the month, one new built vessel was finding it's way into the oceans. The total capacity of all these vessels was counted to be 226.500 teu.

During this month another 41 new vessels will leave their shipbuilding wharfs, however capacity will only reach 200.000 teu for these vessels. As a result the global ships container capacity will grow with 3%. According to Alphaliner figures the year result for 2011 will reach 8.6% plus. Main reason for these huge new builds entering the market is mainly due to postponement of same last year during the crisis, when many carriers delayed their new build deliveries due to cash flow problems.

Main capacity is brought into the service between Far East and Asia. On this route only 15 new vessels entered the trade lane resulting in an increase of trade capacity with 19% more then last year. Five shipping lines, CSCL, China Shipping, UASC, Maersk Line and MSC were putting vessels with capacities of 12.500 teu's and more into the service.

