

# NEWSLETTER

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## **Cosco to use armed guards**

Cosco Shipping will spend about US\$12 million on armed guards and other anti-piracy measures this year to protect its ships and crews against the threat of piracy in the Gulf of Aden and the Indian Ocean.



The move signifies a change in attitude by both mainland and Hong Kong shipowners, who in recent months have shown a greater willingness to use armed force against threats when sailing through pirate-infested waters, reported the South China Morning Post. Pacific Basin Shipping, Wah Kwong Maritime Transport and Valles

Steamship are among the leading Hong Kong owners that have expressed the view that armed guards have and would be used on board if necessary.

Shanghai-listed Cosco Shipping, which owns around 80 ships - 20 registered in Hong Kong and 60 on the mainland and elsewhere - said the budget included the cost of bullet-proof vests for all crew and on-board equipment to both deter attacks and prevent pirates from taking control of vessels if they do board.

Guo Jin, Cosco Shipping's chief operating officer, said if the firm's ships are unable to take alternative routes, such as via the Cape of Good Hope, and had to travel through high-risk areas, "then we will take some measures to defend ourselves. Our ships are relatively small, they are not so fast - about 15 knots - so we have to employ armed security.

## **CSAV links up with MSC for joint services**

Despite recently axing a number of services, Chilean containership operator CSAV has signed a co-operation agreement with MSC. The agreement involves operating joint services between North



Europe and the West Coast of South America, Asia, South Africa, East Coast South America, the Middle East and India. CSAV told its customers: "This agreement will expand our coverage in these markets, improving transit times and frequency, allowing us to provide a better service. This is a sign of CSAV's positive view towards the future economic growth and development."

The Euroandes service will deploy eight 5,000teu ships instead of seven of 2,500teu service previously. From 31 July, they will call at: Rotterdam-Antwerp-Felixstowe-Bremerhaven-Hamburg-Caucedo-Cartagena-Cristobal-Balboa-Callao-Puerto Angamos-Coronel-San Antonio-Balboa-Cristobal-Rotterdam.

It will be complemented at Balboa and Cristobal with three weekly feeder services: Cristobal-Central America, Balbao-Colombia-Peru, and Balboa-Ecuador. The Marco Polo service will deploy five 2,500-3,000teu vessels calling Durban-Jebel Ali-Karachi-Mundra-Nava Sheva-Colombo-Durban.

Two loops will link the east coast of South America to the Middle East, deploying eight 5,000-6,000teu ships on the first and five 4,000-to 5,000teu on the second. Loop 1 will call at: Suape-Santos-Buenos Aires-Rio Grande-Navegantes-San Francisco do Sul-Sepetiba-Suape-Las Palmas-Valencia.



Loop 2 will call at: Salvador-Santos-Rio de Janeiro-Navegantes-Paranagua -Rio Grande-Santos-Las Palmas-Valencia. CSAV said a further connection to Middle East will be confirmed shortly for both loops. And the ASAX service will use seven 4,000-6,700teu vessels on a rotation of Fuzhou-Xiamen-Kaohsiung-Hong Kong-Chiwan-Singapore-Port Louis-Durban-Ngura-Port Louis-Singapore-Fuzhou.

Last month, CSAV suspended its 11-vessel transpacific service, citing declining freight rates and doubts over future demand levels. It also axed its 10-vessel Far East-Mediterranean service, citing an “unfavourable economic environment”.

### **Hyundai Merchant Marine to order ULCS**

South Korean carrier plans to add up to 10 12,600 teu ships in battle for survival on competitive trade South Korea’s Hyundai Merchant Marine is planning to add up to 10 12,600 teu vessels to its fleet in a bid for survival in the Asia-Europe trade.

As more and more ultra-large containerships come into the trade, shipping companies that do not operate sufficiently large ships face being squeezed out, analysts say. In addition, HMM’s New World Alliance, which also includes APL and MOL, has fallen behind rival alliance CKYH members — China COSCO, K Line, Yang Ming and Hanjin Shipping — as well as carriers Maersk Line and



Mediterranean Shipping Co in terms of the pace at which they are placing orders for vessels of 10,000 teu and greater. But now HMM is hoping to play catch up. The company confirmed it was considering placing an order for five 12,600 teu new building with a delivery target thought to be at the end of 2013 or the first quarter of 2014. “HMM definitely needs them to stay in the game, especially with MOL chartering some of NOL’s ULCSs,” said Janet Lewis of Macquarie Securities. “This is the price of continuing a presence on the Asia-Europe route,” she said.

MOL recently announced it would be chartering five 14,000 teu vessels from NOL unit APL, which recently placed an order for 10 such vessels. Officially HMM is keeping mum about the details of its plan. “The timing of delivery, the route, and the shipyard have not been confirmed yet,” a spokeswoman told Lloyd’s List. But HMM did confirm the number of vessels and the carrier is understood to be already in talks with several shipyards and non-operating owners. If HMM is to achieve stated delivery targets, the company will need to place its order shortly to secure yard space and have enough time for completion.



The new buildings are in addition to a quintet of 12,600 teu vessels HMM will charter from Greece’s Danaos and deploy on the Asia-Europe trade. Those vessels are being built at Hyundai Samho and are scheduled for delivery in 2012; one each in February, May, July and August, and two in August, according to Clarksons’ database. That order was placed in September 2007.

According to the company’s website, HMM’s operates a total of 67 vessels amounting to 307,220 teu, including owned and chartered vessels. The largest vessel in the current line up is 8,566 teu.

The new additions represent a significant step forward for the carrier both in terms of size of individual vessels as well as the increase in tonnage, representing an increment of 126,000 teu, or 41% of its existing fleet.

HMM says it does not have a concrete plan for where the vessels will be deployed but Asia-Europe seems the only logical choice given that ULCS are best suited for the trade. "HMM cannot run the Asia-Europe service with only five ships, they need at least 10," said a container line executive based in Hong Kong.

Sea Intel Maritime Analysis chief executive Lars Jensen said it would not surprise him if HMM followed such a fleet-expansion plan. "When we look forward a few years, Maersk Line, MSC and the CKYH alliance will be the dominant force on Asia-Europe in terms of 13,000+ teu vessels," he said.

### **Container shipping losses could extend to third quarter**

Jefferies warns outlook for 2012 and 2013 'highly uncertain' on capacity and structural changes in demand. Investment bank Jefferies said third quarter results for the container shipping industry could be in the red, and described the outlook into 2012 and 2013 as "highly uncertain".



Analyst Johnson Leung said in a research note that in addition to second quarter results, the release of which will begin next week, earnings for the third quarter could also be negative, based on Jefferies' model for the industry.

Jefferies said that of the 30 indicators it follows, as of mid-July, 19 gave negative readings. Profitability as illustrated by a return on capital employed edged down to -12.9% as of July 8 from -12.8% on June 10. "Profitability remains poor in July as further decline in freight rates removed the benefits from the slight improvement in utilization and the decline in bunker prices," Mr Leung said.

He said anecdotal evidence puts utilization rates on Asia-Europe trade at about 85%-95% while on transpacific it was about 80%-85%. The lower utilization rate on transpacific would have a negative impact on Asian container liners because they tend to have higher direct exposure to transpacific than to Asia-Europe, he said.



In parallel, freight rates went lower as the expected seasonal lift was delayed. "June was a disappointment to those expecting the usual seasonal uptick," Mr Leung noted. Meanwhile, macroeconomic indicators did not point to imminent volume acceleration. Recent US unemployment data, for example, could lead retailers there to take a cautious stance on inventory replenishment in August.

Mr Leung said sluggish growth in Asia-Europe and transpacific could point to structural changes taking place in the container shipping industry. "Old structural drivers, such as outsourcing, which drives the container volume to GDP growth ratio, may have reached maturity," Mr Leung said. A fall in this ratio could have a more lasting impact than the current slowdown in the recovery of the global economy, he warned.

Mr Leung said the container industry could face a challenge in 2011 of absorbing the projected 8.7% capacity growth. The same applied to 2012, while 2013 represented an "even bigger challenge". Hence we see the outlook for 2012 and 2013 as highly uncertain," he said.

### **Pirate attacks off Africa less successful.**

More pirate hijackings have been prevented this year, thanks to self-protection measures and international coalitions, according to a State Department official. "The success rate for pirate attacks is below 25 percent compared with 2008, when success rates were over 40 percent," said David Foran, an officer in the State Department's Bureau of Political-Military Affairs.



Piracy, occurring most recently off the coast of Somalia and in the Gulf of Aden, increases the cost of shipping, slows regional development and prevents humanitarian aid from reaching Africa. Last year, owners of hijacked ships paid about \$30 million in ransom to Somali pirates.

Although the U.S. Naval Forces Central Command projects the number of pirate attacks will double in 2009, new deterrence strategies are in place and the international community is better prepared to defend its ships.

Self-defense provides the greatest deterrence against pirates, according to Foran. The U.S. Coast Guard recently advised vessels operating near Somalia to consider the use of armed or unarmed security. Panama, Liberia, the Marshall Islands and the Bahamas require their vessels to employ self-protection measures, he said. Many ships use nonlethal defense tactics, including fire hoses, rubber bullets and sonic weapons.



There has been some recent movement among U.S. officials, lawmakers and analysts toward accepting the idea of private security on commercial ships. But industry representatives continue to express reserve about armed security guards because of their concerns about liability for accidents. Foran, when asked whether arming commercial ships would deter pirates, said, "The short answer is we don't know."

"Deterrence due to the presence of an international coalition of naval vessels also has significantly disrupted pirate operations," Foran said. At any given time, there are between 20 and 30 vessels from up to 20 nations engaged in anti-piracy patrols.

The Contact Group on Piracy off the Coast of Somalia, established in January, serves as an informal venue for governments and organizations to share information about their progress in fighting piracy. More than 40 countries and international organizations are members. In May, the group created an international trust fund that will pay for the prosecution of suspected pirates and building regional capacities.



"The [Contact Group] has looked at impediments to the prosecution of pirates and is encouraging countries to change their laws if need be," Foran said. Most countries have laws that allow for the prosecution of pirates, but the greatest challenge is convincing governments to use these laws, he said.

Other challenges must be addressed, Foran said. Despite the availability of satellite technology, the expanse of the seas and small size of most pirate boats — less than 10 meters — make detection a challenge. It is also difficult to identify pirates on land and to determine who funds them.

The United States has been a part of the fight from the beginning — by co-founding the Contact Group, by dispatching naval vessels to prevent attacks, and by encouraging ships to self-protect and discouraging concessions to hostage-takers, Foran said.

"We believe that the payment of ransom encourages pirates," Foran said. "Clearly, pirates are in it for the money. If companies stopped paying ransom, that would be a deterrent." If the fight against piracy in this region is to continue to succeed in coming years, it will depend on what happens politically in Somalia, he said, and on that nation's ability to control criminal activity within its borders. "Our hope is that [in time] there will be a stable Somali government in control of its territory."

