NEWSLETTER

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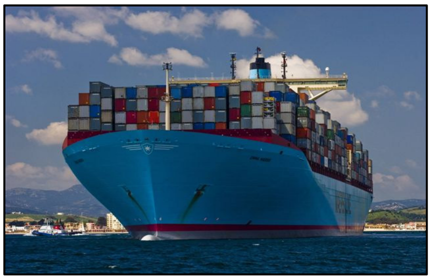
LEVACO GROUP

Demand for mega containerships still dominates order books

Maersk has sparked a "race for ultra-large containerships" in 2006 when it introduced its 15,550 TEU E-Class vessels, according to Paris-based maritime consultancy Alphaliner.



Ironically, Lloyds List reports Maersk group CEO Nils Andersen saying shipping lines have been engaged in "reckless ordering" and are putting their businesses at risk by joining the race.

The Danish shipping giant has maintained its lead, most recently ordering twenty 18,000 TEU or EEE-Class ships, due for delivery between 2013 and 2015, said Alphaliner, the Paris-based maritime consultant and information agency.

In a further move to increase capacity, Maersk has now embarked on a "capacity boost" that will see a number of the line's 8,200-8,600 TEU S-Class ships upgraded to 9,600 TEU. Alphaliner said the upgrade involves the raising of the wheelhouse so that two extra tiers of containers can be stowed forward of the accommodation block.

While the vessels' maximum TEU capacity will be notably increased by the conversions, the ships' effective tonnage will remain almost unchanged. The enhancement aims at increasing the ships' capacity for lightly-loaded containers and at providing additional slots for repositioning empties.

The enhancement of the 10 ships will add some 12,000 TEU to the Maersk's fleet which, according to Alphaliner figures, currently totals 2.44 million TEU. Six other S-Class ships could have their capacity enhanced after the first 10 units have been converted. In total, 25 S-Class units have been built between 1997 and 2002. They were the first containerships larger than 8,000 TEU. The enhancement work has been commissioned at CSIC Qingdao Beihai Shipbuilding and Heavy Industries.

The first two ships, the Carsten Maersk and Charlotte Maersk, already underwent conversions in June and July. They have since returned to Maersk's FE-Centram and FE-Europe runs. A third unit, Svend Marsk, is at the yard and will be redelivered in September. The remaining ships will follow at an approximate rate of one vessel per month. Several owners recently upgraded the capacities of ships they had ordered earlier through such renegotiations. Such upgrades add extra capacity that has an impact on the supply forecast.

Upgrades of ships in the order book over the past 12 months include: CMA CGM's upgrade of three 13,830 TEU ships on order at Daewoo to 16,000 TEU, Hapag-Lloyd's upgrades of six 8,750 TEU units from Hyundai Heavy to 13,100 TEU, NOL's upgrade of ten 8,400 TEU units on order at Daewoo to 9,200 TEU and NYK's upgrade of two 6,350 TEU units on order at Imabari to 8,000 TEU.

Panama Canal on target for 2014 completition

Working 24 hours a day, 7 days a week, the project is moving ahead on schedule, to open in 2014, coinciding with the 100th anniversary of the Panama Canal.

Since the Panama Canal opened a passageway between the Atlantic and the Pacific Oceans nearly a century ago, nearly one million ships have sailed through. Building the channel across the Isthmus of

Panama began in 1882, but disease, geography and politics delayed its completion until 1914. More than 27,000 workers lost their lives during construction. Now, what's been called "the greatest engineering feat in the world" is being expanded, so today's larger ships can take advantage of this vital link in global maritime trade.

Colossal is the best word to describe the dimension of the expansion works here. With an investment of$5.5 billion, the Panama Canal will soon have a third channel for the transit of much larger ships. Jorge Luis Quijano, the canal's executive vice president of engineering, says the canal is operating at full capacity and needs to expand. "This new canal actually is offering a larger vessel that it can handle with deeper draft with a longer and wider vessel," noted Quijano.

Here at the Gatun, locks on the Atlantic side of the original Panama Canal, ships pass just centimeters away from the concrete walls on both sides. These vessels cannot be more than 32 meters wide, and ride only 12 meters deep in the water. The new locks – now being built parallel to the old ones – will handle ships up to 49 meters wide with drafts of more than 15 meters. This ship passing through the Gatun Locks is heading south, into Lake Gatun and on to the Pacific Ocean. Parallel to it is the excavation for the new, larger canal.

"This is the existing canal that is composed of two sets of locks and this is the third set of locks, it's a third line for the ships to go by," explained Oscar Soto, the chief engineer for the Atlantic region. At Lake Gatun – created 100 years ago to supply water for the canal – Captain Ubaldo Pimentel has been running a passenger boat for decades. He says engineers are using dredging ships and dynamite to create deeper, wider passageways to the new Gatun locks.

"The mountain used to get all the way to the red buoy," Pimentel noted. "They took all that material and pushed it back to widen the lake." For nearly a century, many cargo ships were designed specifically to fit the Panama locks. In the last few decades, however, larger vessels, known as post-Panamax ships, have been forced to carry their cargo around South America.

When it's completed, in 2014, the new 80-kilometre-long channel will admit some of those larger ships, but as engineering vice president Jorge Luis Quijano explains, not the largest. "No, no quite. We had to look at the optimal size of vessel that would make the return on the investment, of a high value to us. So we chose what size of vessels that could actually pay for this project," Quijano explained.

Still, the project means officials will be able to double the amount of cargo the canal can handle. "The present canal has a total capacity of about 340 million tons a year that it can handle, that's the maximum capacity," Quijano noted. "With the expansion we expect to double that, over 600 million tons that we can handle in a year."

That's important, because ships using the canal pay by weight. Canal authorities expect more than half of the multi-billion-dollar expansion costs to be paid by today's canal traffic, with the larger ships using the new channel paying for the rest.

The massive canal expansion is being done by several international contractors, but 90 percent of their work force is Panamanian.

Working 24 hours a day, 7 days a week, the project is moving ahead on schedule, to open in 2014, coinciding with the 100th anniversary of the Panama Canal. The celebration, they say, will be colossal.

MISC 8 % reduction in revenue

MISC Berhad (MISC) is pleased to announce its Group financial results for the first quarter ended 30 June 2011.For the current quarter ended 30 June 2011, the Group recorded an 8.0% reduction in its revenue from RM3,270.5 million in the corresponding quarter to RM3,009.3 million, mainly due to lower revenue from Heavy Engineering and Liner businesses. However, the higher revenue in Chemical and Offshore businesses helped to cushion the impact of revenue reduction in Heavy Engineering and Liner businesses.

The Group profit before tax of RM200.6 million, was 57.4% lower than RM471.3 million recorded in the corresponding quarter. The decrease in profit was mainly due to losses in Petroleum business from weakening of freight rates and higher losses in Liner business from lower lifting's. As compared to the preceding quarter, the Group saw 2.9% growth in its revenue from RM 2,924.4 million in quarter 4 FY2010/2011 to M3,009.3 million in the current quarter.

The increase was mainly due to higher revenue in Petroleum and Offshore businesses. The Group's profit before tax (excluding gains and impairment provisions for ships, loans and investments) of RM200.6 million was 17.2% higher than the RM171.2 million achieved in the preceding quarter. The higher profit in this quarter was contributed mainly by lower losses in Petroleum business from reduced operating costs.

Earnings per share dropped to 2.7 sen in the current quarter due to lower profit attributable to equity holders of the Corporation, whilst debt to equity ratio remains at 0.53 for both quarters. Prospects secured long term contracts in LNG and Offshore businesses together with relatively steady revenue and margins in Heavy Engineering continue to provide stable income stream to the Group. However, market conditions for the Liner, Petroleum and Chemical businesses are expected to remain weak and will have an adverse impact on the Group's performance.

UK Chamber of Shipping says taxes may be necessary to cut carbon emissions

The UK Chamber of Shipping (CoS) has told the global shipping community that it must go further that adopting the IMO technical efficiencies to cut carbon emissions and that an economic (or market-based) system - ultimately a state system of taxation - may be necessary to meet government targets. "This is a complex international debate for which we need active participation from the shipping industry and governments to find a genuine solution.

This must be global - through the IMO - rather than regional," said chamber director general Mark Brownrigg, referring to opposition to the European Union's go-it-alone approach with their own taxation system through a carbon credit trading scheme. "It is crucial that we do not discount either of the main proposed economic mechanisms for encouraging carbon reductions. The debate lies ahead on which option will provide greater certainty of outcome, ease of application and without damaging the growth of the industry and world trade. That debate must be based on practical considerations rather than conjecture," he said.

International opinion is divided on the best model for reducing the shipping industry's carbon emissions. Some support the idea of a greenhouse gas (GHG) contribution fund, in which shipping companies would contribute as part of purchases of bunker fuel, said Tanker Operator. More and more doubts arise over the validity of the science and rationale behind global warming claims that underpin demands for such measures. Larger companies can be expected to gain market share from smaller companies who fail to meet the ascending regulatory demands, the basis of which are coming under increasing scrutiny

<u>Drewry sees 4 to 6 % more operating costs.</u>

Drewry's latest annual report predicts big increases in vessel operating costs with oil prices remaining high, pirates driving up insurance premiums and the environmental regulators imposing costly unfunded mandates. "In 2010, vessel operating costs remained static," said the Drewry report.

"However, in 2011 commodity price increases will push up lube, repair and maintenance costs. With some owners having to take additional insurance cover for kidnap and ransom, overall costs are forecast to rise by four to six per cent, depending upon vessel sector." Tighter sulphur emission controls for vessels sailing within some areas came into effect last year. This raises fuel costs and has made record keeping on ozone depleting substances on board mandatory, said Drewry.

"Fleet operators know that the many conventions that abound on safety, emissions and manning will result in increased costs. Like low demand and high commodity prices, regulation is a brutal fact of maritime life," said the report. The news comes at a bad time for ocean carriers, with many in the container sector now losing money and vessel charter rates falling, said London's Containerisation International.

Since the end of May, the average charter rate for a 4,250 TEU vessel has fallen from US$26,800 per day to 20,250 per day, according to the New ConTex index. To put this in perspective, Drewry estimates that shipowners would have had to pay $8,586 per day out of this in vessel operating costs alone last year. Although low market demand has kept crew wage levels down, the large number of new vessels now entering service, some of them delayed from last year, is reopening the gap between supply and demand, forcing wages up.

"With the next STWC [Standards of Training, Certification and Watchkeeping] round as well as ILO MLC [the UN's International Labour Organisation's Maritime Labour Convention] regulations cutting in next year, owners and managers will come under wage and staff cost pressure - particularly in the areas of travel, training and food.

Drewry