NEWSLETTER

34 – October 2011

UASC reducing capacity

United Arab Shipping Company is suspending their four North European ports from the AEC1-service to the Middle East. The AECI-service will be restructured as a feeder service for the AECI2-service who remains intact.

Already early August the AECI1 service had been short cut. That time Port Qasim, Nhava Sheva and Pipavav were cancelled. Six vessels of 3.802 teu till 4.253 teu performed sailings between Antwerp, Thamesport, Hamburg and Rotterdam to Jebel Ali, Khor Fakkan and Jeddah. As from October three vessels will remain to serve between Khor Fakkan, Jebel Ali, Bahrain, Dammam, Jubail and Jeddah.

In Northern Europe all cargo's for the Middle East will be loaded on the AEC2-service which is calling Khor Fakkan on it's route to the Far East. Westbound shipments bound for Europe will be transferred via Jeddah. Large allotments can be served through the AEC2-service to the Middle East, since UASC has running space agreements to the Far East with the liner services of the CKYH Green Alliance and their own AEC8-service in cooperation with China Shipping, CMA CGM and Evergreen.

Piraeus to become Evergreen's new transhipment hub

South Italian port Taranto is loosing it's transhipment cargo's from Evergreen to Greek port Piraeus. Evergreen is calling Taranto weekly with his China-Europe Shuttle Service (CES). This service is employing ten vessels with capacities between 6.332 teu and 7.024 teu between Europe and the Far East. On the same service CMA CGM and NYK have slot allotments. Till date the transhipments for the Mediterranean ports were using feeder services via Italy.

Late October these volumes will be switched to Greek port Piraeus which will take over the hub role for the Med from Taranto. Piraeus will then be included in the vessels rotation both East and Westbound. One of the reasons for the change is the shorter transit times which can be guaranteed via Piraeus, mainly to the Eastern side of the Mediterranean region.

Despite this change, Tarantino remains in the Evergreen schedule for their Far East Med Service (FEM) to and from the Far East and will be used as transhipment hub for the Adriatic region. The "Ever Sigma" will be the last vessel from the CES-service who will make a port call in Taranto. The vessel afterwards, the "Ever Strong" will be the first one to call at Piraeus on September 26th.

CMA CGM upset about Bloomberg report

According to a newly released report from Bloomberg, there is a 90% change that the French container operator will not be able to full fill it's financial obligations within 5 years from today. In this respect Bloomberg is referring to the 50% decrease in value of the CMA CGM released bonds. Furthermore the carrier has a cash reserve of 675 million euro and a benefit of 685 million euro during H1 of 2011, however their total debt is still 5.3 milliard us dollar.

The fact that the tariff structure between Far East and Europe is still on a very low level could create financial problems for the French according to Bloomberg. They are also referring to the B+ rating from Standard & Poor's and the fine of us dollar 374.400 for which CMA CGM was penalised for by the United States for operating services to Sudan, Cuba and Iran.

The French carriers reacted very negative towards the Bloomberg report. According to their spokesman the analysis of Bloomberg is proving "a lack of professionalism" since they are mixing facts and figures which have no relation with each other. CMA CGM draws the attention to the fact that the Europe/Far East trade to which Bloomberg is referring, and for which they confirm that the tariffs on the spot market are historically low, is contributing only for 10% of their turn over. According to French database Alphaliner, CMA CGM realised the best profit margin from all top 20 container carriers during H of 2011. The shipping line reported a company profit of us dollar 592 on a turn over of 7.3 milliard us dollar.

<u>Small carriers should preferably disappear according to CMA CGM</u>

Most container operators have faced losses during H1 of this year due to the decreased tariffs on the Asia/Europe route. Rodolphe Saadé, executive officer of CMA CGM feels that some carriers should preferably disappear from the trade. During an interview with Lloyd's List, Mr. Saadé declared that since there are more then 20 carriers active on this route, the over-flow is substantial.

Most of the carriers are attracted by the larger volumes which are available and the trade is financially attractive when the market circumstances are normal. However, today these circumstances are far from normal.

Trade lanes to Northern Europe are still very fragile whereas trade to Southern Europe has been more stabilised, nevertheless further rate increased will be required to make them all profitable again. Larger container carriers can still operate with by downsizing their costing due to making their ULCS vessels available in the market, however smaller carriers with vessels having capacities between 6.000 teu and 7.000 teu must be suffering hard, according to Mr. Rodolphe Saadé. He claims they should withdraw their capacity from the trade thus avoiding to face further losses.

Also earlier Maersk Group CEO Nils Anderson made similar comments in the press. He was defending the investments of his group in 18.000 teu vessels whereas there are already substantial slots available in the trade today. He is still defending his decisions which he claims is not based on a revival of the economical situation in Europe and the United States.

According to him the Maersk Group as a market leader and has sufficient volumes under control to complete these type of vessels and will benefit from the cost saving aspect of turning around these capacities.Anderson stated he was surprised that smaller operators ordered 13.000 teu vessels. "I did not expect the smaller shipping lines with a market share of less then 3% to invest in new buildings" he declared and he continued by stating "in our sector there are still be taking unwise decisions." The criticism seemed to be addressed to carriers like United Arab Shipping Company (UASC), Hyundai Merchant Marine, ZIM, NYK and OOCL since their market share is below 3%.

<u>Port of New York & New Jersey see container growth delay</u>

The ports of NY/NJ have seen an increase of 8.2% during H1 of this year compared to the same period last year. However growth is rapidly decreasing with a loss of volumes already during June. During this month the port was only handling 221.000 teu, considerably less then during the same period of last year. Moreover also in May there was a fall back in volumes of 4% compared with the figures during May 2010.

This fall back was the first one for the ports since 20 months. Nevertheless the ports performed a positive H1 with an increase of 7.6% for the inbound container volumes and a 9.2% growth for the container export volumes.

MSC suspending Australia / Indian Ocean service

In near future the Indian Ocean, Australia and New Zealand will be served by MSC's Lion Service in transhipment. As a result the current service from Northern Europe to Reunion, Port Louis, Sydney, Melbourne, Adelaide and Fremantle will be suspended. This service was operated by thirteen units with capacities between 2.680 teu and 3.916 teu.

The Lion Service serving Le Havre, Hamburg, Bremerhaven, Antwerp, Felixstowe and Gioia Tauro towards the Far East will be accepting these cargo's in future via Singapore. The service has much larger container capacities with vessels between 11.660 teu and 14.000 teu. Some destinations for Oceania can also be served in transhipment via Balboa. From this Panama port, MSC has recently started a new service called "Oceania Express" and is making port calls at Melbourne, Sydney, Brisbane and Taranga.

Shipments originating from Northern Europe with final destinations in the Indian Ocean will be transhipped in the Mediterranean ports of Valencia or Gioia Tauro. The capacities of these services will be extended. Cargo's originating from the French port of Montoir will be transhipped by additional feeder services ex Le Verdon and Bordeaux via the MSC Home terminal in Antwerp.

Originally the MSC Australia service started in 1992. At that stage the Swish operator was combining Oceania with South African ports which they continued till 2003. The service was then split due to increasing volumes to South Africa. On the return voyages to Northern Europe, the vessels were also calling Singapore and Colombo. This was necessary due to the imbalance of volumes back from Australia to Europe.

Statistics of the Q1 and Q2 of this year are underlining the present imbalance situation. During Q1 106.100 teu were shipped to Australia and other ports in the region, and 108.600 during Q2. On the way back only 48.000 teu were carried in Q1 and 60.200 teu in Q2. As a comparison, during H1 the total eastbound volumes from Asia to Europe were counting 2.97 million teu which is nearly 14 times the Oceania volumes.

After the departure of the MSC's direct calls, only Hapag Lloyd and CMA CGM remain serving these destinations directly on a weekly basis. Hapag Lloyd is operating the service under the name of EAX Service while CMA CGM is using the "New Nemo Service" as trade mark. This service started operating in 2008 and was the result of a restructuration at that time.