NEWSLETTER
37 – October 2011

Slow steaming not effecting engine functions

Contrary to widespread belief, slow steaming doesn't damage ship engines, according to an AP Moller-Maersk study showing the practice places less strain on the engines and result In less maintenance costs. "There were a lot concerns about soot build-up, vibrations and propeller health. We addressed those concerns and found solutions," said Jan de Kat, Maersk's senior technical adviser. The most economical speed for containerships is 10-15 knots instead of 25, said the study, according to London's International Freighting Weekly.

The findings were presented at a recent Brussel seminar, and Mr. de Kat said Maersk hoped the result of its study would reassure other ship-owners. The average speed of vessels globally has fallen 27 pct since July 2008, when average daily earnings were 3.6pct higher than today, according to data from Bloomberg and London shipbroker Clarksons.

14 tugs ordered for the Panama Canal

The Panama Canal Authority has awarded Astilleros Armon, a ship building and repairing company based in Spain, a us dollar 158 million contract to acquire 14 new tugs to meet the projected growth of transit on the waterway. Twenty companies from countries in South America, Europe and Asia submitted bids for the project. The contract involves the construction, Testing and staggered delivery of 14 tractor- type tugs of 70 tons, the first of which will be received within 600 days of being awarded to a Panama Canal Authority statement.

The Panama Canal currently has a fleet of 36 tugs to assist more than 14.000 transit every year. The canal's ambitious expansion project is scheduled to be completed in 2014. The new canal will operate with tugboats to assist the transit of ships, unlike the exiting canal which uses locomotives. In related news, the Panama Canal set a new annual record for tonnage, reaching 322.1 million Panama Canal tons during fiscal year 2011 which concluded At midnight of September 30.

This figure represents a 7.1 pct. increase compared with the 300.8 million tons registered last year, and also surpasses the pre-recession 2007 record of 312.9 million tons by 2.9 pct.

Next generation cargo ships will be the largest ever

During slow economic times, on road freight haulers park trucks and rail lines idle locomotives. If the need is for greater efficiency, standard operating might be to convert to smaller and lighter transports, but ocean freight lines have a different response to both : They built bigger ships. The reason, say the shipping lines : better economies of scale. It costs less to send a string of three or four big ships, across the oceans instead of a larger fleet of smaller vessels. the new ships also will have more efficient engines and lower emissions, which means lower fuel costs as well.

Danish shipping giant AP Moller Maersk, for example, is spending us dollar 1.9 billion on 10 new ships that will carry 18.000 cargo containers each. The new ships will have a cargo capacity 16 pct. greater than the world's biggest cargo ship currently afloat, the Emma Maersk. They will be more than 1.312 feet long, more then 193 feet wide and will stand 239 feet tall.

The new ULCS, or Ultra Large Container Ships, could hold on an NFL football field, a standard Hockey rink and an NBA basketball court, laid end to end, and still have room to spare. Maersk is not alone in the shipbuilding binge. AXS Alphaliner, the Paris based maritime research Firm, released a report Wednesday that said : "it appears that the container carries' answer to the challenges of sustainable shipping and the reduction of emissions is to built ever-larger ships.

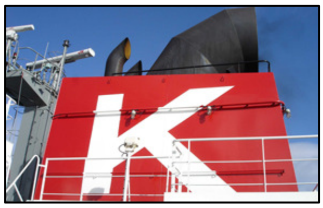
Compared to a decade ago, the average container ship size has doubled." To give a sense of the scale of this transition, Alphaliner says that 48 pct. of all new ships built in the coming years will be able to carry 10.000 or more cargo containers. Just five years ago, the world's largest container ship, the Gudrun Maersk, had a capacity of 9.500 containers.

Maersk said the new ships will help it achieves its goals of reducing costs and lowering emissions, while hopefully impressing customers. "It is not only a top priority for us, but also for our customers, who depend on us in their supply chain, and also for a growing number of consumers who base their purchasing decisions on this type of information," said Maersk Line chief Eivind Kolding.

Box blues to turn K Line red

K Line will be stuck in the red in both the first-half and full-year due to struggles in the containership sector and the stock market. Tokyo-listed K Line fired the warning having sliced millions of dollars off its estimates for both periods.

For the year to 31 March 2012 K Line expects to book a loss of JPY 30 billion (us dollar 390 million), against a profit of JPY 2billion projected back in July. Just over half of that pain will come in the first-half, which will see a loss of JPY 16bn. This compares with the JPY 2bn loss investors were previously braced for. K Line says returns from its car carrier business will recover as Japanese car exports bounce back from post tsunami lows.



But with a JPY 15.6 billion blow from stock market losses, the containership peak season proving a no-show and the yen adding further difficulties the ship-owner had no choice but to down its bets. Its bulk shipping division will also continue to struggle despite hope of improved rates in the second half. Its capsizes are forecast to drag in us dollar 18,000 daily until March 2012, up from us dollar 12.800 in the past two quarters.

CMA CGM to Order 20 Ships from Chinese Shipyards

CMA CGM, the world's third-largest container shipping group, is looking at placing $2 billion worth of orders to shipyards in China, where bank loans are more available, while European banks tighten lending, Beijing-backed Ta Kung Pao reported on Friday.

The French shipping firm was in talks with China's top two ship builders, State Shipbuilding Corp (CSSC) and China Shipbuilding Industry Corp (CSIC), for a total of 20 container ships of 9,000 to 10,000 twenty-feet equivalent units (TEUs) each, the paper quoted industry sources as saying. The Export-Import Bank of China was considering providing the French company with comprehensive financing, it said.

Both CMA CGM and Export-Import Bank were not immediately available for comment. China's national policy is to support the export of electrical and machinery goods, including products from its shipping industry that is vying with South Korea to be the world's largest ship maker. "It would be difficult to see big shipping orders these days, if there is no supportive financing," said Geoffrey Cheng, head of transportation and industrial research of BOCOM International.

Global shipping firms have been battered by a supply glut and high fuel costs while consumer confidence is weak on fears of a recession in the United States and some European countries. The European debt crisis has seen many banks shutting their doors to the highly cyclical shipping industry, which has been suffering from sliding freight rates. "European banks are not lending anymore," Cheng said.

Korean shipbuilders say no

Credit ratings agency Moody's cut CMA CGM's rating to B1 from Ba3 last month after the container ship operator reported a plunge in first-half profit. Rival ratings firm Standard & Poor's revised CMA CGM's outlook to negative from stable. Korean shipbuilders declined to arrange financing for new ships so CMA CGM turned to Chinese shipyards, the paper quoted a market source as saying.

A combination of aggressive pricing and financing from state-run Chinese banks would help fill up the order books of Chinese shipbuilders, said Robert Bruce, an analyst at CLSA Ltd. Brazilian mining giant Vale last year secured $1.23 billion of ship financing from the Export-Import Bank of China and Bank of China , representing some 80 percent of the value of 12 very large ore carriers it ordered at China's Rongsheng Heavy Industries . Bruce said prices of Chinese container ships are usually 15-20 percent lower than those made in South Korea. CSSC, the parent of Shanghai-listed China State Shipbuilding Co Ltd , is China's biggest shipbuilder followed by CSIC, which controls China Shipbuilding Industry Co Ltd. CMA CGM plans to order five ships first with options for another 15, and the ships are expected to be built in Shanghai and Dalian and delivered from 2013, Ta Kung Pao said.