

OWL DUBAI NEWSLETTER – DEC 2009

UAE can ward off global crisis with 'solid' economy

UAE LEADER: Sheikh Khalifa bin Zayed al-Nahayan. The UAE is capable of containing the impact of the global financial crisis on its "solid" economy and Gulf Arab rulers will discuss further protection, the UAE's president said in remarks published this month.

The global financial crisis ended the oil and real estate fuelled boom in the world's biggest oil producing region, sending its top economies -- Saudi Arabia and the UAE -- into a downturn this year. Dubai's debt crisis has further dented expectations that the UAE could return to solid growth next year.

"Regarding the global financial crisis, we -- praise God -- with the solid foundations of our economy ... Have been able to contain the negative impact of the (global) crisis and overcome many of its ramifications, UAE President Sheikh Khalifa bin Zayed al-Nahayan told the official Kuwait news agency, KUNA. "We have the capability and determination to continue working in this direction to complete the steps we have taken in this regards to arrive at removing all the obstacles that prevent the continuation of the momentum and thrust of the development process," he said in an interview.

The UAE economy was expected to expand by 2.9 percent next year after shrinking by 1.1 percent in 2009, a Reuters poll showed last month. But Dubai's shock announcement that it would ask creditors of its flagship firms for a standstill on billions of dollars of debt made some economists expect a more modest UAE recovery.

Sheikh Khalifa said the UAE and fellow members in the Gulf Cooperation Council -- a six-member loose economic bloc -- would look into further moves to immune their economies against the global financial crisis and "any possible ramifications". "It is only normal that the Kuwait summit would review the steps taken by the Council countries in this regard and to study any completing steps to fortify the economies of the Council countries and avoid any possible ramifications," he said.

Sheikh Khalifa said: "We would like to assure everyone that our country is stronger and better off, since our economy is fine and our society enjoys welfare. "The global financial crisis on its severity will not be a reason for hesitation or retreat, not a justification to lead us to a despair or inaction." He added: "We are grateful to God for endowing us with strong national economy and sound policies to overcome the most difficult stage of the crisis. The economic indicators of the growth in most sectors started to grow up gradually, beginning from the last quarter of this year." He said the UAE's economic model would enable it to move "from the stage of gradual labour-intensive to a new stage, strong industry and the high-tech, capital-intensive, knowledge-based on advanced technology, environmental awareness to preserve the nation and protect the identity and increase availability of real jobs for our children".

Talking about the importance of family, the president said that more initiatives must be put forward to mobilise the national capacities of young people, upgrade their capabilities, prevent wastage, and immune them against the current cultural invasion".

He sent his support to Dubai ruler Sheikh Mohammed bin Rashid Al Maktoum, also the UAE's vice president and prime minister and the Council of Ministers, who, he said, "face every morning challenges, but plan and remove all obstacles to score achievements".

The government's intervention in the debt restructuring at Dubai World, was aimed to ensure the holding company's "long term commercial success", said Sheikh Ahmed Bin Saeed Al Maktoum, chairman of Dubai Government's Supreme Fiscal Committee in comments published by news agency WAM. "We want to ensure resources are deployed in the full knowledge that they are used to enhance the businesses of the Dubai World Group, build on the restructuring that has already been taking place and ensure long term commercial success," said Sheikh Ahmed, who is also chairman of Dubai Civil Aviation Corporation, chairman and chief executive of Emirates Airline and Group.

The International Monetary Fund expects to cut its 2010 growth forecast for the UAE because of fallout from the Dubai debt crisis, a senior IMF official has said. Masood Ahmed, director for the IMF's Middle East and Central Asia Department, told reporters the IMF was looking at revising down its growth forecast for the UAE's non-oil gross domestic product to "significantly lower"

than the 3 percent it had projected in October. The debt woes of government-owned Dubai World have dented confidence in the Gulf Arab business hub and could lead to higher credit borrowing costs, and may impact neighboring countries as the conglomerate postpones international projects, he said.

"Our anticipation is that there will be a significant reduction in that growth rate, down from 3 percent, probably somewhere between 1 percent and 3 percent," said Ahmed, following a preliminary assessment of the crisis. Ahmed said Dubai World's announcement of the amount of debt it is seeking to restructure "has helped to put boundaries around the amount and the scope of the debt restructuring." He said the IMF was also encouraged by Dubai World's announcement it will strive for equitable treatment of creditors in the debt talks, but emphasized more was needed. "We do believe that continuous engagement and communication with creditors and investors will be critical to ensure an orderly and timely solution," he added. Direct financial impact on international banks that loaned money to Dubai World is expected to be "contained and manageable," Ahmed said. (Reuters)

IATA: US\$5.6 billion loss as costs keep aviation in the red

THE International Air Transport Association (IATA) revised its financial outlook for 2010 to an expected US\$5.6 billion global net loss, larger than the previously forecast loss of \$3.8 billion. For 2009, IATA maintained its forecast of a \$11 billion net loss.

"The world's airlines will lose \$11 billion in 2009. We are ending an Annus Horribilis that brings to a close the 10 challenging years of an aviation Decennis Horribilis. Between 2000 and 2009, airlines lost \$49.1 billion, which is an average of \$5 billion per year," said IATA director general and CEO Giovanni Bisignani.

"The worst is likely behind us. For 2010, some key statistics are moving in the right direction. Demand will likely continue to improve and airlines are expected to drive down non-fuel unit costs by 1.3 per cent. But fuel costs are rising and yields are a continuing disaster. Airlines will remain firmly in the red in 2010 with \$5.6 billion in losses," said Mr Bisignani.

Industry revenues are expected to rise year on year by \$22 billion (4.9 per cent) to \$478 billion in 2010. But revenues remain at \$57 billion (-11 per cent) below the peak of \$535 billion in 2008

OCEAN WORLD LINES INTERNATIONAL L..L.C.

***P.O. BOX 26254, Dubai -U.A.E. Tel: 3989059 Fax: 3982939
E-mail: dxbgent@owl.ae***

and \$30 billion below 2007 when passenger traffic was at similar levels to what is expected in 2010.

Cargo demand is expected to grow by seven per cent to 37.7 million tonnes in 2010 (stronger than the previously forecast five per cent in September), following a 13 per cent decline in 2009. Total freight volumes will remain 10 per cent below the 41.8 million tonne peak recorded in 2007. "Cargo demand is rising faster than world trade as depleted inventories are rebuilt. Once the inventory cycle completes, growth is expected to fall back in line with world trade" said the Geneva based organisation that represents the world's major airlines.

In 2009, passenger and cargo yields plummeted by 12 per cent and 15 per cent respectively. Cargo yields are expected to improve by 0.9 per cent in 2010. But passenger yields are not expected to improve from their extraordinary low level. This is being driven by two factors: excess capacity in the market and reduced corporate travel budgets.

Passenger traffic is expected to grow 4.5 per cent in 2010 (stronger than the previously forecast 3.2 per cent in September). A total of 2.28 billion people are expected to fly in 2010, bringing total passenger numbers back in line with the peak recorded in 2007.

Capacity adjustments in 2009 were made at the expense of lower aircraft utilisation (down six per cent). An additional 1,300 aircraft due for delivery in 2010 will contribute to 2.8 per cent global capacity growth, putting continuing pressure on yields.

Fuel: An average oil price of \$75 per barrel (Brent) is expected in 2010, up considerably from the \$61.8 average expected for 2009. As a percentage of operating costs, fuel will be 26 per cent in 2010. This is considerably lower than the 32 per cent of operating costs that fuel comprised in 2008, but twice the 13 per cent of operating costs that fuel represented in 2001-2002.

IATA said North American carriers will see losses reduced from \$2.9 billion in 2009 to US\$2 billion in 2010. "The improvement is largely the result of pricing power and cost reductions gained through capacity adjustments," it said. European carriers will suffer the biggest losses of any region at \$2.5 billion. This is an improvement over the \$3.5 billion loss that the region's carriers are expected to post in 2009. Slow economic recovery in the region combined with limited ability to adjust capacity due to airport slot regulations is hindering the region's airlines. Asia-Pacific carriers will post losses of \$700 million. Compared to losses of \$3.4 billion in 2009, this region is showing the most dramatic improvement. This is driven by a recovery in some of

the region's economies. For example, China's GDP is forecast to grow by nine per cent in 2010. Latin American carriers will be the only profitable regional grouping in both 2009 and 2010. The profit in each year is expected to be \$100 million. This is largely due to the benefit of relatively strong economies in South America and the efficiencies gained through regional airline structures. Middle East carriers will see losses shrink from a \$1.2 billion loss in 2009 to a \$300 million deficit in 2010. A strong long-haul connection business over Middle East hubs will provide some insulation against the impacts of Dubai's financial difficulties.

Dubai Chamber trade down 18.7 percent this year

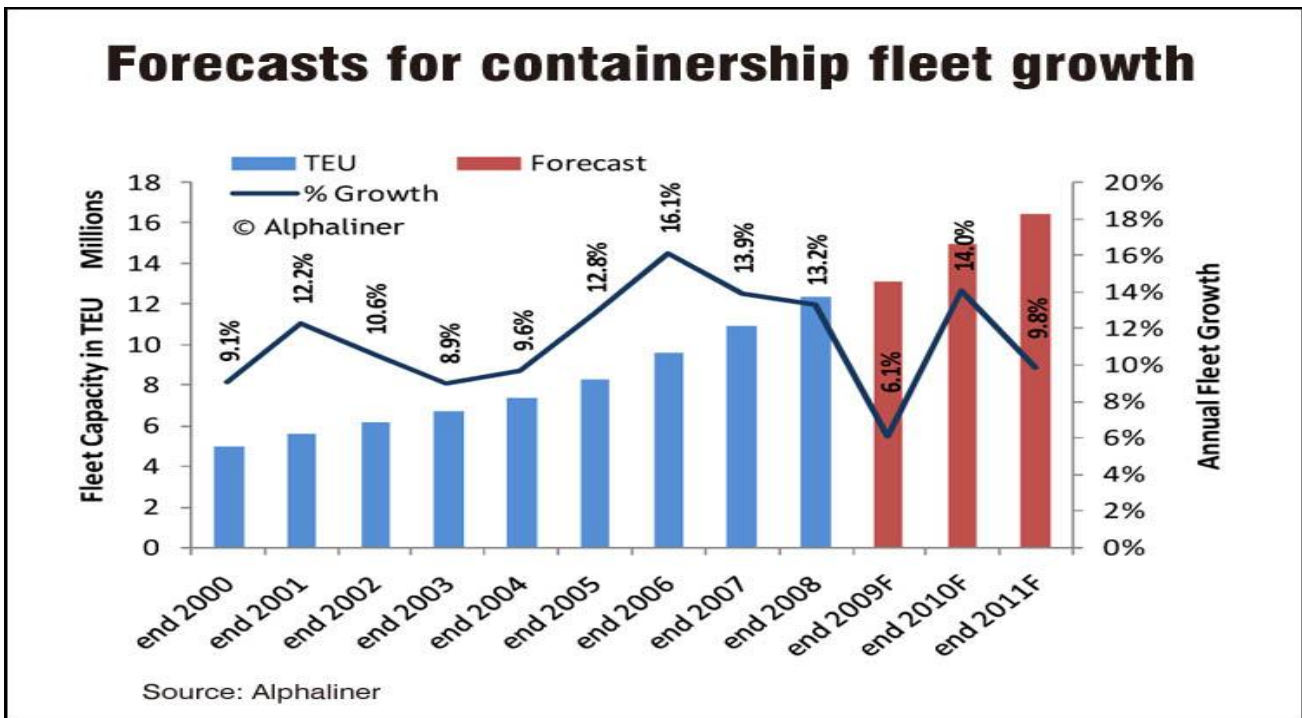
TRADE DEFICIT: Exports by members of the Dubai Chamber of Commerce fell by 18.7 percent between Jan and Nov. (Getty Images) Exports by members of the Dubai Chamber of Commerce & Industry declined by 18.7 percent in the first 11 months of 2009, compared to the same period last year, the trade body said.

Members of the Dubai Chamber of Commerce & Industry (DCCI) exported AED167.6bn (\$45.6bn) between January and November 2009, compared to AED206.2bn (\$56bn) in the same period last year.

The GCC remained the largest export market, accounting for 45 percent of the total trade.

Slowest cellular container fleet growth since 2000: Alphaliner

THE recession has forced the shipping industry to check its appetite for more vessels. As a result, cellular containership fleet in 2009 will grow as slow as six per cent year on year to 1.08 million TEU for the first time since 2000 according to forecasts from Paris-based Alphaliner maritime consultancy.



The new forecasts are in stark contrast to its early-year prediction of 1.85 million TEU of new cellular containership fleet capacity arriving on the market this year. As carriers delayed orders, negotiated postponements and cancellations with shipyards, only 247 new cellular container vessels of 986,663 TEU were delivered in the first 11 months of this year. An additional 95,000 TEU is estimated to be ready for delivery in December, while another 1.84 million TEU of new vessel fleet is predicted to come on market in 2010, driving up vessel growth to 14 per cent year on year, Alphaliner estimates that scrapping, order delays and cancellation could affect the growth forecast. Growth rate is expected to be restricted to 11.5 per cent, if this year's frenetic pace of scrapping continues next year and an estimated 350,000 TEU is packed off to scrap yards this year compared to 103,000 TEU in 2008. Between October end and the beginning of November, 310,000 TEU of cellular capacity has been scrapped according to Alphaliner. The growth rate could come down even lower to seven per cent if "delivery deferrals and heavy slippage" go on in the new year. In the 1,700-TEU plus class, 321 vessels with a total capacity of 2.4 million TEU were delayed or deferred between the first week of December this year and October 2008.

Other factors besides economic downturn that could affect demand for shipping are social-political developments; change in demand and consumption trends of shipped products; globalisation of manufacturing sites; inventories; change in maritime and other transport trends and environmental and other regulatory developments said Japan's NYK shipping line in its preliminary offering circular. Scarce trade aggravates competition that triggers rate wars. According to NYK, price is commonly, the only difference between carriers. Liners with greater financial, sales, marketing resources and lower operational costs are in a better position to offer lower prices.

The impact on freight rates, of liners' desperation to capture market share was visible at the beginning of this year on intra-Asia trade, where some carriers were reported to be offering zero freight rates after subtracting bunker fuel surcharge and other costs. Such a practice could be fatal for carriers that operate on a short-term market or spot rate business model according to NYK. Competition also affects a carrier when instead of exiting the market, loss-making shipping lines hold on with assistance from national governments or credit agencies. Major carriers like France's CMA CGM, Germany's Hapag Lloyd and Denmark's Maersk Line have been beneficiaries of state assistance and this creates further burdens on shipping lines that don't get government help.

In the past two years, carriers' operational costs have also come under increasing pressure from fluctuations in bunker fuel prices. Crude oil rates on the US West Texas Intermediate (WTI) oil price index peaked to US\$147 per barrel in July 2008 according to NYK. Carriers that hedged against future increases in fuel prices found themselves paying more as prices crashed to \$35 per barrel by December 2008.

Myriad of challenges confront DP World

515

DUBAI Ports World (DP World) faces a plethora of challenges with greater competition closing in on one side and mounting speculation over the financial afflictions of its parent infecting an otherwise healthy robust company.

One area where competition is closing in on DP World is in the southern Indian port city of Chennai. Already PSA, having opened its Chennai terminal in October, has managed to win over the IndFex 2 Far East-India service operated by PIL, “K” Line, Hanjin and SCI from DP World’s Chennai facility. The service will henceforth operate from PSA berths.

This blow comes as DP World faces growing competition in other areas around the world and as its sickly parent company Dubai World makes headlines over the restructuring of its US\$60 billion debt. According to AXS Alphaliner, Dubai World’s creditors and its real estate arm, Nakheel, have been asked to extend a six-month moratorium on outstanding debt to May 2010. DP World insists that it is unaffected by the news, and maintains a strong financial position. But the terminal operator has not entirely escaped unscathed as its credit rating in the market has taken a tumble recently. Moody’s and Standard and Poor both downgraded DP World’s credit rating from A3 to Baa2 and BBB+ to BBB-, respectively. This follows Standard and Poor’s previous downgrade from A to BBB+ in June.

DP World released a statement after news of the debt restructuring came to light stating that it will be “cordoned off” from the parent company’s loss making ventures. “The government of Dubai has confirmed that DP World and its debt are not included in the restructuring process for Dubai World,” the statement read. The terminal operator is reportedly optimistic regarding its prospects going forward, particularly given the fact that some sort of recovery is expected in container traffic in 2010.

Rising fuel costs bring slow steaming back into fashion

RISING bunker fuel cost is one of the most critical problems confronting carriers as profits continue to remain depressed. It turns out that slow steaming could help shipping lines deal with the issue. According to Hamburg-based maritime classification society Germanischer Lloyd (GL), slow steaming vessels, will not only help a carrier save more money, but can also

play a crucial role in protecting the planet. Of course there is more to it than simply slowing ships down a knot or two, but this strategy alone can significantly increase cost savings and reduce harmful emissions. The more important question is how big will the savings be?

According to GL chairman Dr Hermann Klein, by reducing its speed from 25 to 22 knots, an 8,000 TEU vessel will save around 35 per cent of power consumption on a voyage. "For this container vessel we are talking about a saving of 20,000 kilowatts," he said. This saving is roughly equivalent to the normal propulsion power used for a large tanker vessel. "And the saving comes from just reducing the speed of the vessel by three knots for this container vessel," he said. To put this into perspective, a carrier can reduce its power consumption by more than 35 per cent by slowing down roughly 10 per cent. This translates into a 35 per cent saving on fuel consumption. But of course there are added expenses that come as a result of slowing vessels down. However, the GL found that in a high operating cost scenario, these expenses are easily negated by the savings that result from the energy consumption. GL believes that while shipowners are opting for larger container vessels due to their perceived cost advantage, these vessels are in fact less economical in the long run if the future costs of fuel are taken into account.

ISM: 2010 will be better than 2009, but not much (US perspective)

The semi-annual forecast from the Institute for Supply Management (ISM) predicts 2010 will see continued recovery, but it will take time for the upturn to make a real impact. "Slowly but surely" continues to be the theme for the economic recovery, and will be the trend in 2010, according to the Institute for Supply Management (ISM)'s semiannual economic forecast, released today.

Norbert Ore, chair of ISM's manufacturing business survey committee, and Anthony Nieves, chair of the institute's non-manufacturing business survey committee, both told the recovery will continue, but at a snail's pace, with Ore calling it a "long, slow process" and Nieves calling it a "very slow rebound."

That doesn't bode well for unemployment. Now at 10 percent, with an estimated four million jobs lost, Ore and Nieves said the current figures show improvement, but no major uptick in jobs in 2010. Revenues in manufacturing are expected to increase in 2010 by 5.7 percent, with non-

manufacturing revenues to go up by 1.3 percent, but after a 10.7 percent and 4.5 percent respective decrease recorded in 2009, Ore said, that doesn't add up to much.

Also of concern is an expected decrease in capital expenditure by 4 percent in manufacturing and 6.7 percent in non-manufacturing. In addition, capacity utilization is currently at 70.1 percent in manufacturing. Ore said that means there's too much excess capacity, which could lead to companies closing more facilities in 2010. "We'll see more rationalization," he said. Both Ore and Nieves said they expect to see employment pick up, but it may not be noticeable until after 2010. Ore said manufacturers are hiring a lot of temps, which may, in time, lead to permanent hires, but "We've got quite some time before we see enough growth" to declare that employment has come around.

Nieves said non-manufacturing businesses are also being cautious about hiring new workers, even as the economy improves. "Pretty much what we've seen is them doing more with less," he said. In addition to the job numbers, Ore and Nieves said they will be watching labor benefits costs. Ore predicted a 1.4 percent increase, but the average is 2.6 percent. Nieves said executives he has spoken to worry about how the resolution of pending health care legislation will impact the cost of benefits for their employees. "It's still a major concern," he said. But all is not doom and gloom. While the growth will be slow, both Ore and Nieves agreed there will definitely be growth, and the downward slide that began in 2008 is now definitely over. Ore also said executives he has spoken to are much more optimistic about the latter half of 2010 than the first two quarters. "We're going to be climbing out of this hole very, very slowly," he said.

Supply chains should be driven by demand



Logistics managers at importers need to reconfigure their supply chains so that transport volumes are driven by actual customer demand rather than forecasted demand, according to a logistics analyst. Andrea Harris, consultant at UK firm Davies & Robson, said measures include retailers establishing a stock holding at production source, which can reduce shipping and distribution costs. "Although the logistics manager will always aim to use the most cost-effective transport modes, given the distances involved, the trade off for doing so is a significant increase

in lead time to market,” she said. “At the same time, reducing inventory in the extended supply chain also comes at a price, by increasing the risk of costly stock shortages.

“Despite the considerable skill and best efforts of most logistics managers, balancing these conflicting factors in supply chains which rely on the vagaries of forecast demand is highly impossible. “In many cases, this means that the cost benefits of sourcing from distant locations are effectively cancelled out by the cost of failures in the supply chain – a classic case of robbing Peter to pay Paul.” She added that while sea freight appears to be the cheapest transport option, particularly for shippers arranging flows of intercontinental freight, when the costs of handling, storage and inventory control – as well as the effect of long lead times on working capital and cashflow – are also factored in, “the optimal solution is likely to involve a mix of FCL, LCL and airfreight” and the use of consolidation centres at origin. “The most efficient supply chains match the transport mode as closely as possible to the production replenishment cycle, to improve flow and minimise lead time to market. “By adopting these and other lean principles, logistics managers can increase flexibility, reduce lead times, improve cashflow and reduce total delivered cost to ensure that the cost saving benefits of sourcing from distant locations are fully realised,” she said.

Lighter Column - Catchy Christmas Quotes

“Heap on more wood! the wind is chill; But let it whistle as it will, We'll keep our Christmas merry still.” - Sir Walter Scott

“There's nothing sadder in this world than to awake Christmas morning and not be a child.” - Erma Bombeck

“The best of all gifts around any Christmas tree is the presence of a happy family all wrapped up in each other” - Burton Hills

“It is Christmas in the heart that puts Christmas in the air.” - W. T. Ellis

“Christmas is the day that holds all time together.” - Alexander Smith

“Christmas gift suggestions:

To your enemy, forgiveness.

To an opponent, tolerance.

To a friend, your heart.

To a customer, service.

To all, charity.

To every child, a good example.

To yourself, respect.” - Oren Arnold

“Christmas is most truly Christmas when we celebrate it by giving the light of love to those who need it most.” - Ruth Carter Stapleton

“At Christmas play and make good cheer, for Christmas comes but once a year.”

- Thomas Tusser

Wish you all a Merry X'mas (Feliz Navidad, Boas Festas, Bon Nadal, Crismas Mobarak) and a Prosperous New year 2010.

See you in 2010 – Prabhu Williams dxbgent@owl.ae