

## OWL DUBAI NEWSLETTER – APR 2009

### **Sheikh Mohammed: The worst of the crisis is over**

UAE Vice President and Prime Minister and Ruler of Dubai, HH Sheikh Mohammed bin Rashid Al Maktoum, believes the worst of the financial crisis is now over, following its 'significant' impact on the economy during the final quarter of 2008. Taking part in an electronic question and answer session with the press, he said the UAE economy is expected to grow this year, albeit only slightly. Last year there was a view among some that the downturn was a problem for the West and would have little impact on the UAE. But Sheikh Mohammed said that with the global nature of the downturn, 'it was expected that our country would not be immune'. He believes that the global panic phase is now over and within the UAE, the country has 'overcome the crisis with the least amount of losses'.

He said that no preventative measures would have insulated Dubai, the UAE or any other country from the impact of the global economic downturn, but said the conservative policies overseen by the Federal Central Bank and a liberal economic approach helped prevent any cases of bankruptcy among the UAE's banks and major corporations.

'The impact of the crisis on our economy was significant during the last quarter of 2008, yet it was not as harsh as on other major economies,' he told journalists. 'None of the economy sectors was snapped. We are currently implementing plans and programs of action to benefit from the lessons of the crisis and ensure the recovery of the negative effects.'

The actions taken by the Federal Government, he said, were a 'well thought-out' response to overcome the global crisis, which took longer to reach the UAE but saw many companies rapidly laying off employees, particularly in the property and banking sectors. 'We are monitoring and following up our situation and the development of all the economic sectors through federal and local specialized committees, just as we follow developments in the global economy and international markets.'

Analysts have said that the banking system in the country needs more liquidity and in part, one of the actions taken by the government - Dubai launching \$20bn, five year bonds looked to fill that gap. The UAE Central Bank subscribed to the bond with \$10bn.

But as the impact of the global crisis began to be felt in Dubai, including the slowdown or cancellation of various projects, rumours persisted that the emirate was looking to sell off some of its key state -owned assets, such as airline Emirates, to Abu Dhabi. Sheikh Maktoum dismissed these rumours: 'Rest assured that between Abu Dhabi and Dubai, there is no buying and selling. Everything in Dubai belongs to Abu Dhabi and Dubai and the rest of the UAE, and all that is in Abu Dhabi belongs to Dubai and Abu Dhabi, and the rest of the UAE,' he wrote.

Asked about the layoffs at state owned Dubai Holding, he pointed to the fact that companies around the world have had to make redundancies and review their growth and expansion plans. 'Dubai Holding is not an exception at all. All its companies work on a commercial basis, and it is normal to lay off the employees who do not have roles to play during this situation.'

While layoffs among the bigger companies have made the news, the downturn poses a particular threat to small and medium businesses, which in turn has damaging implications for the economy. Sheikh Mohammed said that the economy is in better shape than in many countries, so the 'contraction it [the small and medium business sector] has suffered is only temporary.'

### **Ocean Freight market**

The fragmented nature of the ocean freight market means that major logistics firms will play an increasingly important role in the future. That's the opinion of the chairman of German logistics giant Schenker, who was speaking to delegates at the CI Global Liner Shipping 09 conference in London recently. "The market share of ocean freight forwarders is growing faster than the market share of the shipowners," said Dr. Thomas C. Lieb, chairman of the management board of Schenker. "Over the past four years, the market share of the top four container shipping companies has grown by 4.3%. During that same period, the market share of the top four ocean freight providers grew by 18.8%," added Lieb. Lieb indicated that supply chain firms create significant added value for carriers and clients and can also offer more reliable cargo space thanks to more cooperation at the interface to carriers. He also stated that only logistics providers can enable their customers to control the supply chain by determining both the inventories as well as the size and frequency of transports, allowing greater cost transparency.

SHIPPING lines are now employing a wide range of measures to offset the effects of the global downturn from vessel lay ups, to scrapping, to network rationalizations to avoid canal fees, particularly the Suez,

and much more. Across various trade lanes shipping lines have announced a series of general rate increases this month in a bid to restore rates to what they are calling, "sustainable levels". But whatever the increases are, it is highly unlikely that rates will increase to levels that will pull them out of the red this year

### **Ship Owners market**

CARRIERS have gone to extreme lengths to downsize fleet sizes and rationalize their services since the latter half of 2008 in a bid to avoid sinking under the weight of the financial crisis, but it the non-operating ship owners that will likely be hit the hardest. In a recent interview with a senior liner executive whose own company has been heavily involved with such capacity reduction measures to survive the current storm, he noted the comparative difficulties these players face.

"We (carriers) have income maybe not enough, but we still have income. Owners on the other hand do not have any income when ships are laid up. They are the ones who have to fear", he said...Saddled with non-performing assets, ship owners will and no doubt are already finding themselves in a tight spot. Although ship owners who still possessed some long term charters on their vessels will be able to hold on for a longer time as they can generate enough cash flow to pay for anchored vessels, the relief would be temporary, as those charters will not last forever, he added.

Charter owners who had used their strong bargaining positions in the past to compel shipping lines into signing long term ship leases, find their fortunes reversed now due to the current slump in the charter market. The liner executive also pointed out the impact that idle capacity will have on ship financing companies. Many companies that have lent money to ship owners will find themselves in the red now. Easy availability of finance money in past years led to an inflated demand for new ships. Loans for newbuildings and assets were extended without a thorough assessment of the borrower's financial viability. With a downward revaluation of most of these assets at present, ship financiers find themselves sitting on a heap of assets that are no longer worth what they were in the past.

## **Terminal Industry Outlook**

Terminal operators with a diversified portfolio, especially those with ports in developing economies, are likely to fare better than their competitors with locations fixed in traditional markets. That's the assessment of APM Terminals chief operating officer Richard Mitchell, who has delivered the keynote speech at the 11th Annual Global Liner Shipping Conference in London. Mitchell remarked that recent data showed that the share of global container volumes from the Indian subcontinent, South-East Asia, Latin America and the Middle East would rise by 8.7% this year and by another 10.3% in 2010. He also drew parallels between the results of DP World and APM Terminals, who both operators with diversified portfolios, as against those of Hutchison Port Holdings, and PSA International, which are both largely based in Asia.

"This is a positive for the terminal operating industry, as it indicates potential growth areas but does not help our liner customers faced with major volume declines in the east-west trades," Mitchell stated. The APM Terminals executive went on to explain what his firm had done to lessen the impact of the crisis. It reorganised its structure from seven global regions down to four, and concentrate on building a better, more sustainable business model for the future. "It is our responsibility to create a sustainable model which emphasizes people along with development projects. It means safety in the work place and health priorities for personnel both within and outside of the organisation. It is a responsibility to instill and pursue an environmental awareness that will be our legacy to the future of the industry," Mitchell concluded.

## **Liner Industry Outlook – Newbuilding versus unemployed tonnage**

UNEMPLOYED containership tonnage is poised to soar in the coming months as lines return surplus chartered vessels to their owners. Industry experts predict that the current amount of idle capacity could soon be dwarfed by a new wave of ships that operators will offhire this year as they continue to downsize their fleets. Around 1.4m teu or 11% of containership capacity is currently thought to be inactive, but London broker Howe Robinson said that amount could easily double if demand remains at today's depressed levels. Until now, most attention has been focused on the orderbook and how that will affect the supply and demand equation, but analysts are starting to take a closer look at the number of charters that will expire soon. One estimate puts

the 2009 figure at more than 1,500 ships with combined capacity of 2.7m teu, according to Neptune Orient Lines chief executive Ron Widdows. While some of those ships will be re-hired at bargain-basement rates, others will be left to anchor with no hope of finding employment. "Ships are parked everywhere," Mr Widdows said "That is becoming a larger problem for shipowners as they will be getting a lot of ships back." These vessels coming available in the charter market will be in addition to the large number of newbuildings to be delivered in 2009 and 2010, "so the amount idle in the relatively near future is going to be a very sizeable number, and that will be with us for some time", Mr Widdows told Containerisation International's Global Liner Shipping conference. The over-supply crisis could be relieved by some order cancellations, with Chinese yards starting to accept a few contract annulments as Zim found last week, but the big Korean shipbuilders are still standing firm.

Brokers say that just about every owner and operator in the world with ships on order is seeking either delivery delays, rescheduled payment terms, price cuts, or cancellations.

No Korean yards have yet agreed to cancel any orders, Lloyd's List understands, but a few other compromises are beginning to emerge. "Some smaller Korean yards are starting to play ball," one source said. There have been some very, very small concessions," with a few owners managing to secure completion deferments of between three and 18 months. Production delays are thought to include some 13,000 teu ships, but yards are loathe to reveal too much for fear of having to then agree to every request. Cancellations are still very likely if, as many suspect, not all the published orders have finance in place, or if banks refuse to meet pre-delivery loan commitments because of falling asset values.

But even if some orders fail, and demolition activity increases, the world's containership fleet is still expected to grow briskly at a time when demand is shrinking. Howe Robinson research and consultancy director Paul Dowell told the CI conference that supply is provisionally forecast to grow by 1.7m teu this year based on scheduled deliveries, but that could be trimmed to 1.3m teu or 10.5% after allowing for probable cancellations and scrapping. For 2010, actual fleet growth is likely to be around 7% as the orderbook is cut and demolition picks up.

At the same time, Howe Robinson expects the Asia-Europe trades to show zero growth in 2009, with the eastbound transpacific trade likely to shrink by 8.1%. While refusing to attribute blame for the crisis to any particular group, Mr Dowell nevertheless said

yards had added to the problem by telling containership owners at the height of the ordering boom that newbuilding berths were rapidly being filled with bulk carrier and tanker orders. He also warned shippers that the standstill in contracting could eventually force freight rates much higher in the years ahead because of a prolonged period of under investment after the ordering bonanza that peaked in 2007. Some owners are saying that South Korean yards must accept some responsibility for the massive over-supply and should now take action to stretch out the orderbook. "Otherwise, the glut will wipe out many of their clients, owners and liner operators," one industry leader warned South Korean shipbuilders last week. "If the shipyards deliver all these vessels, they will kill off future newbuilding demand and so will eventually go bankrupt as well."

## Guest Topic: Supply chain physics?

One may well wonder what could be the possible connection between the world of natural physics and the world of supply chain management. Well, there is a fascinating new field of study called social physics that is actively examining the application of the laws of natural physics to the affairs of human beings. Philip Ball's recent book "Critical Mass - How One Thing Leads to Another" gives a fascinating insight into the subject matter and discusses the science in some detail (Philip Ball, Arrow Books, ISBN 9780099457862). As Ball explains, one of the most curious of the phenomena that occur in natural physics is what is known as a 'Phase Transition'. This happens when, for example, water freezes to ice or boils to vapour. These phase transitions for water happen at what are called critical points in temperature. For water, as we all know, the critical points are 0 degrees centigrade for the solid to liquid transition and 100 degrees centigrade for the liquid to gas transition.

"So what?" you may be saying to yourself. "I am a supply chain manager or a logistics manager, or a company director or whatever, so what relevance do phase transitions in natural physics have". Well the answer is quite a lot, in fact: read on....the really curious thing about water freezing is that close to the critical point of 0 degrees centigrade, a very small change in temperature can cause the whole system to shift very quickly and completely from one state or phase to another. In effect, it is either entirely liquid or entirely solid ice - there is nothing in between and the change from one to another happens all at once in response to an imperceptibly small change in temperature.

Similarly today, under the strain of recession, many businesses and indeed entire supply chains are moving into regions where the organisational "temperature" is getting perilously close to its own particular critical point. And what would natural physics tell us about the conditions close a critical point? It would tell us that very small changes in this organisational temperature could cause a dramatic and sudden phase transition. The concerning thing is that this would be a phase transition between survival and prosperity on the one hand and failure and ruin on the other. Close to the critical point small changes in the organisational temperature in the wrong direction will now have big effects, shifting an organisation from liquid and flowing to frozen rock solid in the blink of an eye. Understandable as it may be given the current economic environment, the tendency to batten down the hatches, suspend all change and action, cut investment across the board and become introspective and defensive could be fatal at this time. This approach, will lead to a small but significant cooling in organisational temperature that, close to the critical threshold as we are, could cause things to freeze up catastrophically.

On the other hand, if the current challenges are viewed as a call to action to create a sense of urgency, if they can be a catalyst to get things done now to make operations more efficient and productive, more effective in delivering value to the customer and more focused on bolstering cash flow, this will maintain the organisational temperature above the critical point. This energy will keep things flowing, guarantee liquidity and prepare the business well to emerge stronger than ever from the tough times ahead.

Those businesses and those supply chains that do successfully stay above the critical point and learn to thrive in the face of challenge will emerge leaner, fitter and stronger than at any time in the past. To be among them, the time to act is now. It is a time to be bold, a time to look for opportunities, a time for conviction, for leadership and for action. Here are some of the things that we can do to keep our organisational temperature above the critical point:

- Use the recession as an accelerant for action and pull forward planned restructuring
- Seek out multiple opportunities for productivity improvement
- Drive innovation harder and faster
- Streamline processes, removing non-value-added activities and excess inventories
- Improve focus on measurement systems and key performance indices
- Focus cap-ex investments on initiatives with short-term paybacks in the 12-month range
- Maximise flexibility and protect cashflow
- Don't lose site of longer-term investment plans for future growth

And remember, one cannot cut your way back to success; one has to innovate and be creative to thrive and prosper in the face of challenge.

**Lighter column**

Find the jumbled word with the hints provided against

uyfin	verb. make several things into one
asloic	adjective. pertaining to life in a society or community
pelex	verb. send or throw out
hurtt	noun. quality of being real or genuine
ueeuq	noun. line of people or vehicles waiting their turn for something

Pick the first letter from each of the five words identified and form a WORD  
(again hint as provided below)

[It's a long search!](#)

**Last Newsletter Solution**

EX: \_TUMBLE and \_RIP

Answer: STUMBLE and TRIP

- 1) SCOLD and CHIDE
- 2) GAMBLE and WAGER
- 3) YEARNING and CRAVING
- 4) TALLY and SCORE
- 5) WAVER and FALTER

See you next month same week

...cheers

...Prabhu Williams

Any feedback or comment , pls reply to dxbgenl@owl.ae