

**OWL DUBAI NEWSLETTER – AUG 2009**

**Stormy seas face container shipping in 2010, say analysts**

THE outlook for the container shipping sector in 2010 is said to remain cautious, despite economic indicators pointing to a recovery in the world economy next year, according to analyst reports surveyed by Reuters. A combination of factors including uncertainty over the pace of world economic recovery, weak freight rates, poor demand on all trade lanes, particularly on the key east-west trades, and the continuing growth of the world idle box fleet are expected to hinder the recovery of the shipping industry in 2010, which has experienced unprecedented lows.

Analysts expect freight rates to remain under pressure across the whole shipping sector including the dry bulk market, Reuters reports. Reuters cited London-based shipbroker Clarksons as forecasting that container volumes will contract by 8.3 per cent this year versus growth of 4.8 per cent in 2008. "Every player within the box shipping market is feeling the crunch in one way or another," Clarksons said in a report this month.

London-based shipping consultancy Drewry predicts the world container trade will increase by one per cent in 2010, while Washington-based forecaster IHS Global Insight anticipates growth of 6.8 per cent next year. "It is not as if trade in 2010 will rebound to the levels we saw globally during 2006 or 2007 during the strong world recovery from the last global recession in 2001," said HIS Global Insight managing director Paul Bingham.

The report noted that Drewry's global supply demand index, a key measure of the container industry, is expected to hit an all-time low this year of 83.4. A figure above 100 indicates a strong market. However, the index is anticipated to fall to 79.6 in 2010 versus 100.1 in 2008 and 105 in 2007.

On the other hand, container shipping lines hope the traditionally busy peak period that normally begins in August in the lead up to Christmas, will be better than last year's recession-shortened season, but it is not expected to see the same volumes as two years ago, when the market was booming.

This is compounded by an Alphaliner report that first quarter revenues of 11 of the main container shipping companies had decreased by 35 per cent in the first quarter of 2009, compared to the same period last year, to US\$14.45 billion.

Alphaliner was quoted as saying in the report: "Further revenue reductions are expected for the rest of the year and liner operators could face a \$40-\$50 billion combined revenue shortfall for 2009 versus 2008, much larger than that currently predicted by analysts."

Furthermore, the growing number of idle vessels is expected to place additional pressure on carriers' profitability in spite of their cost-cutting measures and attempts to delay vessel deliveries as highlighted in the next article.

### **Liner Industry – recent trends**

LINER managers have made impressive inroads towards reducing the supply and demand gap in 2009, as utilisation on the Asia-Europe trade reaches 90-95 per cent, according to a Seaspan source. Commenting on some of the latest trends in the industry impacting on business, several key factors have helped contribute to a more palatable supply overhang than the one carriers faced at the beginning of the year...

"The liner majors have done a great job in terms of mitigating the total supply that they have to operate with," the chief executive said. And it's not just Asia to Europe, the transpacific trade between Asia and the US is now reportedly up from roughly 75-80 per cent utilisation last year to 90-95 per cent at present. So how did they get there? Have volumes shot up that much in recent weeks? Partly, but there's more to it...

Chief among these reasons is the obvious one—network rationalization. We have heard about these changes all year. But volumes have picked up in the second half as well. All the statistics we have seen thus far show marked improvements in volumes for July, and industry watchers are hopeful the trend will continue.

Looking at network rationalization, this involves essentially two key elements—vessel layups and joint services. "The liner majors are working together now. Instead of 'A' sending one ship with 50 per cent load factor, and 'B' send a ship with 50 per cent load factor, now 'A' and 'B' work together, park a couple of ships and better utilize the space that they commonly have to achieve the maximum load factor.

Result: Screaming rate increases barraging the shippers' desks. Shippers on the Asia-Europe trade are facing a stunning barrage of general rate increases from carriers on the route, with one line seeking GRI hikes of US\$1,275 per TEU between April and September. The series of rate

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restoration moves have been coming in hard and fast since April as shipping lines try to find revenue on a trade route that is suffering from a chronic imbalance in supply and demand. According to data compiled by PR News Service, GRIs being sought on the westbound Asia-Europe route since April will total over \$10,000 per TEU by the end of September, with the average per line equating to around \$700 a TEU. "K" Line wants \$1,275 more per TEU spread out over six months. The financial abyss into which lines have fallen can be seen in the dismal first half results of some of the larger carriers. Average losses in net profit at OOIL, Hanjin and NOL Group were around \$300 million, a clear indication of the depth of the problem facing the container shipping industry.

Rates on the transpacific trade also appear to be on the rise, according to an index of average spot prices compiled by Drewry Shipping Consultants. The index rose above \$1,000 per FEU for the first time since May, signaling an increase in the average rate per 40-foot box.

In addition to the Asia-Europe freight rate increases, lines have started imposing Peak Season Surcharges (PSS) effective from August through October, which some customers believe are being disguised to address the seasonal upturn in demand but are more likely increases to cover shortfalls in the acceptance of the GRIs. Lines are generally able to get 60-70 percent of the asked for increases.

Peak surcharges already kicking in across the Asia-Europe trade range between \$150 and \$200 per TEU for August alone, and the world's second largest shipping line, Mediterranean Shipping Co (MSC), has already initiated two surcharge levels totalling \$400 a TEU for August and September with October increases waiting for the go-ahead.

Several shipping line experts were frank with the reasons behind the peak season surcharges, although wise enough not to have their names published. "There is no reason why the peak surcharge increases cannot be considered as purely disguising the inability of some lines to achieve their GRI levels from the effective dates," one executive said. "Those who have experienced this problem have searched other routes to claw back this 'lost' revenue by disguising their increases under different banners." Alarming, in the pre-conference days prior to October 2008, such details seldom came to light in the closed shop scenario whereby one line was "obliged" to follow the pricing levels of the others within the same conference.

"Today the situation is entirely different and the industry has moved into a more transparent environment whereby some lines, if they wish, can publish their rates and surcharge intentions,

while others play their cards closer to their chests," commented another shipping line source. Interestingly, lines are also confirming that the "all-in rates" system, where surcharges such as the Bunker Adjustment and Currency Adjustment factors (BAFs and CAFs) were all part of the overall rate charge, is moving back to a more segmented product. This has been fuelled by the ability of some lines to gain their GRIs and peak surcharge asking levels, thus adversely affecting those lines unable to achieve the levels of their peers. Such moves are suggesting that those who charge their rates and surcharges at separate quantum levels are proving more successful and logically more adaptable to the continuing market slump than those who combine everything into one overall charge.

Such overall calculations might also go well with Shippers as evident from recent Asian Shippers' Council (ASC) report slamming the continued use of surcharges and calling for "all-in freight rates". The ASC said Asian shippers had been "slapped with more surcharges than anywhere else in the world" over the last year. It also hit out at "so-called zero freight rates", explaining that although the base freight rate might be minimal, the cost is recovered under a "plethora of surcharges". The ASC also criticised recent peak season surcharges introduced by shipping lines. It said: "In a world caught in recession, where shippers are finding volumes declining, shipping tonnage piling up and container space in excess, carriers are still finding it reasonable to charge a peak season surcharge, which questions the very logic of market-driven prices."

The ASC reiterated its call for all-in freight rates that include terminal handling charges and surcharges to be established. And it singled out the Transpacific Stabilisation Agreement, an Asia-North America rate-recommending group, claiming its members had created an "artificial space shortage through manipulation of capacity", disrupting the proper functioning of the market.

### **Cargo traffic holds up in Dubai**

Dubai's cargo throughput is down slightly for the year to date, despite tough economic conditions. Cargo throughput at Dubai International Airport continues to hold up, despite the tough economic environment. In July, the airport handled 160,289 tonnes of freight, a 1.9% increase over the 157,253 tonnes handled in the same period twelve months ago. For the year to date (Jan-July), cargo throughput reached 1,035,118 tonnes compared to 1,038,807 tonnes in 2008, a marginal fall of 0.3%. "The Middle East continues to demonstrate vibrant growth during the global economic downturn and Dubai International is at the epicentre of that growth," said Paul Griffiths, CEO of Dubai Airports. Dubai International handled a total of 3,768,965 passengers in July compared to 3,347,655 during the corresponding period in 2008, a jump of 12.6%. Year to date traffic at the end of July stood at 23,148,452 passengers, up 6.1% year on year. "The double-digit increases [in passenger traffic] we've seen in the past two months are the direct result of a boost in passenger numbers from Emirates and other long-haul network carriers and continual growth in the low cost sector. As for cargo, considering that airports around the world continue to record sharp decline in freight traffic, we have fared well."

### **DP World's first half container volumes down 10pc**

DUBAI's DP World has suffered a 10 per cent decline in total container cargo at its ports in the first half of the year, amounting to an aggregate volume of 12.3 million TEU. "The first six months of 2009 have seen some of the most challenging operating environments our industry has ever known," said DP World CEO Mohammed Sharaf, according to The Associated Press report. Mr Sharaf is predicting "an inevitable decline" in first-half profit on the back of the decline in business despite cost-cutting measures. Yet he forecasts full-year results will meet expectations. "The unpredictable trends in global trade we have seen in the first half of the year continue into the second half of the year," he said.

The report noted that the company's largest revenues came from Dubai's Jebel Ali port and other smaller ports in the United Arab Emirates. DP World said business at ports in the UAE had fallen seven per cent in the first six months of the year.

### **Report predicts long term recovery for logistics**

New figures published in Transport Intelligence's latest report, Global Freight Forwarding 2009, show the extent to which the freight forwarding market has shrunk in the first six months of 2009. The air freight forwarding market contracted by 28% and the sea freight forwarding fared even worse with a 32% drop. The rapid reduction is placed into context by the fact that the air and sea freight markets actually grew in 2008 by 2.7% and 3.2% respectively fuelled by economic growth in the first part of the year and high fuel surcharges.

Although the crisis affecting the market is a global phenomenon, some regions performed much better than others. In the first half of 2009, for example, the Middle East air cargo market fell by just 3% whilst in the USA forwarders were faced with a 36% drop.

According to John Manners-Bell, Transport Intelligence's CEO, it will take several years before the industry recovers to previous levels. "There are signs that the industry has bottomed-out in terms of falling volumes. However indicators both within the market and in the wider economy are mixed. We believe that it will be at least 2012 before the market returns to its 2008 value."

The reduction in volumes has placed massive strain on forwarders' operations. Despite the asset-light nature of their business, none has been able to keep pace with the rapid downturn in volumes.

"The next six months of 2009 are critical to the future of the forwarding industry," warned Manners-Bell. "It is still to be seen which of the major freight forwarders has the best grip on the challenging market conditions. Those that get it wrong will be left behind when the recession finally ends."

### **Top 10 contract logistics players**

Transport Intelligence believes there will be a 'surge of mergers and acquisition activity' in 2010. DHL Supply Chain has maintained its position as the world's largest provider of contract logistics services, according to a recent study by Transport Intelligence (It). Making over €12 billion in revenue last year, the company had a significant lead on CEVA Logistics and Kuehne + Nagel, which took the second and third positions with revenues of €3.5 billion and €3.1 billion respectively. "With a downturn in volumes and margins being pressurised, contract logistics companies are focusing internally rather than looking for external opportunities," commented John Manners-Bell, chief executive of It. "I believe this will continue to be the case in 2009 despite the general perception that 'distressed' targets may soon be coming onto the market. As the market picks up in 2010 there is likely to be a surge of mergers and acquisitions activity."

Agility was ranked as the fastest growing company in the sector, followed by DSV and Conway-Menlo Worldwide Logistics, which all registered double-digit increases in revenue last year.

Here is the list of the world's top ten 3PLs in 2008 in terms of revenue:

1. DHL (Supply Chain and Global Forwarding)
2. DB Schenker Logistics
3. Kuehne + Nagel, Inc.
4. Panalpina, Inc.
5. UPS Supply Chain Solutions
6. CEVA Logistics
7. C H Robinson Worldwide
8. Geodis
9. DSV Solutions Holding
10. Agility

### **Port faces \$1m bill for small error**

A small mistake at the Port of Seattle is going to cost a lot, about US\$1 million. The problem is 2/100ths of an inch, and it delayed the opening of a celebrated project by two months, reported The Seattle Times.

The port constructed a new cargo terminal on the Seattle waterfront and dug a trench to hold the electrical cable for cranes that lift containers from ships. The new trench, built by contractor BergerABAM, is narrower than it should be, so the cable doesn't fit.

"Clearly the contractor should've built the trench at 2.52 inches and it's 2.5," said Port Commission president Bill Bryant. The cost of a new narrower cable is about \$200,000. Because the mistake delayed the opening of Terminal 30, the port is considering a rent credit for tenant SSA Marine that might exceed \$1 million.

Port Commissioner John Creighton called the proposed solution "the best course forward out of a bad situation". Who is liable for what share of the cost remains a topic of negotiations among the Port, BergerABAM and SSA Marine.

### **Ports continue with construction in spite of recession**

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THE economic gloom and doom may have forced shipping lines to cut down fleet capacity but it has not slackened the pace of expansion and new construction in the port industry. Port authorities may have gone frugal on wages, dividends and short-term costly projects but have chosen to keep their key capital expenditures on course. A report released early this month by Dynanar BV maritime shipping consultants on key trends in the shipping industry in the first six months of this year indicated that with exceptions, port and terminal development went on with full force between January-June, especially in regions where trade has not contracted as greatly as others...

The Dynamar report suggests the distress caused by contraction in shipping demand in the fourth quarter of 2008 did not dampen business activity for Hong Kong's Hutchinson Port Holdings (HPH), a subsidiary of the Hutchinson Whampoa Limited. Hutchinson concluded two swap-sharing agreements in January with the Evergreen Group and NYK Line. It acquired a majority stake in Italy's Taranto Container Terminal in exchange for a minor share in its two-berth London Thamesport (LTP) container facility to Evergreen. Hutchinson gave NYK a small share in its European container terminals at the Port of Rotterdam to acquire a majority stake in Amsterdam's Ceres Container Terminals". In China, it commenced construction of two new container berths at the Port of Huizhou in the Pearl River Delta.

Port investments in China appeared to continue unabated despite a 12 per cent year-on-year decline in the throughput of the top ten Chinese container ports in January per Clarksons' estimates. Construction of three container berths with a capacity of 2.1 million TEU each at Shanghai's Waigaoqiao port and development of a new port by Port of Xiamen in Liuwudian, close to Taiwan were some of the other key projects which took off in China this month. The construction in Xiamen appears to have coincided with the easing of restrictions on cross-strait shipping services between mainland China and Taiwan. Work also began on two dedicated container quays in Taiwan. Evergreen, Wan Hai and Yang Ming shipping lines will jointly operate the terminals.

### **Recession forces half of UAE households to cut back spending**

UAE households are saving their dirhams during the global recession. Almost half of UAE residents have cut down their household expenditure in response to the global financial crisis a Middle Eastern study has found. Some 43 percent of UAE households who took part in the survey said they had reduced their outgoings – the highest cut among the countries surveyed. The survey by YouGov and the online job website Bayt.com found that on average only 30% of professionals cut down on their household spending.

“In similar research over the past six months, we have seen that UAE consumers are cutting back considerably on their spending,” said Nassim Ghrayeb, CEO of YouGov in the MENA region. “Now, despite some signs of optimism at the grass roots level in the global economy, it seems the trend of being more price-conscious looks set to continue, at least in the short-term.” The most common reason for reducing household spending was the recession, with job losses named as the second most common reason. The UAE’s figures were the highest in terms of cutting down spending due to job losses, with 45% saying this was the case. In Kuwait the number was 44%, and in Egypt it was 41%.

The ‘Surviving the Recession’ study was carried out to better understand how the global recession has impacted consumer spending and savings, YouGov said. Some 12,908 people from across the UAE, Saudi, Qatar, Oman, Kuwait, Bahrain, Syria, Jordan, Lebanon, Egypt, Morocco, Tunisia, Algeria and Pakistan took part in the survey, conducted online between May 26 and June 28. “The recession naturally leads to a dearth in liquidity, which is made very clear by the fact that so many residents in the region have limited their spending,” said Amer Zureikat, Bayt.com’s regional manager. “By conducting this study, we are shedding light on the extent of these limitations and how, overall, people feel they are dealing with the situation.” The study also asked people about their finances both before and during the recession. The majority of people said they felt worse about their financial position now. In the UAE 41% of respondents said they felt financially better off than their peers, while only 25 percent made the same statement now. When asked about the reason for this change in their financial health 48 percent of respondents in the UAE said it was due to losing their job, and 23 percent said it was due to a cut in salaries.

### **A novel way of using containers**

Building new prisons is outrageously expensive and alternatives such as housing prisoners in converted shipping containers have to be considered, NZ Prime Minister John Key has said. Corrections Minister Judith Collins has floated the idea of prisoners building their own cells from shipping containers. Opponents say the proposal is inhumane. Mr Key said it was only one idea to get around a serious problem due to a lack of prison space. "It's one of a number (of options)... and I can't tell you if it is likely to take place." The prison population is continuing to

swell, with 700 added to the muster this year, and tougher sentencing is worsening the problem. Measures such as double-bunking are being implemented. Ms Collins has asked the corrections Department to consider the proposal, which she described as "a great idea" and "a lot better than being locked up all day in a cell". The container cells would "be spartan but humane and clean" and prisoners could help build them. The cost of building accommodation to the standard of the new Spring Hill prison in Meremere, south of Auckland, works out at about \$643,000 per bed. Using shipping containers, the cost is an estimated \$380,000 per bed.

**Lighter Facts on what we consume:**

- Frozen lobsters can come back to life when thawed!
- Coca-Cola's 'Super Pure' Dasani bottled water is just filtered tap water!
- McDonald's salads contain up to 60% more fat than their burgers!
- In West Virginia if you run over an animal, you can legally take it home and cook it for dinner!
- Apple seeds are poisonous!
- A recent study at Harvard has shown that eating chocolate can actually help you live longer!
- Honey is used sometimes for antifreeze mixtures and in the center of golf balls.
- For people that are lactose intolerant, chocolate aids in helping milk digest easier.
- Coca-Cola was the first soft drink to be consumed in outer space.
- Chewing on gum while cutting onions can help a person from producing tears.
- The 'vintage date' on a bottle of wine indicates the year the grapes were picked, not the year of bottling!
- Fine-grained volcanic ash can be found as an ingredient in some toothpastes.
- Bananas contain a natural chemical which can make a person happy. This same chemical is also found in Prozac.

Any feedback or views , pls feel free to mail Prabhu Williams [dxbgent@owl.ae](mailto:dxbgent@owl.ae).  
See you next month..cheers!