Lloyd's List

lloydslist.com | Friday February 13, 2015
Leading maritime commerce since 1734

Economou eyes new tanker spree

Greece-based owner may tweak details of Tankships deal for investors

GEORGE Economou's private Cardiff Marine Group is close to inking orders for more crude oil tankers as the shipowner fine-tunes a planned separate flotation for DryShips spin-off Tankships Investment Holdings, *writes Nigel Lowry*.

Very large crude carriers, suezmaxes and aframaxes have all been discussed with builders in South Korea and China in recent weeks, Lloyd's List has learned.

The owner is thought likely to contract tonnage in Korea, but it seems that there is no truth to recent broker and media reports linking this to a swap of tankers for a drillship on order at Samsung Heavy Industries.

Market rumour had gone so far as suggesting that Cardiff may be in talks with Samsung for exchanging two drillships on order for Dryships subsidiary Ocean Rig, at which Mr Economou is also chief executive, for up to 14 suezmaxes and aframaxes.

But a source at the Athens-based group said this was false. "I think it's a case of brokers mixing up two completely independent things," he said.

The last two drillships that are on order at Samsung, scheduled for delivery to Ocean Rig in the first half of 2017, were "fully on time", he said.

Samsung is just one of the yards that has been approached for new tankers, it was emphasised.

Economou: VLCCs, suezmaxes and aframaxes have been discussed with builders in South Korea and China in recent weeks.

An orderbook of new tankers could swell the potential pipeline of fleet expansion for the owner's Tankships spin-off, although that will depend on the final form of the public prospectus which is still being described as a work in progress.

Tankships, according to the registration statement that was filed on January 21 with the Securities and Exchange Commission, is slated to start with the tanker fleet currently under DryShips, comprising four suezmaxes and six aframaxes.

The first filing includes options to acquire virtually the entire Cardiff private tanker fleet, starting with three recently-built suezmaxes for a combination of cash and shares.

These are a much-delayed trio that the owner has finally acquired from Jiangsu Rongsheng Heavy Industries in an upgraded specification in terms of fuel-efficiency.

The 157,022 dwt *Nantucket* and *Tahiti* were delivered in May and October last year, and sistership *Tamara* was delivered as recently as January 30.

Thereafter, Tankships will have the option to acquire any or all of Cardiff's privately owned 15 aframaxes, the majority of which have been built by Shanghai Waigaoqiao Shipbuilding, and two Jiangnan Shipbuilding VLCCs.

Two further privately owned VLCCs, *Universal Brave* and *Universal Prime*, are deemed too old to include in the new vehicle's modern potential fleet.

Late last year, the group sold six suezmaxes to Teekay-linked Tanker Investments Ltd for a reported $315m.

The 2009-2010-built sextet — *Kamari*, *Karekare*, *Matala*, *Taipan*, *Toska* and *Vadela* — were the first international tankers built at Rongsheng and are due for handover to the buyers by this summer.

Under an omnibus agreement with Mr Economou, Tankships would have the option of purchasing any tanker "currently owned or acquired" for the following two years.

However, the filing was a preliminary prospectus and details of the deal could well change to strengthen the appeal to investors, it is understood.

The SEC review of the proposed offering still has a few more steps to go before completion, said one source familiar with the deal's progress.

Nasdaq-listed DryShips is likely to be a minority shareholder in the Tankships fleet if the IPO goes ahead, and its stake would thereafter be further reduced as more tankers are acquired by the vehicle.

Dry bulk market has bottomed out due to weaker supply, says MOL

Nagata is optimistic about the market's future, regardless of the shrunken proceeds seen in his dry bulker division

MITSUI OSK Lines, the Japanese giant, remains upbeat about its dry bulk prospects, even though it will inevitably see the division's profit shrink for the fiscal year ending on March 31, *writes Cichen Shen*.

During an interview with Lloyd's List, Kenichi Nagata, the MOL senior managing executive officer who heads the company's dry bulker division, says he remains "cautiously optimistic" about the market, as shipowners have begun to change their strategies to curb ship supply, while ballast regulations may also alleviate the overcapacity pain.

"The market trend will pick up a little bit and the sentiment will be brighter," he says.

However, the 59-year-old veteran admits the current record-low freight prices have taken a toll on MOL's performance, adding that the company's dry bulker business is to suffer some losses in the fourth quarter.

Two factors for a market uptrend

The Baltic Dry Bulk Index (BDI) fell to 553 points on February 11, a level not witnessed since 1987. But Mr Nagata believes the market has bottomed out and is now on an upward trend — in spite of a lackluster world economy — for two.reasons, both regarding ship supply.

Firstly, some shipowners have started to convert their dry bulker orders into very large crude carriers or other product tankers, or simply to delay deliveries, in a bid to slim down the hefty orderbook that stemmed from their previously overoptimistic outlook for 2014; others are just ramping up efforts to scrap more old tonnage.

"So, with these actions, the gap between supply and demand will be narrowed," Mr Nagata says.

Secondly — and perhaps more interestingly — while most observers are focusing on the complication and extra cost of installing the ballast water management system, Mr Nagata tells Lloyd's List that it may actually help to reduce the available fleet capacity.

It will take five to seven days for a shipyard to install the required equipment if owners have prepared the vessel in advance. If not, they could wait 10 days or even longer, as congestion may occur at a later time, Mr Nagata estimates.

"It's five to 10 days per vessel, but [involves] a massive number of vessels," he says.

According to the International Maritime Organization, the Ballast Water Management Convention will enter into force 12 months after ratification by 30 states, representing 35% of the world's merchant shipping tonnage. The IMO had received signatures from 44 states, or about 32.9% of the global fleet, up to January 31.

The possible imminent deadline has pushed MOL to make early preparations, as the amount of equipment available and the dock capacity can both be limited.

MOL has already decided to place a number of ships into the docks to install the ballast water equipment, including 15 capesizes during 2015, according to Mr Nagata.

"[In the] second half of this year, some other owners' actions will [also] be seen," he says.

Moreover, the convention, if put into effect, will further push up ship demolition, as shipowners will find some old carriers are not worth the expensive refit.

Nagata: "The market trend will pick up a little bit and the sentiment will be brighter." *MOL*

"For capesize vessels, the special machine costs $2m per ship, so owners have to think how long they can be used in the future," says Mr Nagata.

Contracted profit for FY2014

Nevertheless, the earnings from his dry bulk division appears less rosy than his market outlook.

Although the company's dry bulker business managed to maintain a similar year-on-year profit level during the first three quarters between April and December, the fourth quarter is likely to be disappointing.

"We are still trying to get to a similar level, but considering the risky circumstances with low market levels, especially [from] the smaller-sized bulkers, like handymax and handysize vessels. Maybe we will have to expect some losses," he says, without specifying the exact amount.

"That means, as a total, the result of fiscal year 2014 will be a little less profitable than 2013."

As a result, MOL is planning to increase the number of vessels with long-term contracts, which have significantly helped secure stable returns amid a blighted market in recent years.

So far, more than 70% of MOL's capesize carriers are now operating under long-term contracts, while the tally for its panamax fleet is about 50%-60%, according to Mr Nagata.

In addition, he says the company will also stick to its "cargo first" strategy, meaning it secures customers' cargo before ordering or operating vessels to transport it.

"We always think the cargo is first. This is our top priority," he says.

Mr Nagata says some of the newbuildings have already secured long-term contracts, while others are in the process of negotiations.

Lloyd's List Intelligence data shows MOL currently has 10 bulker ships on its orderbook.

"We are also asking the shipyards to keep some slots [available]. Once we [have] got the contract, we'll immediately ask [them] to [build]," he adds.

US west coast ports to close for four days over holiday weekend

ILWU accuses employers of trying to deliberately sabotage contract negotiations

HUNDREDS of seafarers will be stranded on ships this coming weekend, as US west coast ports suspend vessel operations for four days rather than pay longshore workers overtime, *writes Janet Porter*.

Already, dozens of ships are waiting in anchorages at any one time because of the gridlock in ports from southern California to Washington.

With relations between the Pacific Maritime Association and International Longshore and Warehouse Union disintegrating, with the two sides failing to reach agreement on contract terms for dockers after nine months of negotiations, employers have decided to stop vessel operations over a holiday weekend.

The shutdown will start today, Lincoln's birthday, and then continue on Saturday, Sunday and Monday, another public holiday. Normal operations are planned for Friday.

Weekend and holiday pay rates command a premium of at least 50% of the basic longshore wage rate. *Patrycja Ebis/Shutterstock.com*

Yard, gate and rail operations will continue at terminal operators' discretion, the PMA said. In southern California, where Los Angeles and Long Beach are located, terminal operators will expand daytime vessel operations on non-holiday weekdays.

Employers said weekend and holiday pay rates command a premium of at least 50% of the basic longshore wage rate. As a result, working hours on those days would be paid at between $54 and $75 per hour for longshore workers and clerks, and between $77 and $92 per hour for foremen.

PMA members said they had concluded that they will not conduct vessel operations on those dates, paying full shifts of ILWU workers such high rates for severely diminished productivity while the backlog of cargo at west coast ports grows.

"Last week, PMA made a comprehensive contract offer designed to bring these talks to conclusion," said spokesman Wade Gates.

"The ILWU responded with demands they knew we could not meet, and continued slowdowns that will soon bring west coast ports to gridlock. What they're doing amounts to a strike with pay, and we will reduce the extent to which we pay premium rates for such a strike."

The ILWU immediately hit back, with union president Robert McEllrath saying the latest move by employers was "an effort by the employers to put economic pressure on our members and to gain leverage in contract talks".

The same group of predominantly foreign-owned companies also cancelled a negotiating session scheduled on Wednesday for 1300 hrs with the ILWU's negotiating committee, he claimed. The employers have not made themselves available to negotiate since Friday of last week, according to the ILWU.

"The union is standing by ready to negotiate, as we have been for the past several days," Mr McEllrath asserted.

"It seems to us that the employers are trying to sabotage negotiations. They are not just hurting workers, families and communities. What our employers are doing is bad for the industry and the US economy."

Portland begins search for new transpacific partner
US port to focus on recruiting Hanjin replacement and rerouting cargo following carrier's decision to pull Portland call
www.lloydslist.com/containers

MOL books new-panamax LNG carriers for E.ON

DSME to build 180,000 cu m ships that will mainly serve European market

MITSUI OSK Lines has booked up to two new-panamax type liquefied natural gas carriers at Daewoo Shipbuilding & Marine Engineering for charter requirements from E.ON, *writes Max Tingyao Lin*.

The South Korean yard announced the Itochu-brokered deal is for one 180,000 cu m vessel, with an option for one more, pending on E.ON's requirement.

The newbuilding price is understood to be slightly above $200m per vessel.

The firm ship, due to be delivered by 2018, will be chartered to E.ON for at least 20 years.

The vessel will be installed with a partial re-liquefaction system, a DSME patent technology designed to reduce losses of gas from vaporisation.

"Compared to cold insulators, our PRS has a much lower losing rate of gas when the ship is in service, but costs are the same," said a yard official. "Since last September, we've won orders for more than 20 LNG carriers with this patent technology."

With 297.2 m length and 46.4 m breadth, the vessel is designed to sail through the expanded Panama Canal,

Continued on page 4

Continued from page 3

although its main destinations are expected to be in Europe.

"E.ON can order the ship to berth at any terminals within the charter period, as long as those ports meet safe port requirements," said a Japanese official involved in this deal. "The charterer has a worldwide trading operation.

"[But] from what I understand, the project is for ex-US shipments... When the cargo destination is in Asia, the ship can go via the expanded Panama Canal. But the main target [destination] is Europe."

While traditionally sourcing gas from the North Sea and Middle East, E.ON has sought to diversify its cargo sources in recent years and is reportedly in talks to purchase from Freeport LNG, one of the US shale gas projects.

In June 2013, the German utility and trading giant also sealed a 20-year deal to receive 5m tonnes of LNG from Canada's Goldboro project per year.

When the Nova Scotia-based terminal begins commercial operation in 2020, Pieridae Energy, the project developer, will be responsible for sending LNG to destinations of western Europe nominated by E.ON.

DSME vice-president and head of ship marketing Hyung Gun Park, left, and Takeshi Hashimoto, MOL managing executive officer.

Russian shipping rides out sanctions, depreciation and oil price plunge

Crude exports hold up but ports feel the pinch

THE Russian economy not only has to contend with the double whammy of Western sanctions on Russia and Russian sanctions on the West, but a dramatic fall in the value of the rouble occasioned by the sharp decline in the price of oil as well, *writes David Osler*.

So far, the damage to the shipping and ports sectors — including those that have sections with Western investors — has been minimal for key players, including Russian tanker operator Sovcomflot and inward investors such as Maersk.

But what the longer-term impact will be remains to be seen, and there could well be a sting in the tail.

In particular, Russian port sources are predicting a significant fall in traffic in the current quarter compared with the first quarter of last year.

All in all, there seems little doubt that this concatenation will push the country to experience a deep recession in 2015.

The latest International Monetary Fund World Economic Outlook report, for instance, reduced an earlier projection of zero growth for Russia in 2015 to a 3.5% drop in gross domestic product.

The World Bank is forecasting a 2.9% contraction this year, while many pundits are gloomier still. Some analysts have predicted that we could be looking at a fall of as much as 10%.

Russia has been subjected to extensive Western sanctions following its annexation of the Crimean peninsula and its ongoing support for pro-Russian separatists in eastern Ukraine.

Initially, the measures targeted parties deemed to be complicit in the Ukraine situation, as well as friends of Russian president Vladimir Putin. They have since been extended to take in finance, high tech, defence and energy.

That said, it needs to be stressed that the measures seem to have had no immediately discernible impact on exports of crude, one of the mainstays of the Russian economy.

Exclusive data from Lloyd's List Intelligence shows that January 2105 was indeed Russia's best month for oil exports since the onset of the Ukraine crisis, with exports of 19.1m tonnes, compared with 15.8m tonnes in January 2014.

But there is no clear trend, just volatility within that range, seemingly unaffected by such developments as the ousting of Ukrainian president Viktor Yanukovych in February last year, the annexation of Crimea and the imposition of sanctions the following month, and the shooting down of Malaysia Airlines flight MH17 in July.

This confirms earlier reports on this website that aframaxes are still keeping busy at key oil ports such as Kozmino. However, experts believe that the Yamal project to haul liquefied natural gas out of the Arctic, is potentially vulnerable.

Sovcomflot's situation

Russia most important shipping company — and the only one that is present on the world shipping stage — is Sovcomflot, which is not only 100% owned by the Kremlin but is integrally involved in the Russian offshore scene.

Crucially, it is not itself a sanctioned entity. But its position is obviously delicate, and it has not fully escaped the knock-on effects of the political picture.

Sovcomflot's international alignment is clear. Much of its finance is provided by Western banks, including names such as Nordea, Deutsche Bank, ING and HSH Nordbank, and most of its clients are also from the West, including oil majors such as Exxon and Shell.

The company itself chose to highlight the sanctions question at a recent Marine Money conference in London, at which one of its senior figures seemingly made light of the restrictions as, at worst, an inconvenience.

Chief financial officer Nikolai Kolesnikov admitted he had undergone a crash course in compliance, and blasted the extraterritorial nature of the bans, which he argued act to undermine international law.

He cited difficulties experienced by a client in chartering an SCF vessel for a stem from the Sudan as perhaps the most painful practical headache.

Continued on page 5

Continued from page 4

Big freeze: Sovcomflot has not fully escaped the knock-on effects of the political picture. *Sergey Bogdanov/SCF*

Sovcomflot did not respond to a request to interview Mr Kolesnikov or another representative. However, Lloyd's List was able to speak to a source with direct knowledge of SCF's borrowing from the West, who did not wish to be mentioned by name or affiliation.

Bankers are taking the sanctions question totally seriously after France's BNP Parisbas was fined $8.83bn by US authorities last year after being held guilty of sanctions busting, he stressed.

But while many Russian companies have seen cross-border finance effectively closed to them, forcing them to finance their activities through retained ruble earnings, SCF is a clear exception to the rule.

"Sovcomflot itself is not a sanctioned entity, so it is completely legitimate to carry on doing business with them," he said.

"They tend to borrow through offshore subsidiaries that hold most of their assets and the ships don't have Russian flag. By and large, they are trading internationally and at worst exporting from Russia to a foreign port."

It's also worth noting that many SCF newbuilding orders are backed by long-term charters, and that the company can still count on export credit finance.

On the other hand, banks are looking at their Russian country limits and trying to manage their exposure much more carefully and this is something analysts keep an eye on.

"People like Sovcomflot can still borrow dollars in the international markets, but from a much smaller group of banks. It's just that we don't want to shout about it too loudly.

"That's not to condone what is going on in Russia or the Ukraine or anywhere else. We don't, clearly. But these are ongoing viable businesses that are supporting world trade.

"Can we keep lending to them? Yes, we can. Is it more difficult than it was 12 months ago? Yes, for sure."

Problems elsewhere

But not everyone is in the same boat as SCF. A report carried by Finnish state broadcaster YLE claimed that Nordea has ceased all business with Arctech Helsinki Shipyard, which is owned by Russia's state-owned United Shipbuilding Corp. Meanwhile, oil major Rosneft has turned to the state for a $42bn loan.

Russia has responded to Western sanctions with counter-restrictions on the import of foodstuffs emanating from the EU, which are still in place.

Until now, shipping sources have insisted that the ill-effects of the political fallout have been largely limited to further red tape, although there are now signs that sanctions are starting to bite.

Last September saw feedership operator Team Lines issue a circular advising customers that for shipments containing food, Russian customs now require an ocean bill of lading as evidence of the origin of the cargo.

Bills of lading should be deposited with local agents, so they can be collected by Team Lines' St Petersburg office in order to expedite clearance, it added.

A detailed commodity description and so-called 'HS codes' — a reference to the Harmonized Commodity Description and Coding System — should be included with bookings, it specified.

However, both Team Lines and rival feeder operator Unifeeder said at the time that volumes as such were largely unaffected by the extra bureaucracy.

But in its recent results statement, Hamburg-based Hamburger Hafen und Logistik admitted that growth at its core Hamburg container terminal business had been held back by a decline in Russian feeder traffic.

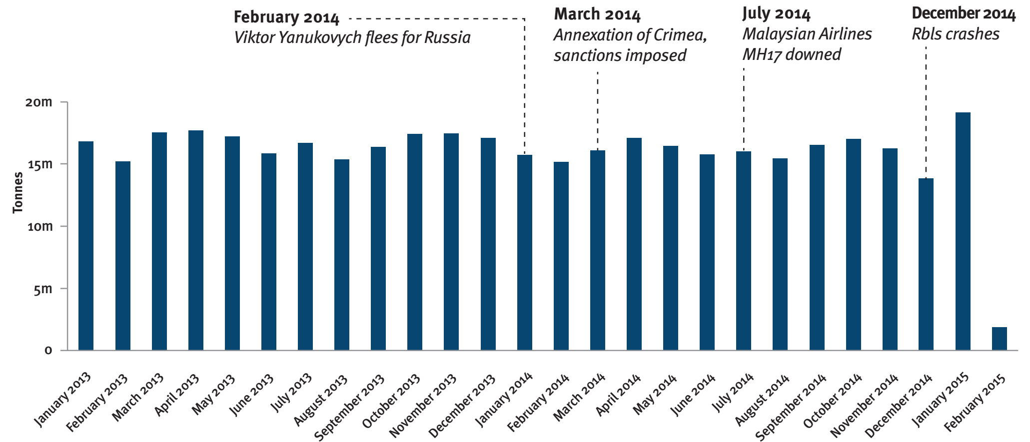
As an aside, throughput at its HPC Ukraina facility, one of two container terminals in Odessa, plunged nearly 30% to around 300,000 teu last year.

Continued on page 6

Continued from page 5

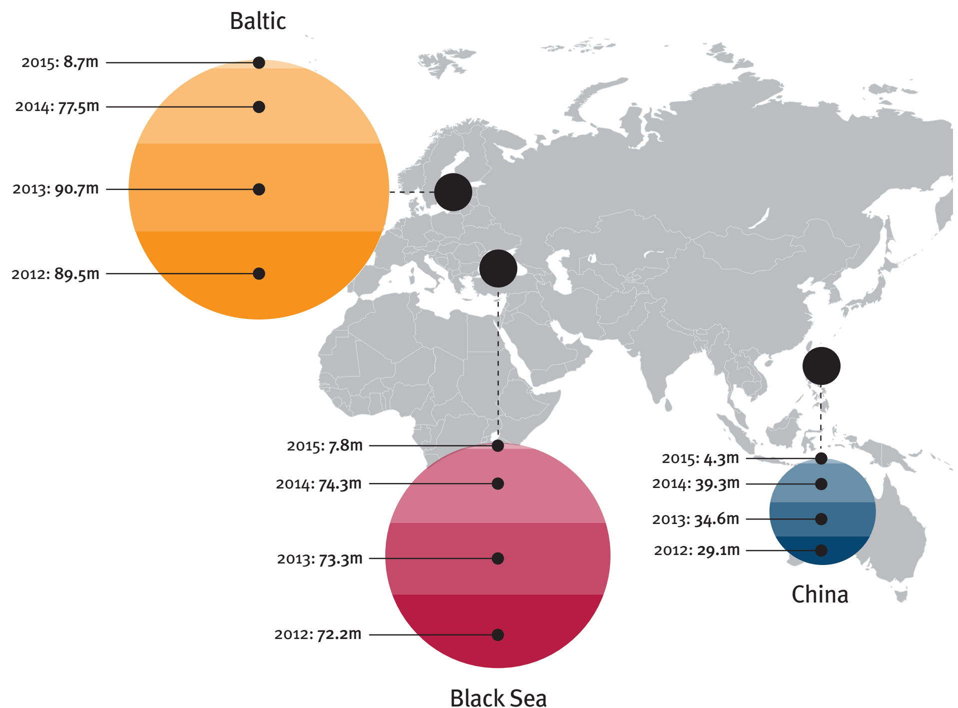
RUSSIAN CRUDE EXPORTS SINCE ONSET OF UKRAINE CRISIS

Lloyd's List | *Graphic*



Russian area exports in tonnes

2015 includes January until February 9



Source: Lloyd's List Intelligence

Western investors
HHLA is just one of a number of Western shipping and ports companies that have invested in the former Soviet Union.

Most prominent among them is Maersk, a major carrier of containers to and from Russian ports, especially St Petersburg. Maersk also has a one-third stake in Global Ports, the country's biggest ports group.

Tellingly, when Russian president Vladimir Putin paid a state visit to Denmark in 2011, he even found time to drop by at the AP Moller-Maersk headquarters in Copenhagen, where he talked business with Maersk chief executive Nils Andersen.

Maersk declined to comment on its Russia ties, as at the time of writing, it was in the silent period ahead of the publication of its annual report.

But it repeated a statement it had given to similar query in December 2014, in which it said: "The Maersk Group's business units Maersk Line, APM Terminals, Damco and Svitzer have activities in Russia, and continue to operate as planned.

"The group's business with Russia amounts to some 2%-3% of our total revenue. In the current situation, where Russian purchasing power and foreign trade is negatively impacted, our shipping business in Russia is also affected."

In the wider scheme of things, this is not decisive exposure, but clearly can't be welcome. Maersk's group revenue last year was in the order of $12bn, so we are taking about a figure of around $240m-$360m a year.

Mr Andersen is also on record as rejecting the contention that the food import ban would be good for shipping as a whole, as Russia would be forced to source further afield, thereby boosting tonne-mile demand.

"It may occasionally be quite good for shipping because the further you go away for your supplies, the better for us. But in general, this is a negative trend. This is a regrettable situation," he told the Financial Times last month.

"We have uncertainties in our relationship with a big supplier of energy to global markets. This is not a good situation."

Feeling the squeeze
Roy Cummins, chief commercial officer at Global Ports, lives as an ex-pat manager in Moscow and has clearly felt the squeeze brought about the current crisis.

"The macroeconomic conditions and the political overlay to them is having a negative effect on the Russian economy as a whole, and therefore on the container business and the ports," he said.

"This is something that has progressively been happening over the past 12 months."

A cocktail of depreciation and rising inflation and interest rates have all hit the purchasing power of the Russian consumer, he noted. Retail stocks have been depleted as the locals snap up whatever is still available.

According to the latest available figures, the overall ports market saw volumes drop 6% in December, year on year.

Obviously we are only half-way through the first quarter of 2015 and no numbers are yet available. But when they are, Mr Cummins is expecting a "significant decline", perhaps of as much as 20%.

But he points out that Russia quickly bounced back from the global financial crisis of 2008-2009 and he does not expect that present difficulties will derail longer-term progress.

In particular, Russia is 'undercontainerised', with containerised trade at only around half the global average.

"These are difficult times, but we have the experience to ride out the cycle," he said.

In this situation, making any prediction whatsoever is obviously a judgment call. The only prudent course will be to watch what happens.

Spanish port throughput edges close to pre-crisis levels

Cement imports for construction, agricultural products and energy commodities such as coal play starring roles

Algeciras retained its place at the top of the national ranking, with 95m tonnes of throughput and 4.5m teu.

SPANISH port throughput rose 5.1% to 482m tonnes last year, fresh figures show, edging close to pre-crisis levels and hinting at a recovery in sectors such as construction and agriculture, *writes Brian Reyes*.

Puertos del Estado, the government ports directorate, also reported record container volumes, which were up 2.2% to reach 14.2m teu on the back of growth in transhipment.

Volumes had plummeted from record throughput of 483m tonnes in 2007 to as low as 413m tonnes by 2009, as the global financial crisis hit key areas of the Spanish economy hard.

But tonnage has increased steadily since then, prompting cautious optimism of a rebound in the wider economy.

Spain's economy, which mostly depends on domestic demand to grow, is expected to expand by at least 2% this year, after a six-year crisis during which high unemployment and high levels of private debt have curbed spending.

Signs of that positive sentiment are evident on the quayside, particularly in relation to commodities for some of the country's more traditional sectors.

Spain's state-owned ports handled 89.5m tonnes of solid bulk commodities last year, up 11.7% from 2013 volumes.

"Cement imports for construction, along with agricultural products and energy commodities such as coal, are playing starring roles in the recovery reflected in the Spanish economy," Puertos del Estado said in a statement.

Liquid bulk throughput has also risen on the back of increased movement of petroleum products, to reach 160.9m tonnes, up 5.9% year on year.

"Of the 26 port authorities managing 46 state-owned ports, those located on the Mediterranean seaboard handled about 67% of total cargo throughput, with an average growth of 6.5%," Puertos del Estado said.

Speaking earlier this month, Julio Gómez-Pomar, Spain's secretary of state for infrastructure, transport and housing, said Spanish ports contributed 2.1% of the country's GDP and generated 1.2% of all employment.

He also highlighted the government's decision to freeze a range of charges and tariffs during 2015, having already reduced them in 2014 to encourage business in Spanish ports.

"The healthy financial situation of the Spanish port system allows this type of measure," he said.

In volume terms, Algeciras retained its place at the top of the national ranking, with 95m tonnes of throughput and 4.5m teu, almost exclusively transhipment traffic.

It was followed by Valencia, which handled 67m tonnes and 4.4m teu, made up mostly of import and export traffic.

Barcelona came third in the ranking, with 46.4m tonnes of throughput.

Brokers welcome key players' chartering pact

But low iron ore demand may dampen the first-quarter market

CAPESIZE news this week was dominated by the announcement of a chartering agreement between five key dry bulk players, *writes David Sexton*.

New entity Capesize Chartering is composed of Bocimar International, CTM, Golden Union Shipping, Golden Ocean Group and Star Bulk Carriers, which between them control a total of 164 capesizes, compared with a world fleet of 1,700 capes.

However, that figure of 164 involves vessels still on the orderbook and on period employment. Strip those out, and the five members may have 70-80 spot ships initially to put into the system.

With the dry bulk sector in a funk and capes being no exception, there was

Continued on page 8

Continued from page 7

broad support for anything that might generate market improvement, however small.

A China-based broker was particularly effusive. "It's a great idea," he said.

"They are large companies and when you put all those ships into the market, it doesn't help the market and it just drags down rates.

"But if they run it this way, then they can anchor half of the ships and put the other half into the market and help push up the market a bit with affecting revenue."

An Australian broker talked in similar terms. "The bottom line is it could reduce some costs and bring some control to the market," he said.

"Certainly for capes I can see how it could make a difference."

A Singapore broker said there were still some areas to be clarified, but also liked the idea.

"We'd like to know if they will be able to 'fix' each other's vessels, for example," he said. "But if this means better numbers and a healthier market in the medium to long term, then great.

"At today's rates, most shipowners are in the red, which isn't sustainable and eventually this will lead to bankruptcies and problems with chains etc, which I don't think anyone wants."

Hope for valemaxes

In other news, there have been reports that the day of the valemax is close, with Reuters stating that the Chinese transport ministry has given the green light to giant vessels visiting the country's ports.

The report referred to an internal circular from the ministry that said it would recognise ships with 400,000 dwt capacity.

Lloyd's List reported last year how opposition to the ban has decreased since Chinese state giant Cosco Group signed a framework agreement to carry Vale iron ore on 14 valemax vessels for 25 years.

In terms of general trading, capes trended down this week, probably a reflection of the upcoming lunar new year and the well-documented issues with the dry bulk sector more generally.

Figures for the Baltic Capesize Index showed a dip mid-week, dropping back to 700 points after reaching 711 on Tuesday, still well short of a recent peak of 971 on January 21.

On the trade routes, Brazil–China was at $10.70 per tonne, down from $12.30 two weeks ago, but up from $9.60 on January 9 (the deepest point of the trough).

The particularly important Western Australia-China C5 route was trading at $4.50 per tonne on Wednesday, down from $4.60 the day before (one of those mini-peaks).

Figures for South America-Europe, the C7 route, were similarly well down, with $6.20 recorded on Wednesday, having more or less been on a plateau for the past week, a recent high of $7.60 being recorded on January 21.

South Africa-China was $6.80 per tonne, slightly up from the start of the month but down from $7.60 on January 21, which was the highest point of the year to date.

Sluggish demand

Iron ore prices are particularly low and although this might make it attractive as a seaborne commodity, the reality is that demand is also sluggish.

Wood Mackenzie metals and mining consultant Roger Emslie said for iron ore producers, 2015 had started even worse than 2014 finished.

"Having commenced January just above $70 a tonne, the TSI 62% Index was trading at $62 per tonne by the close of the month, resulting in a monthly average of $67 per tonne — its lowest since May 2009," Mr Emslie told a recent conference in South Africa.

Wood Mackenzie's iron ore market outlook suggests demand is unlikely to improve until late in the first quarter at the earliest, as Chinese steel mills cut production, due to weak demand and planned maintenance.

Shipbuilders may welcome swaps from bulker orders to tankers, but not from offshore projects

Profitability plays essential role when yards mull over conversion requests

THERE have been persistent talks of swapping offshore and bulker newbuilding orders for petroleum tankers this year. This phenomenon could be a blessing in disguise for shipbuilders, even though their operations could be stretched, *writes Max Tingyao Lin*.

From an asset-play perspective, such conversion makes sense for owners, as prospects for tanker markets are much stronger for dry bulk shipping and offshore energy development, at least in the short term.

But for yards, the issue is a bit more complicated, involving technical requirements, profitability and client relationships.

Obviously, the first and foremost point is that shipbuilders need to be capable of building tankers to accept any conversion. Not only that, such requests better come ahead of steel cutting, preferably even before the design stage. Otherwise expenses would shoot up and the shipbuilder would have trouble allocating berths.

That said, shipbuilders might still be willing to swallow the costs — provided their clients can compensate and offer better deals. Generally speaking, swapping low-value orders for high-value ones are welcome; the reverse is normally not acceptable, unless yards can be certain the eventual profits would be higher.

To put it more extremely: "Owners can request conversion any time they desire, and yards will accept if owners are willing to pay up," said a China State Shipbuilding Corp official recently speaking with Lloyd's List. "The swaps can be done as long as they make business sense to both sides."

Furthermore, major shipping lines will have a better chance to convert their orders, as well as returning clients. This is because yards hope to win

Continued on page 9

Continued from page 8

more business from them in the future.

"If the clients are of long standing or major customers, and they can compensate, then maybe we can talk," said an official from Hyundai Heavy Industries. "[Otherwise] conversion is not easy after the drawing work starts."

Based on those criteria, it's not surprising that owners of bulker orders are faring much better in swapping for tankers than offshore players.

Since December, Scorpio Bulkers has converted six newbuilding capesize bulkers for four firm long range two product tankers plus two optional ones, and another three capesize to the same number of LR1 tankers.

Shanghai Waigaoqiao Shiobuilding, the world's largest capesize bulker builder and part of CSSC, has also been in talks with clients interested in swapping bulker orders for tankers. One of them is Sincere Navigation, which managed to convert its deal for two 180,000 dwt bulkers at $46.8m each to one 300,000 dwt very large crude carrier at $95m.

"We only paid the price difference as the steel cutting had not begun. We didn't pay any compensation," said Sincere Navigation vice-president Li Yiren.

However, in the offshore sector, only George Economou's Ocean Rig is rumoured to have been in discussions about swapping a drillship at Samsung Heavy Industries for four suezmax tankers and four aframaxes. Lloyd's List understands the conversion is not finalised.

The main issue is that tankers are generally more expensive than bulkers but cheaper than offshore projects. Yards and owners would find it much easier to structure a deal involving higher-value and fewer ships, than one involving lower-value and more vessels.

Moreover, shipbuilders generally won't give up highly profitable offshore projects, which could have a margin slightly above 10%. But newbuilding bulkers, like tankers, can often only fetch a margin of no more than 3%, based on current market levels.

And shipbuilders usually face higher design costs in offshore projects, which suggests owners would need to cough up more compensation to swap. This means owners would see fewer incentives in conversion, according to some Chinese and South Korean yard officials.

All in all, shipbuilders can be in a good position to negotiate for better deals when owners ask for swapping. From a legal perspective, they can just walk away from the negotiation table if their clients refuse to present better deals. But in practice, not many yards are happy when they hear such requests. Why?

"In many cases, owners would be willing to give up initial payments because of dimming market prospects or financial woes. Then yards would be left with the choice of getting nothing or little in return," said a Seoul-based shipbuilding analyst.

"But even so, yards probably would prefer to delay delivery then to swap for deals with weak margins."

NEWBUILDING DEALS REPORTED FROM JANUARY 29

Yard	Buyer	Sector	No.	Capacity	Delivery period	Price per unit
Imabari	Shoei Kisen	Box	11	20,000 teu	2018-2019	NA
MI LNG	NYK	LNG	1	177,000 cu m	2018	NA
MI LNG	MOL	LNG	1	177,000 cu m	2019	NA
DSME	Teekay	LNG	1	174,000 cu m	NA	$200m
DSME	Maran Tankers	Tanker	2	319,000 dwt	2017	$99m-$100m
HHI	Metrostar	Tanker	2+2	308,000 dwt	2016	NA
SWS	Sincere Navigation	Tanker	1	300,000 dwt	2017	$95m
JMU	Meiji Shipping	Tanker	1	VLCC	1H 2017	NA
Sungdong	Scorpio Bulkers	Tanker	3	74,000 dwt	2017	NA
STX O&S	Valles Steamship	Tanker	1+1	74,000 dwt	2016-2017	$46m
Sanoyas	NA	Bulk	2	89,000 dwt	NA	NA
Jinling Shipyard	Ningbo Marine	Bulk	3	49,500 dwt	2016-2017	$27.2m

Sources: Company announcements and sources, Vesselsvalue.com, Lorentzen & Stemoco and Asiasis.com

Busy newbuilding activities

Aside from conversions, newbuilding markets have picked up pace ahead of the Lunar New Year, with Japanese players among the most active.

Imabari Shipbuilding has won a long-anticipated deal from sister firm Shoei Kisen to build 11 20,000 teu containerships, which will be chartered to Evergreen Line upon delivery in 2018-2019.

Nippon Yusen Kaisha and Mitsui OSK Lines also each booked a 177,000 cu m liquefied natural gas carriers at MI LNG, a joint venture between Imabari and Mitsubishi Heavy Industries, for charter requirement from Mitsui & Co.

Hyundai yards record heavy losses in 2014

Operating results of HHI miss target for fourth quarter but HMD sees improvement

HYUNDAI Heavy Industries posted narrower losses in October-December from the previous quarter but the operating results still missed its stated target, *writes Max Tingyao Lin.*

The South Korean shipbuilding conglomerate recorded net losses of Won46.4bn ($41.8m) in the three months, compared with the July-September losses of Won1.2trn, mainly due to smaller provisions and asset sales.

Revenues rose by 11.6% from the previous quarter to Won13.9trn, thanks to increased working days despite ongoing labour disputes, revised orders, and progress in some offshore projects.

However, operating income was Won22.3bn in the red, stronger than the July-

Continued on page 10

On a yearly basis, the Seoul-listed shipbuilder had one of its worst years since foundation. *HHI*

Continued from page 9

September losses of Won1.9trn but falling short of its goal of Won50bn profit.

HHI received new orders worth $3.5bn in the fourth quarter, less than its earlier target of $6.3bn.

On a yearly basis, the Seoul-listed shipbuilder had one of its worst years since foundation.

HHI posted a full-year net loss of nearly Won1.8trn in 2014, compared to the 2013 profit of Won278.7bn.

The shipbuilder recorded operating losses of Won3.2trn in the 12 months, versus operating profits of Won802m in 2013, mainly due to large provisions.

Sales dropped 3% on year to Won52.6trn.

Hyundai Mipo Dockyard, the product tanker specialist ultimately controlled by HHI, managed to return to the black in the fourth quarter.

HMD recorded net profits of nearly Won17bn in the three months, compared with the third-quarter losses of Won415.7bn.

Operating income amounted to Won70bn, showing improvement from a loss of Won606.4bn in July-September, while sales increased by 22.9% to Won1.2trn.

However, the shipbuilder still posted a massive full-year net loss of Won632.8bn in 2014, much wider than the 2013 loss of Won237.8bn.

Tsuneishi to expand Asian foothold with greenfield yard

Shipbuilder's president Kenji Kawano says announcement will come soon

JAPANESE shipbuilder Tsuneishi intends to open a greenfield yard somewhere in Asia this year, ahead of an expected increase in orders over the next two years, *writes James Baker*

Speaking in London, Tsuneishi president Kenji Kawano told Lloyd's List the company planned to open a new yard from scratch in the next 12 months, in the expectation that demand for its vessels will continue to grow.

"We have been considering investments but haven't made a final conclusion yet," Mr Kawano said. "We will make an announcement soon. We will maintain what we have in Japan but our main investments will be abroad."

The Hiroshima-based company, which also has yards in China and the Philippines, has traditionally focused on dry bulk vessels, particularly kamsarmaxes, of which it has built more than 200, although it does build boxships, car carriers and wood chip carriers as well.

Despite the difficulties being faced in the dry bulk sector, Tsuneishi expects orders to continue coming in.

"After talking to different customers, I understand that things are quite tough. But at the same time, it is not that there is no demand. Quite a few customers are saying that if it's a good ship at a reasonable price, they are interested," Mr Kawano said.

"I hope the bulk carrier market will pick up. At the moment it is quite difficult. It may take a couple of years to recover, but things will improve."

And while the company has focused on bulk carriers, it will try to expand the variety of vessels it builds.

Despite the booming tanker market, Mr Kawano said Tsuneishi had yet to see any requests for dry bulk orders to be converted to tankers.

Yen versus dollar

Japan's shipbuilders have been helped over the past two years by the falling value of the yen against the dollar.

Mr Kawano said: "The yen has been weakening in the past couple of years, so compared to the days when a dollar was ¥80, things are much better. But we have only reached the point where we have reclaimed lost ground, so it is not like we are enjoying the depreciation.

"The worst thing for us is volatility. What we really want is stability, so we can plan for the future."

However, the struggle by high-priced Japanese yards to compete with low-cost rivals, particularly in China, has led to a round of consolidation in the market.

Kawano: "We will make an announcement soon. We will maintain what we have in Japan but our main investments will be abroad."

"It is true that there are now only around five major yards in Japan but our main customers are in Europe, not just domestic customers, so this has not affected us so much," Mr Kawano said.

"We are in a unique position in Japan, as we have yards in the Philippines and in China, so we are able to compete on price. So while there has been consolidation, it has not had so much impact on us."

Nevertheless, Mr Kawano said he believed the shipbuilding industry may be more suitable for developing nations rather than developed countries because of employment and foreign currency issues.

"We hope that shipbuilding will stay in Japan and we have learned from what happened in England. We are thinking of ways of dealing with the problem," he said.

Japanese shipbuilding has long relied on its technical prowess to stay competitive and Tsuneishi is focusing on collaborations with local and international universities to help maintain a technical lead over rivals.

"We are trying a range of different technologies. We believe that we have to be top in the industry, especially with kamsarmaxes," said Mr Kawano.

But this will mean more work going to Tsuneishi's overseas yards. Well over half of its production is already done outside Japan.

Note to Korea: Be very afraid

At a ship launch in Singapore, a GSI official tells it like it is

WHILE fighting against South Korea for the crown of the shipbuilding world, China's yards are presenting difficult formula to combat: a heady brew of customisation, lower prices and the ability to gain market share, *writes Cichen Shen*.

Meanwhile, tolerant state-owned bankers have been grasping the long-term benefits of allowing their shipbuilder customers to build at a loss today.

This was the view expressed by Jin Lichao, deputy general manager of CSSC subsidiary Guangzhou Shipyard International, at the launch of a GSI-built medium range product carrier sporting a new design.

"You have to look to the future," said Mr Jin. "If you are doing business with big companies, you will gain markets — even if the first few ships don't deliver any profit.

"Shipyards like GSI that are under CSSC have great credibility with banks," he said. "State-owned banks are keen to lend to state-run companies like us."

These statements were made at a naming ceremony held last week in Singapore, when tanker operator Stena Bulk celebrated the delivery of a new type of medium range product carrier built by GSI.

Ship launchings are relaxed, upbeat events and Mr Jin's comments had the ring of a speaker who wasn't aware the cameras were rolling.

But their message will send a chill down the spine of Korean shipbuilders, who face an uphill battle against Chinese shipyards that are learning fast and have more flexibility to manoeuvre.

Happy customers

In any event, Stena was clearly happy with its new MR vessel. Stena's top management told Lloyd's List that one of the key reasons the operator chose GSI was because of its open mind towards the customer's ideas.

"In China and GSI, they've been good at listening to our specific requests and demands," said Carl-Johan Hagman, chief executive officer of Stena AB, parent of Stena Bulk.

"In that point of view, there is an element that you are able to tailor-make your vessels to a degree maybe we don't see in Korea."

The 50,000 dwt tanker is the first in a series of 10 ships built to IMO II standard, which allows them to handle an extensive spectrum of wet cargoes, including vegetable oil, chemicals and clean petroleum products.

The vessel is also distinguished by a swathe of other new features, including an arrangement of 18 cargo tanks — six more than normal — of a maximum 3,000 cu m capacity each, which largely optimises its shipping capacity.

South Korea's shipyards are famous for their systematic and streamlined production methods to ensure efficiency and reduce costs, but Mr Hagman says the standardised mechanism can constrain a shipowner's ability to make adjustments.

Meanwhile, the Chinese yards appear not to be shy of taking advantage of the weakness of their rivals.

Mr Jin pointed out that compared with South Korea's peers, GSI has a different concept of the way to treat customers.

"We pay more attention to customisation, and we will not

Continued on page 12

Satisfied customers: The ship naming in Singapore last week.

Continued from page 11

Tanker operator Stena Bulk has celebrated the delivery of a new type of medium range product carrier built by GSI.

tell our customers that an MR tanker has to be built in our way and they can either take it or walk away," he said.

"We believe that our ships must satisfy the owners. If the owner wants their vessels to be different from others, we will try to realise it."

Stena Bulk states that, together with GSI, it has successfully obtained what is probably the most efficient eco MR tanker in existence, with "completely new and revolutionary hull lines, together with specially designed propeller, rudders, engines, exhaust gas energy recovery and onboard systems".

The ability to embrace customers' designs can be even more important in the offshore sector, where vessels are more individualised and work in a wider range of environments.

"The ability to change the design of bulkers and tankers can be limited, but for the offshore sector, you can pretty much change everything," said Larry Pupkin, director of NorthCape, which helps offshore shipowners locate yards and financial institutions.

"China has flexibility in changing design, that's why someone I know goes there."

Mr Pupkin, who works closely with the Chinese shipyards, told Lloyd's List that one of his customers is building an anchor handling tug in China.

"The new one is bigger and has a different engine; it's a completely different."

Profit or market?

GSI will receive $40m for delivering one such vessel, but Mr Jin said the newbuilding would hardly bring any profit to the yards, as the market was dented when they took the order in 2012.

Customisation, despite its attractiveness to clients, is costly to shipyards, as they need to make constant adjustments and tests during and after construction.

GSI's offer for the MR tankers is only marginally cheaper — as much as $1m per ship — than that of the South Korean yards, according to Erik Hanell, Stena Bulk's president and chief executive.

However, to the Chinese shipbuilders, especially large state-owned ones, the short-term need to make money can often give way to gaining reputations and market shares in the long run — at least for now, backed by the deep pockets of China's central government and its state-run banks.

"It depends on the company's orientation. The first one or two ships may not help us make money, but they help us establish our brand," Mr Jin said.

Having built vessels for prominent players such as Maersk and Rederi AB, Mr Jin's strategies have worked.

"GSI have a very good reputation in China. They build for a lot of companies in Scandinavia, which means they know what quality we want," Mr Hanell said.

Mr Jin felt confident that the 10 IMO II tankers would further promote his company's presence in the European market.

As for the money, he seemed much less concerned about this.

Lloyd's List

Editor Richard Meade *+44 (0)20 7017 4636*

Deputy Editor Craig Eason *+46 858 766 232*

Digital Content Manager Helen Kelly *+44 (0)20 7017 4651*

Digital Publishing Manager Nicola Good *+44 (0)20 7017 4840*

Editor-in-Chief, Containers Janet Porter *+44 (0)20 7017 4617*

Finance Editor David Osler *+44 (0)20 7017 4628*

Senior Markets Reporter Hal Brown *+44 (0)20 3377 3956*

Editor-in-Chief, Asia Tom Leander *+852 3757 9701*

Senior Reporter, Asia Max Tingyao Lin *+852 3757 9706*

Markets Reporter, Dry Bulk David Sexton

US Reporter Alexander MacInnes *+1 212 520 2780*

Containerisation International Editor Damian Brett *+44 (0)20 7017 5754*

Markets Reporter, Containers Linton Nightingale *+44 (0)20 7551 9964*

Correspondents
Australia Jim Wilson *+61 403 455 371* jim.wilson@informa.com.au

Greece Nigel Lowry *+30 210 621 2340* lowry@otenet.gr

Sweden/Baltic Craig Eason *+46 858 766 232* craig.eason@informa.com

Shipping Movements *+44 (0)20 7017 5280*

Casualties *+44 (0)20 7017 5205*

Subscriptions *+44 (0)20 3377 3792*

Lloyd's is the registered trademark of the society incorporated by the Lloyd's Act 1871 by the name of Lloyd's

Editoral and commercial inquiries
Lloyd's List, Christchurch Court, 10-15 Newgate Street, London EC1A 7AZ
Tel: +44 (0)20 7017 5000
Fax: +44 (0)20 7017 4782
Email: editorial@lloydslist.com
Published by Informa UK Ltd.

© Informa UK Ltd 2015

No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means electronic, mechanical, photographic, recorded or otherwise without the written permission of the publisher of Lloyd's List. Lloyd's List is available online by placing a subscription for a regular daily supply with the publishers in London, Informa UK Ltd.

PEOPLE'S DEMOCRATIC REPUBLIC OF ALGERIA
ENTREPRISE NATIONALE DE TRANSPORT MARITIME DE VOYAGEURS
ALGERIE-FERRIES

Fiscal Identification Number: 0000 16001500489

NOTICE TO BIDDERS OF TEMPORARY TENDERING RESULTS

Pursuant to the provisions of deal's procedure in force in the Entreprise Nationale de Transport Maritime de Voyageurs, ENTMV hereby informs all tenderers who took part to the international invitation to tender N° 06/2014 for **the building of a 2000 passenger and 700 vehicle RO/PAX car-ferry,** released on April 6th 2014 and published in national newspapers **(El Moudjahid, Liberté, Le Soir d'Algérie and Ech-Chourouk)** and international newspapers **(Le Journal de la Marine Marchande and Lloyd's List),** that the deal is temporarily awarded to the following tenderer:

Tenderer's name	Accepted Tender
HIJOS DE J. BARRERAS SHIPYARD VIGO - SPAIN	Global amount: EUR 125.135.000,00 Building time: 26 months

Any tenderer having taken part to this invitation to tender can send his recourse to the company's commission charged of deals within ten (10) days as from the date of first publication of this notice in the national press.

POOMPUHAR SHIPPING CORPORATION LIMITED

(A Government of Tamilnadu Enterprise)

692, (Old No. 473), Anna Salai, IV Floor, Nandanam, Chennai - 600 035.

Ph: 2433 0505, 2433 0807; Fax: 2434 4593, 2433 5706

E-mail : pscship@dataone.in; pscship@gmail.com

GLOBAL TENDER **TENDER NO.H/OP/SPXX/116/007/14-15**

Notice inviting tender for time chartering of one Self-trimming Handymax/ Supramax geared vessel of about 40000 to 55000 DWT.

Sealed tenders are invited from the owners/disponent owners of Indian / Foreign flag vessel or through their authorized brokers for time chartering one Self-trimming Handymax / Supramax geared vessel for a period of 2 months +/-10 days at choption in the lay days 19.02.2015 to 28.02.2015 for coastal transportation of thermal coal on account of TANGEDCO.

Last date for receipt of tenders	- 1500 hrs. on 17.02.2015
Tender opening time	- 1530 hrs. on 17.02.2015
Cost of tender document	- Rs.5,000/-each for Indian flag vessel
	- USD 100/- each for Foreign flag vessel
EMD	- Rs.10,00,000/- for Indian flag vessel
	- USD 17,000/- for Foreign flag vessel

Tender Document is available in our website www.tamilship.com from 13.02.2015 & the same may be downloaded free of cost. For more details visit our website www.tamilship.com

DIPR/675/TENDER/2015 **OFFICER ON SPECIAL DUTY (OPS)**

For information about advertising your notice in the Lloyd's List daily contact Rehemah Santiago

rehemah.santiago@informa.com

+44 207 551 9426

Lloyd's List