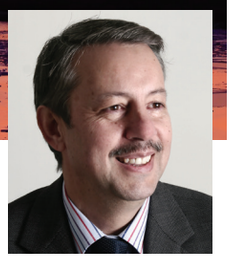

DRY BULK SHIPPING

NAVIGATING A TURBULENT MARKET

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The barometer on the state of health of the dry bulk market is usually reflected in the performance of the Baltic Dry Index (BDI), which is based on a composite of the Capesize, Panamax, Handy-size and Supramax indices. The outlook, based on its past performance, is bleak at the moment.

THE STATE OF THE BULK MARKET

Bulk carriers are known to be the work horses of the maritime world, carrying large quantities of raw goods like iron ore, coal and grain, which are the fundamental ingredients of finished products. With the expansion of the Chinese economy in the early part of the last decade, running at +10% or more and becoming the "workshop of the world", the demand for such type of vessels was high with seemingly no end in sight. Driven by this demand, investors and ship-owners rushed to place orders for new buildings. The BDI reached record heights (almost 12,000) in 2008 and plunged dramatically after the Lehman Brothers bank failure which led to the global recession.

However, these new ships, ordered years in advance, hit the water during the post-crisis slump that was already weighing heavily on demand for ships, which pushed charter rates lower still. Just as scrapping and a slimming of the order book was eroding the oversupply of ships, an uptick in Chinese imports in 2013 prompted another rush of orders. Even though the world economy has rebounded, the BDI has remained very much below 2,000 since 2012.

The depressed state of the bulk market today is more a result of the overall supply of ships than a statement on the world economy. Ship-owners gambled that China's appetite for coal would keep growing, but the country's policy of weaning itself off dirty energy, and a levelling-off of steel production has contributed to a decline in imports, leaving another glut of new vessels and rock-bottom rates for their owners. China's annual growth which was 9.5% in 2011 fell to 7.3% in 2014, and recently the third quarter figures for 2015 suggest that the growth was only 6.9%. Some commentators suggest 4% is a more accurate figure of Chinese growth.

The Baltic Dry Index has fallen about 40% since the start of November, 2015 and has fallen further since the start of the New Year. The latest figures indicate that spot market rates for cape-size bulk carriers continue to slide and now stand at only US$3,118 per day (as of late January, 2016).

COPING WITH CAPACITY

Some ports and terminals have struggled to cope with the phenomenal growth in the transportation of bulk commodities since the early part of last decade. The boom in the bulk trades has seen larger vessels being accepted alongside terminals, sometimes in excess of the design criteria raising questions of their suitability and safety. In legal terms a "safe port" provides an adequate and safe infrastructure for bulk carriers so that they can safely arrive, load and depart from the terminal and the port. For example: providing a safe access channel to take into account the deeper drafted vessels using the port, and berths/terminals that allow large bulk carriers to be safely moored alongside using suitable-

sized tugs. These are some of the basic requirements of a "safe port".

Giant ore carriers capable of carrying over 400,000 tonnes of iron ore have been developed in the form of the "Valemax" project of mining giant Vale of Brazil. This novel design of a Very Large Ore Carrier (VLOC) was designed to transport iron ore in vast quantities between Brazil and China. However, China imposed a ban which lasted 3 years from 2011, on these giants entering Chinese ports. These very large vessels have pushed the boundaries in terms of ship design as well as port infrastructure. Alternative discharge ports had to be found in locations such as the Philippines, Oman and South Africa, to act as transfer and storage facilities. Dredging of deeper channels for access to these ports, longer berths, faster loading times and larger manoeuvring areas for these mammoth vessels are all considerations which have rather lagged behind the introduction of the VLOC.

Given the difficulties encountered by the Valemax project, it seems unlikely that we will see similar or larger-sized bulk carrier fleets being built any time soon.

PRESSURES FOR BULK CARRIERS

Freight and or charter rates have been consistently falling in 2015 for all types of bulk carriers with the Capesize market

hit harder than the others. Of course, the decrease in income is not proportional to the operating costs ship-owners face because, whether the vessel is employed or not, the owners still have to foot the fixed daily operating costs. Indeed, it is reported that insurance costs on Capesize bulk carriers is set to increase by about 6%. This puts a lot of pressure on the owners when they may be unable to meet mortgage repayments and the reports on the number of defaulted cases is on the rise.

Unfortunately, with the supply of available vessels in excess of demand, competition is fierce when fixing a suitable vessel and it is usually the operator with the lowest offer who is successful in getting the business. Supply of new buildings continues to outstrip demand for cargoes and in order to achieve equilibrium in the market, demolition of older vessels is required. However, the large number of new builds has not yet been matched by the number of demolitions.

As an ex-Master myself I cannot allow this section to pass without mention about the risks of liquefaction of some bulk cargoes during transport. With a booming world economy, the demand for raw materials increased and minerals or mineral waste that was once not considered valuable suddenly became desirable overnight due to improvement in extraction techniques. However, although the demand was high, these cargoes brought along problems because the by-products (e.g. Zinc Oxide and Nickel ore) largely consisted of a high moisture content, making them prone to liquefaction when transported. This liquefaction problem has contributed to the loss of several vessels and unfortunately the lives of several hundred seafarers. Pressures remain on ships and shipmasters to carry these cargoes, often loaded in third world countries with the minimum of safeguards and somewhat dubious moisture content analyses.

PORT CARRIER COLLABORATION

There are a number of things that the dry bulk market stakeholders can collaborate on to improve a depressed market, but that usually involves spending money. For instance, shippers and terminals can look into ways of improving the infrastructure. Whereas Australia and Brazil, the two largest exporters of Iron Ore developed modern facilities years ago, there are many places in Indonesia and India where cargo is still loaded from barges. Improving the approaches into the port and providing adequate facilities for a vessel to safely lay alongside and load or discharge would encourage ship-owners/ operators to send vessels to ports where they may have had earlier reservations. Of course, improving infrastructure sits side by side with increased productivity. This in turn reduces the time a vessel spends in port and thereby reduces any port congestion.

It is estimated that the shipping sector is responsible for about 4% of the global greenhouse emissions. With the push to bring down these global targets, the industry can look into ways and means of reducing these emissions by bringing in more efficient engines and also look into ways of reducing the carbon footprint when bulk commodities is transported from the mines to the terminals.

Much more rigorous procedures for cargoes prone to liquefaction should be implemented at load ports. Simple points such as providing covered storage for cargo piles in the port would hugely benefit the maritime community and potentially save many lives. Better (and more honest) methods of moisture content analyses are badly required to give ships crews the best information available prior to departure from port.

THE FUTURE FOR BULK

At the time of writing this article, the indices on various stock markets are falling along with the BDI and spot rates of bulk carriers. The situation as one sees it appears to be unflinchingly bleak. The current fleet size of bulk carriers is in excess of demand for cargoes and transporting raw materials between various continents appears to be the cheapest since the BDI was launched in 1985. The improvement in the market is closely linked with supply and demand, and unless there is a move towards equilibrium, the market may remain flat.

However there are several points which may give bulk ship-owners at least a glimmer of hope in 2016. One stimulus for the world economy may lie with Russia, currently facing trade sanctions but this situation could improve in 2016. Sanctions in Iran have now been lifted and when Iran starts to invest in its manufacturing and infrastructure development, this will provide additional demand for bulk carriers of all sizes.

The one economic giant that the bulk industry has been banking on for many years, India, did not replicate the development of its port infrastructure and coastal facilities the way China did in the early 2000's, as red tape hindered most of the manufacturing projects. However there are now signs that India is getting serious about infrastructure improvements and manufacturing, which could increase demand significantly, particularly in the smaller handy-size and Panamax size vessels.

Finally with a new trade deal ready to be signed between the US and East Asia which will reduce tariffs on foodstuffs, such as grain and rice, down to near-zero, bulk owners are rubbing their hands about the potential positive impact of the deal, once it is signed. Significant numbers of cargoes are expected to be exported from Canada and the US to China, Korea, Japan and SE Asian countries.

CONCLUSION

Traditionally the shipping markets have always been cyclical – boom followed by bust. The bulk market is characterised by many small ship-owners, who traditionally order a new build ship against a firm long-term charter. However ship-owners have been supplemented in the last 10 years by an influx of hedge funds and private equity houses to the market which see bulk shipping as a financial tool worth speculating on, rather than long term investment. If the positive points mentioned above come to pass, then 2016 may well turn out not to be as catastrophic as the BDI currently suggests. However, if owners or investment houses do start to make money again they should remember the next time they are offered a cheap loan by a friendly bank and tempted to order a speculative new build, just say no.

ABOUT THE AUTHOR

Captain Soomro Joined TMC (Marine Consultants) Ltd. in 2011 as a Marine Consultant. Since then he has been actively involved as an expert witness for unsafe ports, liquefaction of bulk cargoes, collisions, and groundings. Captain Soomro, a Master Mariner, has an MSc degree in Maritime Operations and spent 21 years at sea, including 5 years in command of bulk carriers.

ABOUT THE ORGANISATION

TMC is a leading international marine consultancy providing advice and support to the marine industry since 1979. We offer a comprehensive range of marine consultancy services through our team of consultants (master mariners naval architects and marine engineers). The company employs over 50 people in the UK and around the world, enabling us to provide an efficient service to clients.

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