

Shipping woes expected to impact bunker demand

Views in the industry are that the current economic crisis will be felt right across the maritime sector, including shipowners, ports, and bunker suppliers.

The bad news for the shipping industry amidst the financial crisis has continued over the past few months with a series of warnings about the extent of the downturn and how long it will last.

While views range from the pessimistic to the slightly optimistic, wider industry views suggest that there are tough times ahead for at least the short-term, including for bunker suppliers.

Overcapacity

The main issue, according to classification society Det Norske Veritas (DNV) is overcapacity. It has estimated that up to 1,000 ships in the world fleet are already lying idle; if the global economy remains stagnant, there could be over 3,000 ships scrapped, 6,000 in lay-up or under-utilised, and nearly 1,500 newbuild orders cancelled.

DNV is not the only one with dire predictions, with one of Germany's largest shipowners saying that around 1 million TEU of containership capacity is already idle and that this number is expected to double in 2009 and triple in 2010.

The reduction in shipping traffic has been stark. China reported that export levels in February were down by a quarter. In the US West Coast ports of Los Angeles and Long Beach, container volumes for the month were 33% and 40% lower respectively.

"[This] does not simply reflect a short-term economic slump," a spokesperson for shipowner Maersk Inc. told Bunkerworld. "There has been a significant paradigm shift in our industry."

Singapore's Neptune Orient Lines (NOL) was reported saying, and he noted that freight rates had "dropped off a cliff".

Slow recovery

The industry is not particularly optimistic that recovery from the current downturn will be rapid. "Even at 5% growth, it could take six years to recover," John Doherty, CEO Alameda Corridor Transportation Authority, said of Los Angeles and Long Beach ports at a stakeholder meeting in March.

"We believe that the current business environment does not simply reflect a short-term economic slump," Maersk explained to Bunkerworld. "Some carriers will not survive."

"Factors exist which will make the current downturn more extreme in certain sectors of the shipping market than the earlier crises," according to a recent report by Consultants on Maritime Transport (COMT). "The crisis of 2008 has arrived faster and stronger than previous crises and is likely to dwarf those of the 70s - 80s."

"Our challenge is: how can you shape your company into a form that will allow you to weather what probably will be a deeper and certainly a bit longer downturn than what was forecast not very long ago?" said Ron Widdows from NOL.

On a more positive note, UK-based international shipping consultants Moore Stephens found that while confidence in the industry had fallen by 20% this year, its latest survey in April found that many



Decline in shipping could be widely felt.

"We began addressing the downturn in volumes and plummeting rates in 2007 and 2008," Maersk told Bunkerworld. "We must therefore continue with a mentality of efficient operations, cost leadership, and ensuring that prudent financial management mandates our priorities."

The Port of Long Beach was making budgetary plans for reduced cargo traffic and taking a fairly pessimistic view of the short-term economic situation for the port.

"Many are saying that recovery will not start until 2010," a spokesperson for the port explained. "A recent report said we would not see 2007 volumes again until 2012 - we're budgeting a 10 to 11% decline in port business across all sectors from 2008."

Impact on bunkering

Bunker suppliers have to date told Bunkerworld that they expect there to be a number of challenges for the industry this year. As well as a fall in demand, there will also be credit issues to deal with, which could lead to a consolidation in the industry as bunker arms of major oil companies see little value in the business, and as smaller players struggle to compete.

Expectations of demand for bunker fuel in the near future vary. A recent poll on Bunkerworld asked respondents to assess the impact on global bunker sales from the downturn in shipping. The majority, 50%, agreed that it would be a 'manageable drop' in volumes.

A sizeable percentage, however, some 37%, agreed that there would be a 'significant fall' in sales while only 12% thought there would be 'limited impact' from the downturn.

Aside from the implications of fewer charters, reduced services, ship lay-ups,

and cancelled newbuilds, at least one shipowner is adopting measures for its current sailings that will noticeably reduce fuel consumption.

Maersk Line told Bunkerworld that it had reduced fuel consumption by "operating our engines at lower engine load percentages" and had "enacted this process on over 200 vessels". Wider reporting on this issue noted that in some cases, Maersk had adopted a clear policy of slow steaming where its largest container ships were sailing at half speed and had reduced bunker consumption from around 350 to 100-150 metric tonnes (mt).

"The overall percentage of bunker consumption reduction will, of course, be determined by the breadth of this programme," Maersk explained to Bunkerworld.

Ports have already seen falling bunker sales figures. Singapore expects that 2009 figures may not even reach 2007 numbers. Port figures showed volumes declining from October 2008 through to January 2009, with February numbers indicating a further 11% drop - the lowest monthly sales figures since November 2007.

While Singapore boasted record sales last year, Los Angeles and Long Beach saw bunker volumes decline from 5.1 million mt in 2007 to 3.4 million in 2008. What the future holds for all ports in the current shipping climate remains to be seen.

"The credit crunch has been a major issue on both fronts for the suppliers and buyers," said Adrian Tolson, vice president for sales and marketing of global supplier Chemoil. "The industry is facing its worst downturn after five to six years of growth." ■

Guy Wilson-Roberts

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"There is a surplus of ships in service and this will limit our sector's response and recovery to the economic crisis at hand," said Maersk.

"The truth is nobody knows the full impact on trade flows that will come from companies that are global businesses that are under stress and consumer spending which has dropped precipitately," Ron Widdows, the chief executive of

respondents believed that the situation may have already 'touched bottom' and could be improving.

Industry responses

Ports and the shipping industry are already responding to the downturn, including calls for more cooperation between all sectors that depend on international maritime trade.

"We need to work together," Peter Keller, president of NYK Line (North America), told the Los Angeles and Long Beach ports stakeholder meeting in March. "It's a team sport - we're all in this together."