Ro-ros

Rules to push ro-ro cargo back to roads

Emission-cutting regulations to raise operating costs and make sea routes less viable

Michelle Wiese Bockmann

INCOMING regulation to cut sulphur and other greenhouse gas emissions in shipping will not only raise operating costs for the fleet of European shortsea ro-ro vessels, but also change supply chain logistics and push cargo back on to roads, a DVB Group study concludes.

The German bank's research and strategic planning unit forecast gloomy prospects for the global fleet of 1,973 ro-ro vessels, set to be the most affected sector in shipping by the new emission rules.

Already battered by a 35%-40% cut in revenues, ro-ro owners and operators face regulations that mandate the use of more expensive, lighter fuel oils in European waters, as well as international energy efficiency rules to cut greenhouse gas emissions.

These regulations will drive the industry to use larger ro-ro ships, potentially cut volumes and create new trading lanes, and see owners and operators shift to liquefied natural gas to power ro-ro vessels, the annual market outlook says.

About half the world's ro-ros operate in northern Europe and the Mediterranean Sea, providing feeder services to car carriers, moving intra-regional cargo for local manufacturers or breakbulk cargoes, semi-trailers, paper products and steel.

Bleak outlook: ro-ro ships engaged in shortsea trades would see fuel costs surge. *Dietmar Hasenpusch*

Under the new regulations, sulphur fuel content used by ships in the Baltic Sea, North Sea and English Channel regions falls from 1.5% to 1% on July 1, and 0.1% from January 1, 2015. In international waters, sulphur content falls from 4.5% to 3.5% by 2012 and 0.5% from 2020.

Fuel costs comprise about 36% of ro-ro operating costs based on a Finnish government study conducted last year. The same study also found that fuel costs for ro-ros operating in the Baltic Sea region would rise by 54%, and total operating costs by 25% using more expensive fuels.

"While these regulations will reduce the environmental impact of shipping, operators are left to contemplate how well their ro-ros will be able to compete in the new regulatory environment with ro-pax vessels, as well as road transportation," said DVB's report.

"While the European Union's Marco Polo initiative is seeking to remove freight from roadways, the International Maritime Organization's 0.1% sulphur regulations that come into force in 2015 will push cargo back on to the roads."

One ship operating on a route from Travemunde, Germany, to Trelleborg, Sweden, faced additional costs of €35,000-€40,000 ($41,940-$47,930) per week at today's fuel prices, DVB said.

On top of this, shortsea ro-ro vessels would also have to travel at much slower speeds than original engine designs in order to meet efficiency levels spelled out in the IMO's proposed Energy Efficiency Design Index. The index — which measures ships' greenhouse gas emissions based on a formula considering fuel consumption, distance and amount of cargo carried — is expected to be approved and implemented as early as 2013.

The index is "most polemic" for ro-ros out of the entire global merchant fleet, said DVB Bank's report. It cited a Finnish consultancy, Deltamarin, that concluded that all ro-ros would have to operate at sub-optimal levels in the larger transportation chain if the EEDI formula was applied.

"We could well see emission limits for each vessel type with differentiation drawn between ro-ros engaged in vehicle trades, as well as separately for those on volume and weight trades," the report said.

" For ro-ro vessels engaged in volume trades and shortsea trades, it could require the vessel to reduce its speed to meet the index requirements and thereby make the sea route option less attractive compared with road transportation.

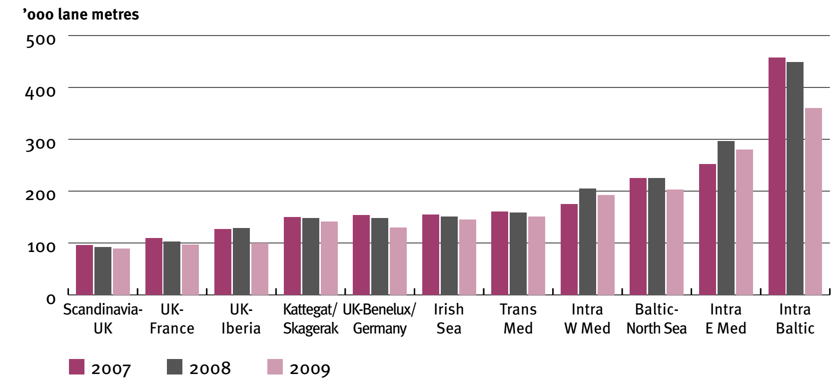
"This, of course, is counterproductive as currently road transportation has greater emissions per unit of cargo. Furthermore, the index requirements could see new ships built with lower design speed where the intended route deployment necessitates higher speeds".

The world's first LNG-powered ro-ro vessels are still under construction, with six being built for Sea-Cargo of Norway, and scheduled for delivery in late 2010 or early 2011. The 1, 150-lane metre ships were ordered at Bharati shipyard, India, for a cost of $14m each, according to Clarkson Research Services.

DVB Bank also reported that the EU's Marco Polo subsidy programme to shift cargo from road to sea had not changed trading dynamics as funding was only for a one-year period, and projects need to be functional and viable before subsidies were available.

The future of so-called Motorways of the Sea funding is also under question. ■

EUROPEAN RO-RO DEMAND
2007-2009



Source: *MDS Transmodal*

Shortsea ships face long haul to rebuild revenues

IT WILL take years for the European shortsea ro-ro industry to see revenues return to pre-recession levels despite increasing cargo volumes, after slumping 35%-40%, *writes Michelle Wiese Bockmann*.

Although restocking of consumer-related inventory has boosted ro-ro demand, especially on intra-Baltic routes and those in the English Channel and North Sea, freight rates remain low.

Time charter rates for ro-ros with a capacity of 1,800-2,000 lane metres have fallen from a peak of €13,300 ($15,960) in the fourth quarter of 2007 to €8,700 in the first quarter of 2010, according to data from shipbroker Fearnleys. Larger ships of 2,500-3,000 lane metres saw time charter rates drop from €17,900 to €11,200 during the same period.

According to DVB Group's study of the ro-ro sector, breakeven costs for major operator Grimaldi's six newbuilding ro-ros of 10,800 dwt and 3,500 lane metres, which cost $66m each, are $13,000 per day. Older tonnage costs about $17,000 per day to operate and finance, with 894 ships aged 25 years or over.

DVB Group also found that cross-Channel traffic in the first quarter of 2010 rose 6%-8% compared with the previous year, but freight rates remained 10%-12% lower and well below 2007 levels.

While freight volumes from Scandinavia were also up, Irish Sea volumes remained weak, while vehicle import volumes to the Baltic Sea region were "low".

It may take years to regain lost revenues, DVB said. With more goods sourced from Asia via direct calls at European ports, demand for ro-ro ships in the intra-European market was suffering, DVB concluded.

"Increased sourcing from the Far East is typically at the expense of intra-European trading, which also negatively impacts the demand prospects for ro-ro vessels," the report said.

The global trade slump saw cargo volumes fall 25%-35% in shortsea trades from the second half of 2008, forcing ro-ro owners and operators to cut unprofitable routes, redeliver chartered tonnage and increase port efficiency.

"The industry appears to be arriving at the consensus that the focus will be on reviewing speed through the entire supply chain, and not on running the ships faster," DVB said.

Deepsea ro-ros and car carriers are sailing at slower speeds, below 19 knots, and are even reviewing operating at speeds of 11-14 knots, the report said.

Deepsea ro-ro trades, mostly from Europe to West Africa or South America, had not seen any increase in staple high and heavy cargoes since the market downturn.

DVB Bank says 76 vessels of a combined 111,300 lane metres are on order at shipyards, with 31 newbuildings delivered in the first five months of 2010 and 24 scrapped. "This is an indication in itself of the current market environment," DVB Bank says. ■

Gas Carriers

Prompt Middle Eastern LPG cargo sends time charter rates soaring

Martyn Wingrove

SOUTH Korean trader E1 has chartered the 1991-built, very large gas carrier *Gas Aries* at a freight rate of $45 per tonne, a 21-month high for the main VLGC route of shipping Middle East liquefied petroleum gas to Asia.

The 78,452 cu m capacity ship was fixed to load a Kuwaiti cargo this Monday at a rate $6 per tonne higher than a week ago, equivalent to $29,600 per day, a Lorentzen & Stemoco broker said. Time charter equivalent rates have climbed almost $10,000 per day in the last 10 days because of the shortage in available ships.

Gas Aries had been anchored off Fujairah since early May, and the rate was the highest for any VLGC since September 2008. An unexpected, prompt LPG cargo caused a rush by charterers to secure tonnage to cover the cargo tender, a Clarksons broker said.

"As there were then only three spot vessels [out of a global fleet of 143 VLGCs] available on the dates, owners held out for a big mark-up on the current levels. All three were fixed on subjects, achieving rates in the mid $40s per tonne," Clarksons said.

"Rates have risen due to more activity in the Middle East, a tighter supply balance and there have been more arbitrage movements — Atlantic cargoes going East [via Suez Canal]. It is more positive in terms of time charter equivalents, but it is still way off the market peak in the summer of 2008."

VLGC freight rates peaked at $81 per tonne, equivalent to more than $1.7m per month in July 2008 and rapidly dropped to below $20 per tonne, or $200,000 per month by November of that year. They hit bottom at $15 per tonne in March 2009.

Brokers expected other VLGC fixtures this week will be at levels close to $45 per tonne or more.

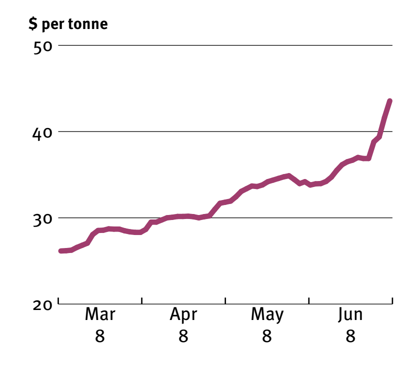
"It is fairly solid and there are a couple of cargoes out there. Rates may still go higher as we hear owners now want to get $50 per tonne," a Norwegian broker said.

Meanwhile, spot rates for the 20 large gas carriers (40,000 cu m-60,000 cu m capacity) in the global fleet, climbed by $75,000 per month to $650,000 over the last week due to the limited supply of available vessels on the spot market to ship Black Sea ammonia to the US, Norwegian brokers said.

"Rates of $650,000 per month are a lot higher than they have been and it is a firming trend. It is more positive for owners these day," an Inge Steensland broker said.

Prices also increased for handysize gas carriers (15,000 cu m-25,000 cu m), of which there are 75 in the global fleet, from $580,000 per month at the end of May to almost $700,000 per month yesterday after the charter of two 2009-built vessels by Venezuelan oil company PDVSA left only four ships available on the spot market. ■

VLGC FREIGHT RATES
Middle East to Japan (March 8, 2010-June 8, 2010)



Source: *Baltic Exchange*

Dry Fixtures

TIME CHARTER

Aquadiva (built 2010, 180,000 dwt) delivery Luojing 12/15 June trip via Australia redelivery China approx $46,000 daily — Rio Tinto

***Cape Garland* EDF Trading relet** (built 2009, 178,394 dwt) delivery Cape Passero 9 june in dc trans Atlantic round voyage redelivery Skaw/Passero range $52,500 daily chopt Skaw/Gibraltar range $49,000 daily - Classic Maritime

Iron Manolis (built 2007, 82,800 dwt) delivery retro Kokkola 5 June trip via Baltic redelivery Continent $40,000 daily — Charterer not reported

Marilena (built 2008, 81,354 dwt) delivery Passero 10/12 June trip via Ponta da Madeira redelivery China $44,000 daily — Empros Line

Golden Shadow (built 1997, 73,732 dwt) delivery Tanjung Bin 9/10 June trip via Indonesia redelivery Singapore-Japan rge $32,000 daily — Charterer not reported — recent

The Baltic Exchange

Xin Run (built 1998, 73,326 dwt) delivery Mobile 17/20 June trip via US Gulf redelivery Singapore-Japan rge $39,000 daily + $700,000 ballast bonus — ADM

Tai Prize (built 2001, 73,169 dwt) delivery Taichung 11/13 June trip via East Australia redelivery Singapore-Japan rge $27,000 daily — Charterer not reported

Rubin Power (built 1996, 72,326 dwt) delivery Immingham 10/12 June trip via US east coast redelivery Skaw-Passero rge $39,500 daily — Transbulk — fixed end last week

Irini (built 1988, 69,734 dwt) delivery Kunsan 9/10 June trip via Nopac redelivery Singapore-Japan rge approx $22,500 daily — STX Pan Ocean

Luyang Star (built 1989, 68,772 dwt) delivery Yangjiang 15/20 June trip via east coast South America redelivery Singapore-Japan rge $21,500 daily — STX Pan Ocean

Yasa Ozcan (built 2006, 55,924 dwt) delivery Surabaya 17/24 June trip via Indonesia redelivery India $26,000 daily — Charterer not reported

Nord Leader (built 2007, 55,808 dwt) delivery Paradip spot trip redelivery Singapore-Japan $26,000 daily — Charterer not reported

African Kingfisher (built 2009, 55,500 dwt) delivery Cristobal 15/20 June trip via North Coast South America redelivery Continent $46,000 daily — Dreyfus

Fourseas SW (built 2010, 29,700 dwt) delivery dop Japan spot trip via China redelivery Pakistan $19,000 daily — Shadab

PERIOD

Agios Sostis (built 2009, 75,650 dwt) delivery Mundra 15/22 June 3/5 months trading redelivery worldwide $29,500 daily — Cargill

Kastro (built 2008, 58,780 dwt) delivery Caofeidian spot 3/5 months trading redelivery worldwide $22,000 daily — British Marine

ORE

Baotrans vessel to be nominated, 160,000/10 Dampier/Qingdao 22 June/1 July $13.00 fio scale/30,000sc — Rio Tinto — fixed yesterday

Zosco vessel to be nominated, 160,000/10 Dampier/Qingdao end June approx $12.50 fio scale/30,000sc — Rio Tinto

Mineral Ningbo (built 2009) 160,000/10 Dampier/Qingdao 25/30 June $12.00 fio scale/30,000sc — Rio Tinto