

LNG: FUEL FOR SHIPS

Interim guidelines clash with local requirements

Lucy Hine London

At present, there is only a set of interim guidelines governing LNG fuelling for shipping. It is up to national administrations to decide whether they accept gas-fuelled ships and to determine any restrictions put on them.

This could present a problem for would-be operators, who must ensure their vessels are accepted at both the load and discharge ports.

The development of rules for the sector started in 2004, when Norway proposed guidelines on a code to the International Maritime Organisation (IMO). Today, alongside the interim guidelines, classification societies and individual administrations have their own rules for methane-fuelled ships while local and international requirements apply in certain areas.

The International Code of Safety for Gas-fuelled Ships — widely referred to as the IGF Code — is still in the making. In 2010, a basic draft for the IGF Code was submitted to the IMO and last month it inched a little further along the road to acceptance when it was once again put before the UN body's subcommittee on Bulk Liquids and Gases (BLG-15).

But already there is a key clash where these interim guidelines conflict with the established practice. The IGF's longer established cousin, the International Gas Code (IGC), which governs the construction of LNG carriers, specifically prohibits the siting of fuel tanks under crew quarters. As yet, the IGF Code does not.

Hart Fenton & Co's Andy Alderson, who is familiar with the IGC having built and sailed on LNG carriers since the mid-1980s, says most of the new LNG-fuelled-ship designs being rolled out are based on the interim guidelines of the IGF Code in that they have horizontal tanks located below deck. In contrast to the IGC, the IGF guidelines allow this but with some safeguards.

Alderson, whose company has been working on a design for LNG-ship fuelling that complies with the IGC requirements, points out that since the 1960s the oil-and-gas industry was not allowed to have tanks with low-flashpoint cargoes like LNG to be positioned under accommodation areas.

"Part of the ongoing work of the [IGF] Code development will be clarification on this and allowing the tanks but under what circumstances and are there any particular conditions," he said. He believes the question is "on its way to being resolved" but says it is not there yet.

Fortunately, the issue is likely to get even more of an airing now. At last month's BLG-15 meeting, it was decided that the draft of the IGC revision — a long overdue update to the existing code — and the draft IGF Code will be examined by the same IMO correspondence group. Germanischer Lloyd (GL)'s Gerd Wursig says this year is a key time to develop this code as the correspondence group sets about harmonising the technical requirements of both codes.

Bunkering will also be a prominent topic in the IGF Code, Wursig says. But interestingly, while it will cover the process on board the ship receiving the bunkers, it will not cover the bunker vessel. The latter will have to be regulated by administrations and not by IGF Code, he explains.

While the differences of opinion within the IGC/IGF discussion look set to rumble on for some time, industry players appear to believe the technical issues can be overcome and hope to see the revised IGC and new the IGF Code brought into force with Safety of Life at Sea (Solas) convention in 2014.

"The problems that we face in making LNG fuelling an everyday occurrence are political and commercial problems," Alderson said. "We have the solutions; it can be done."



KEY CLASH: The established IGC code prohibits the placing of fuel tanks under crew quarters. The IGF Code as yet does not. Pictured, accommodations on board an MISC LNG carrier

Andy Alderson: "The problems that we face in making LNG fuelling an everyday occurrence are political and commercial problems. We have the solutions; it can be done."

NEWS

Toepfer sets up risk-management wing

Geoff Garfield London

Germany's Toepfer International, which annually transports over 40 million tonnes of dry and wet bulk, has set up a dedicated risk-management department headed by Stefan Albertijn.

Shipping is Toepfer's most volatile commodity but is also believed to be its most advanced in terms of risk management.

Management board chairman Gary Towne says the department is being given responsibility to implement a worldwide risk-management system to "analyse and evaluate our trading positions".

Albertijn, who this week toasted his 35th birthday by taking over the new risk-management role, is expanding his brief from shipping to cover all products at the Hamburg-based group.

Toepfer, majority owned by New York-listed Archer Daniels Midland (ADM), trades mainly

grains but also electricity, coal, biomass and carbon dioxide (CO₂).

The company is said to have developed risk-management tools for shipping, where it takes in deep-sea tonnage on a time charter or voyage basis, far beyond other parts of the company.

Albertijn has for some time been chairman of the Freight Market Information Users Group (FMIUG) dry section whose role includes working with the Forward Freight Agreement Brokers Association (FFABA) in promoting forward-freight agreements (FFAs).

He will be reporting at Toepfer, now recognised as a major futures trader, directly to Towne. Albertijn has been with Toepfer since early 2005 after earlier working at Deutsche Bank.

Toepfer has had a risk-management system for commodities in place since 1979 but ramping up the operation will involve hiring

extra staff. Typically, it trains its own recruits instead of what one source described as "buying from the market people who are already pre-cooked and have their own routines".

The company trades commodities virtually worldwide but most growth is said to have been in Asia, where its main activities are located in Singapore. It also has hubs in Vietnam, the Philippines, Japan, China and Indonesia, as well as Australia and throughout Eastern Europe.

Toepfer has its own elevators and silos in the Ukraine, Argentina and Romania and is building others in Bulgaria.

The other 20% of Toepfer is owned by InVivo, a union of French agricultural co-operatives serving farmers, which exports mainly to North Africa.

Although Toepfer does not own deepsea ships, ADM has a bulker fleet of around 10 handysizes, su-

Further falls set for VLCC asset values

A German bank says prices are expected to decline at a faster pace than newbuildings.



VLCCs: Values are already down close to 41%

Photo: Tradewinds archive

Geoff Garfield London

VLCC owners should brace for further falls in secondhand values, says German bank DVB.

It predicts prices will decline at a faster pace than for newbuildings.

The prognosis follows a nearly 41% slump already in the value of five-year-old VLCCs from around \$145m in 2008 to \$85m at the moment.

Transport bank DVB says in its 2011 VLCC-tanker-market outlook that it expects tumbling asset values will also see newbuildings reach around \$90m this year versus shipbroker Clarkson's current figure of \$102m. A couple of years ago, a 320,000-tonner cost closer to \$150m.

On secondhand ships, the report said: "Logic indicates that some owners burdened with high debt will soon have to give in and start selling their VLCC assets at more reasonable prices than those recorded in 2010."

But, it adds, the "easily-ignited euphoria that prevails in the VLCC market often defies logic". Awareness of seasonality and cyclicality of markets is sometimes forgotten

and caution is thrown to the wind.

Relatively weak earnings, combined with high debt for younger ships ordered during the market boom, should create secondhand opportunities for owners with cash. The bank says it "firmly believes" they will prove the best value-for-money deals in 2011 and 2012, as compared with newbuildings.

It expects a slow increase in newbuilding values from 2012 onward based on tightening forward yard coverage, coupled with stronger market fundamentals for most tanker subsectors.

DVB says it is "cautiously" optimistic on the outlook for VLCCs, although it may have to be more conservative over prospects in 2012 and 2013 if owners continue to order newbuildings despite the supply overhang.

The bank says another 135 VLCCs could join the fleet over the next three years, adding to a fleet that at the end of 2010 numbered 558 vessels of about 169 million dwt.

Despite indications of a pick-up in VLCC demand in the near future, DVB says it will not be suffi-

cient to completely offset surplus fleet capacity.

It says that even if its best-case scenario plays out, with all non-double-hull vessels removed by 2012 and the current orderbook discounted by a bullish 25% (through postponements and slippages), the fleet will still be 19.9% larger by the end of next year.

According to the report, the VLCC market will start to reach a balance post-2011 based on the existing orderbook, with tonne-mile demand absorbing surplus tonnage.

DVB's report, which was compiled prior to the earthquake disaster in Japan, says that it has good reason to believe that from 2012 onward earnings will gradually improve.

The bank expects demand for VLCCs to rise by around 3.5% in 2011 to 6,013 billion tonne miles, as compared with 2010.

Last year, the fleet carried 904.1 million tonnes of crude from 2,991 cargo liftings, the equivalent of 5,809 billion tonne miles.

The Middle East accounts for 72% of overall VLCC tonne-mile demand.

DVB, using in-house and Clarkson's data, lists Mitsui OSK Lines (MOL) as the top VLCC owner by deadweight, with 40 vessels totaling 12 million dwt, plus four of 1.2 million dwt on order.

It is followed by the Fredriksen group with 39 VLCCs of 11.8 million dwt, Nippon Yusen Kaisha (33 of 9.8 million dwt), NITC (28 of 8.6 million dwt) and Angelicoussis Group (20 of 6.1 million dwt).