

Egypt in Crisis: Shipping Analysis

Lines mull boxship re-route

Vessels could sail around Cape of Good Hope if Suez Canal is blocked

JANET PORTER

CONTAINER lines are drawing up contingency plans in the event of the Suez Canal being blocked and are prepared to deviate around the Cape of Good Hope if necessary.

The Asia-Europe corridor is one of the busiest box trades in the world, with lines moving 14m teu of dry and reefer boxes westbound in 2010. The fleet's biggest containerhips, with capacities exceeding 14,000 teu in some cases, are deployed on this route.

AP Moller-Maersk, parent company of Maersk Line, Safmarine and Damco, issued a statement saying that the situation in Egypt had impacted commercial and operational activities. Maersk and Safmarine have between four and five transits a day on average.

The company's terminal operations in the country were at a standstill yesterday, with Maersk Line, Safmarine and Damco offices closed. However, the Suez Canal remained open, with pilots exempt from the curfew.

The Danish group has various activities in Egypt with a local workforce of 7,000 employees, all of which have been accounted for.

The company said containers were starting to fill up in Egyptian container yards as no import cargo is being collected while export containers cannot be loaded. Maersk is considering whether to suspend bookings for cargo moving via Egyptian ports.

Alternative transshipment facilities in the eastern Mediterranean are also being

Containers

evaluated should Egyptian hubs remain shut, but Maersk said operations at Port Said were expected to resume this morning. The ports of Alexandria and Damietta are working, but at much reduced productivity levels.

Mediterranean Shipping Co, operator of the world's second largest container line, said it was monitoring the situation closely. In the case of any Suez Canal transit problems, MSC plans to re-route vessels via the Cape of Good Hope.

Other lines said they were keeping the situation under constant review.

The threat of disruption has come at a relatively quiet time of the year for container shipping, with many factories in Asia closed because of the Chinese New Year holidays. As a result, lines have temporarily withdrawn some capacity or skipped sailings in response to slack demand.

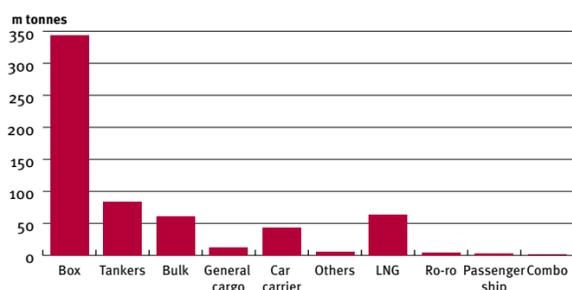
During the height of the recession in 2009, many lines avoided the Suez Canal because of high tolls, and sent ships round Africa to save money. The higher fuel bills still worked out cheaper than the cost of going via the Suez Canal, but oil prices have soared since then and shippers would undoubtedly face surcharges if the longer route becomes necessary. The length of time added to a typical Asia-Europe voyage would depend on the ship's speed. Most are slow steaming at the moment, particularly on the return leg.

The Weber weekly tanker report noted that the box sector was likely to suffer the greatest impact should the canal be closed, since boxships accounted for almost 40% of transits so far this year. ■

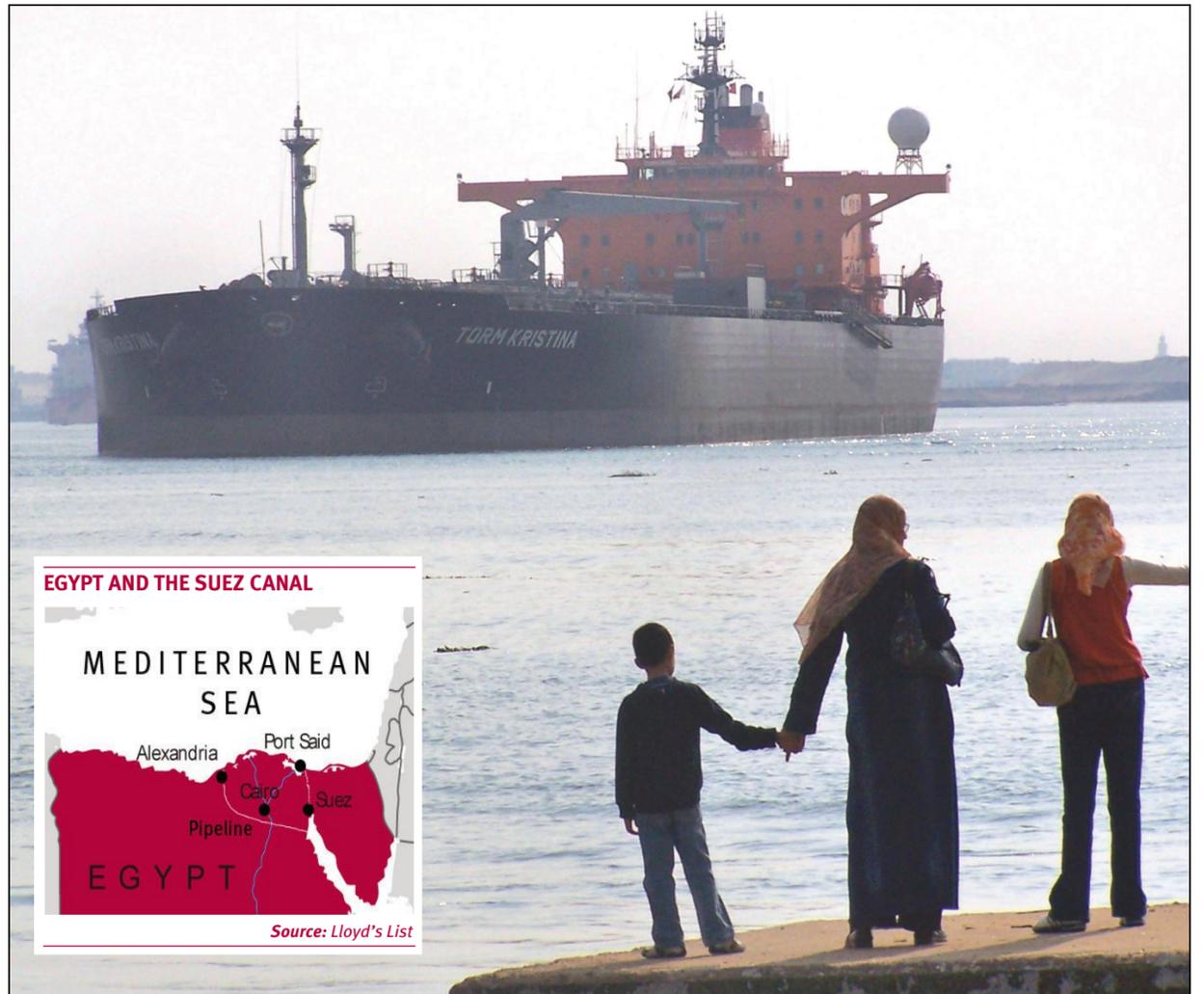
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MILLION TONNES PASSING THROUGH SUEZ CANAL

January 2010 to September 2010



Source: Fearnley Research



EGYPT AND THE SUEZ CANAL



Source: Lloyd's List

Residents observe as a tanker passes through the Suez Canal in Ismailia: ships using the waterway generate at least \$30m a day for the Egyptian economy. AP

Tanker shares come off the boil

Tankers

TANKER shares in New York returned to the ground yesterday, as the market digested the underlying realities of the situation in the Suez Canal, writes Rajesh Joshi.

After 90 minutes of trading, Frontline was down 5% to \$25.68, General Maritime had declined 6.2% to \$3.02, and Overseas Shipholding Group was down 3% to \$33.34.

Shares in Nordic American Tanker Shipping, Navios Maritime Acquisition and Teekay were also trending lower.

The cooling off followed Friday's spike across the board, which had

seen General Maritime surge by 12% and OSG by 6%.

The increases were attributed to an apparent certainty among investors that traffic disruptions in the Suez Canal linked with the civil disturbance in Egypt would, in some manner, prove to be the spark needed to raise tanker shares off their historic lows. The prospect of charter rates picking up underpinned this confidence.

As the dust settled at a different

reality began to take shape, recognising tonnage overcapacity in the tanker industry as well as Egypt's reliance on canal income.

Experts remain cautious about a potential fallout should the situation worsen. However, several experts in New York now believe Friday's spike was driven by speculators rather than by any inherent shift in freight market fundamentals.

Compass Maritime Services director of projects and finance Basil Karatzas said chances of the Suez Canal being shut down entirely would be dim in a normal scenario, given the fact that the hundreds of ships that use the waterway each day generate at least \$30m a day for the national economy.

"Then there is the wider impact generated in the local economy. This makes it unlikely that a [major disruption to shipping] would happen," Mr Karatzas said.

Even if one were to happen, the effects on tanker freight rates are likely to be minimal, because there are at least 100 very large crude carriers in the Middle East Gulf waiting for cargoes. "This is not a

tight market, so unfortunately, tanker freight rates are unlikely to go up. The movement in tanker share prices appears to have more to do with hedge funds and other investors clutching at any straw that comes along," Mr Karatzas said.

Meanwhile, Dahlman Rose head of research Omar Nokta said that even in the worst-case scenario for the Suez Canal, sectors other than tankers were likely to be affected more.

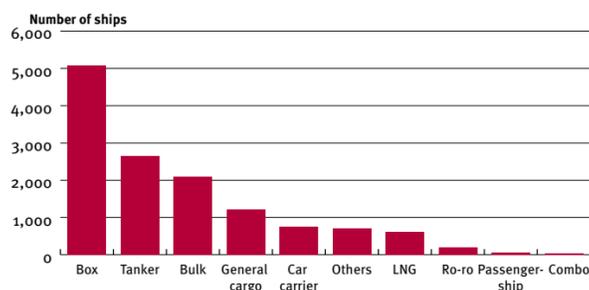
"The canal services mainly containerships and dry bulk carriers, which together represent at least half of the throughput. Oil and oil-related carriers account for 10%-15% of transit. Thus far there has been no impact on operations and rates across the tanker, dry bulk and containership segments have not been affected," he wrote.

George Los, senior market analyst with Connecticut-based Charles R Weber Research, said that inaccurate data was still hampering analyst's assessments of the tanker market. "One of the problems is that we are not finding enough data for how much is flowing through the canal and the Sued pipeline."

On the best available figures, the canal and the pipeline collectively handled 2.1m barrels per day, a figure that probably rose in 2010. ■

NUMBER OF SHIPS PASSING THROUGH SUEZ CANAL

January 2010 to September 2010



Source: Fearnley Research

Insurers remain cool despite possible shipment delays

DELAYS on shipments through the Suez Canal are likely to result from the political crisis in Egypt, although chances of outright closure are low, according to Lloyd's market-oriented risk consultancy Exclusive Analysis. Shippers reliant on just-in-time consignments could bear the brunt of any resulting pain, write David Osler and Christopher Munro.

Meanwhile, marine insurers are remaining calm amid continuing disturbances in Egypt — and London's Joint War Committee has no plans to meet to discuss implications for the Suez Canal.

In a note to clients, Exclusive Analysis pointed out that using the canal saves an average of about 10

Insurance

days' steaming time for vessels on key east-west routes.

But the cost of using the key waterway has already been increased by insurance and security costs due to piracy risks in the Gulf of Aden — and the current turmoil in the country will probably raise them further still. These factors offset the expense of using the long way round via Cape of Good Hope.

"Just in time deliveries will be affected for the next 30 days until global supply chains adjust," said Exclusive Analysis. "Therefore, the greatest impact will be on

specialist deliveries to complex manufacturing processes if those shipments are delayed in the canal."

However, there is only a "moderate risk" of outright blockage in the Suez Canal and the Bitter Lakes. Although there are no locks to operate, the canal needs constant dredging and, being a one-way transit with bypass points in the Bitter Lakes, efficient flow is reliant on national co-ordination and pilots.

"With a modest global share of oil, gas and coal supplies, shipments through the Suez Canal

are the key impact that unrest in Egypt would have on global commodity supply. However, risk perceptions of contagion in the Middle East and north Africa region have already moved markets," it added.

Neil Roberts, a senior executive at the Lloyd's Market Association, said: "We are not seeing anything that would give us any particular cause for concern at this stage. There is no direct threat to ships that we can see and it would be counter-intuitive for the Egyptians to do anything with Suez that would stop their flow of trade."

Mr Roberts doubted there was any substance to suggestions that premiums for transits going

through the Suez Canal were on the rise.

"On the hull side, there is no direct and obvious threat. On the cargo side, while cargo is on ships there is no direct threat, but those underwriters would have concerns about goods transiting on land and stored in warehouses," he said.

"It is very easy to see that the political situation is unstable and there could certainly be damage from riots. That is something cargo underwriters will bear in mind, but they can't react in the short term."

Oil market jitters seen so far are unfounded, although traders should keep an eye out if unrest spreads to other countries, according to an oil risk analyst.

Michael Poulsen of Danish company Global Risk Management said: "We were up \$2 on Brent, but we fell back almost a full dollar again. I would say it will go back and forth. It's just nerves."

The Suez Canal is too shallow for very large crude carriers, the largest type of tanker.

Around 1m barrels per day transit the waterway en route from the Middle East to the Mediterranean. A further 1.1m bpd uses the Suez-Mediterranean pipeline.

Following the unrest, rating agency Moody's has downgraded the Egypt's bond rating and revised the country's outlook to negative from stable. ■

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