

MARITIME NEWSLETTER FOR THE WEEK ENDED NOVEMBER 7, 2004

Shipping companies are top performers in quarterly results

Almost all the shipping companies have increased their net profit by 100% for the quarter ended September 30. The exceptional result comes on the back of the new tonnage tax regime, booming freight rates and vessel acquisitions. Shreyas Shipping, Mercator Lines and Varun Shipping registered substantial topline increase while SCI showed only marginal increase in topline on account of their having to charter ships from the market as charter hire has been extremely high. The only major shipping company to have missed the 100% net profit increase is Essar Shipping.

Shipping secretary DT Joseph to be chief secretary of Maharashtra

DT Joseph, shipping secretary, is expected to step down from his position on October 31 and be the chief secretary of Maharashtra. He has played an instrumental role in the shipping sector and has engineered many initiatives that include the recent move towards the tonnage tax regime. He was also the one behind privatization of terminals and port services and relaxation of domestic cabotage laws to facilitate wider competition. He is currently working towards corporatisation of major ports. The latest developments are being keenly followed by the shipping industry.

UK delegation in India

A UK delegation comprising top consultants, infrastructure specialists, investment firms and security experts spent a five days in India to explore and strengthen tie with India in the maritime sector. A seminar organized by them in Mumbai drew participation from the top executives and government officials.

Concor announces increase in tariffs

An 8-12% rise in the cost structure has prompted Container Corporation of India (Concor) to step up its tariffs. It has increased its tariffs for full boxes by 6.5%. The cost of moving empty containers has been reduced by 8-18%. The hike is structured in such a manner as to influence short distances more than a long distance movement of loaded cargoes. Concor is the sole carrier of containers by rail in the country.

Essar Shipping encashes high fleet rates

While it has been the stance of almost of the shipping companies to acquire more tonnage at a time when freight rates are booming, Essar Shipping Limited has, in a surprise move, decided to sell off 5 Suezmax tankers. Subject to regulatory compliances, Top Tankers Inc., a Greek company, will acquire them at \$256 million. At a time when shipyards worldwide are booked upto 2008, the rates for second-hand ships are witnessing an all-time high.

GE Shipping gets aggressive on offshore

GE Shipping, which currently owns 30 offshore units, will acquire eight more units in the next 2-3 years. The assets they are looking at are rigs and pipe-lay barges. Offshore activities are receiving focus primarily on account of the heightened oil exploration activities in India. It is also learnt that other operators are also planning a foray into the sector.

SCI to make an equity investment of Rs.50 crores in Sethusamudram

After deferring its decision in the last meeting, Shipping Corporation of India (SCI) has decided to invest in the Sethusamudram project. The 2000-crore canal project entails creating a navigable channel from the Gulf of Mannar to the Bay of Bengal through the Palk Bay. It is estimated that it will reduce the voyage time of ships from the East Coast to the West Coast by 400 nautical miles and curtail 36 hours of sailing time. The Union Government has an 80% equity stake in SCI and the government is understood to be completely backing the Sethusamudram project.

Importers hurt by high freight rates

High freight rates for sugar have led to a lack of demand and this situation is being further aggravated with Brazil having additional supply. With the continued buoyancy in the freight rates, the importers now have to address the issue since shipments have been slowed down and the heat in the freight rates is not expected to subside in the near future.

Dry bulk freight rates to be steady before soft landing

In a conference of dry bulk shippers' attended by shipowners, charterers and financiers it was felt that the dry bulk freight rates will remain stable next year before a soft landing facilitated by new supply catching up with demand growth. It was expressed that a substantial increase in freight rates will make a landing difficult to deal with and a controlled rate will also ease pressures when the reduction takes place.

Pipavav breaks Concor monopoly

So far only Container Corporation of India (Concor) has had the monopoly over container trains. However, the Railway Ministry has now given the permission to Pipavav Railway Corporation Ltd. (PRCL) to run containers to and from Pipavav port. PRCL will pay an annual royalty of 2 percent of its turnover to the Indian railways.

Petronet board clears Kochi project

Petronet LNG Ltd has cleared the setting up of LNG terminal at Kochi. The proposal had been pending for five years. The work is now slated to begin in December. Mr. Mathur, Chairman and Managing Director, has indicated that the terminal will have all the facilities that are available at the facility in Dahej.

Juicy Bits

- Shipping Corporation of India (SCI) has posted a 162.4% rise in second quarter net profit at Rs.210.1 crore, as against Rs.80.1 crore in the same quarter of 2003-2004.
- GE Shipping posted a 109% increase in its net profit this quarter at Rs. 167.2 crore as against Rs. 80.1 crore last year.
- Mercator Lines posted a 276% increase in its net profit this quarter at Rs. 31.6 crore as against Rs.8.4 crore in Q2 2003-2004.
- SKS (Ship) posted 787% increase in net profit at Rs. 68.3 lakhs as against Rs. 7.7 lakhs in Q2 2003-04.
- Varun Shipping reported a 315% increase in its net profit for Q2 as against Rs. 5.1 crore in Q2 2003-04.

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Petronet to complete Dabhol terminal

The government has asked Petronet LNG to complete Dabhol Power Company's five-million-tonne liquefied natural gas import terminal. The power project of 2,184-MW may be completed by NTPC. It is expected that the power project and the terminal will be sold separately once they are completed. Though no confirmations have been received from Petronet or NTPC, developments are being closely watched.

Domestic shipping companies keen on Petronet LNG deal

Domestic shipping companies like Shipping Corporation of India, GE Shipping and Varun Shipping have announced their intention to bid for the LNG shipping contract of Petronet LNG Ltd (PLL). They are now exploring ties with reputed LNG operators to fulfill the qualification criteria set by Petronet. With the bidders required to have experience in operation, technical management and crewing of LNG ships, it is unlikely that any of the domestic ship owners will be in a position to take it up on its own.

Paradip Port Trust (PPT) invites dredging companies

Paradip has floated tender inviting dredging companies to take up dredging of depth 18.7m in the approach channel and 17.1m in the entrance channel and turning circle from the existing depths. The estimated cost is Rs 1230 million. The dredging is expected to start by March, 2005 and last for a year. The last date submission of applications is November 30.

Hyundai and Samsung bag shipbuilding orders

Hyundai Heavy Industries and Samsung Heavy Industries Co. of South Korea have each received an order to build two tankers of \$458 million and capacity of 2,16,200 cubic metres of LNG each. Qatar Liquefied Gas II, a joint venture of Exxon Mobil Corp and Qatar Petroleum, has placed the order. Hyundai Heavy is world's largest shipbuilder.

South Korean shipbuilders in dilemma

South Korea has received record number of contracts in shipbuilding in the past one year. However, the profitability is still weak as the shipbuilders are completing orders received in 2001-02 when prices for ships was low but the earnings are under pressure as steel prices have surged on account of record demand.

Shipping ministry asks IPBCC to withdraw congestion surcharge

Shipping secretary DT Joseph has asked the India Pak Bangladesh Ceylon Conference (IPBCC) to withdraw the congestion surcharge with immediate effect. The IPBCC had decided to levy a surcharge of \$55/TEU from November 25. The shipping ministry has said that it is taking steps to address the congestion issue which include more services by Concor from Mumbai, waiver of bank guarantees for steamer agents and lines for moving boxes by road from JNPT and Mumbai, relaxation of cabotage laws and ramp up of custom departments.

NH41 condition hurts cargo movement

National Highway 41, the connecting road from Haldia dock, is affecting traffic from the dock because of its severely bad condition. Transport operators have expressed concern that the delay

in delivery as well as the damage to the vehicles is not sustainable and the repair work must be speeded up. The widening of NH41 has slowed down due to the change in government.

Chennai Port Trust expresses concern over developments at Ennore

Chennai port trust has expressed concern over the possibility of a competition with Ennore Port. Initially, Ennore Port was constructed as a satellite port to handle dirty cargo such as coal and iron ore that are currently shipped at Chennai, however, it is now developing terminals for clean cargoes. This will create competition between the two ports and the Chennai Port Trust has asked the shipping ministry to frame appropriate policies to handle the situation.

New Mangalore Port to increase cargo traffic

New Mangalore Port is planning to handle 40 mt by 2021-22 from its current level of 26.67 million tonnes achieved in 2003-04. This is to be achieved by projects that include construction of a multipurpose deep-draft berth and a dry dock and ship repair facility. The multipurpose deep-draft berth is already under construction and is expected to be completed by October 2005. Ship repair facilities are planned to be near the boundary wall of the Mazagaon Dockyard site.

China to launch a container giant

The Shanghai-based Hudong Zhonghua Shipbuilding Co. is working on a 90,500-tonne container ship that would be 334m long and 42.8 m wide. It is expected to be launched three years later and cater to the country's foreign trade that is likely to touch \$1.1 trillion this year. It is believed that with a carrying capacity of 8,530 TEUs it is going to be the largest container ship in the world.

Company formation at Vizhinjam port

The Kerala government has decided to form a company that will take up the implementation of the international container trans-shipment proposed at Vizhinjam. The company will have an authorized capital of Rs 5 crore and a paid-up capital of Rs 50 lakhs. The equity will be divested gradually with 50 percent of it remaining with the state government and the rest to be in favour of non-resident Keralites and financial institutions.

Open register for India contemplated

A proposal to start an Indian open register is learnt to be floating. An open register, as opposed to the current national register, allows more freedom, as they are not subjected to the corporate tax or the tonnage tax. They only need to comply with international regulations relating to seaworthiness, safety and ILO guidelines. However, such a move will require major change in the Merchant Shipping Act.

Juicy bits

- Following the government's decision to relax cabotage laws regarding coastal movement of ships to facilitate transportation of containers to and from JNPT, the Mumbai Port has seen a substantial increase in container traffic.
- The railways' is planning a Rs. 46,000-crore modernization plan that will have special provisions for a dedicated corridor for freight traffic.
- China's increased demand for commodities raised iron ore and coal shipping costs to the highest since February.

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New dredging policy to create opportunities

Maintenance dredging at major ports, which was a monopoly of the Dredging Corporation of India (DCI), has now been thrown open to private players. This will enable foreign companies to enter into long-term maintenance dredging contracts. It may be noted that Indian dredging companies do not have substantial presence in the market and it is likely that foreign firms will acquire business through wholly owned Indian subsidiaries.

Ship-breaking gathers pace

India is likely to witness heightened activity in the ship-breaking industry as the European Union has proposed that single-hull tankers be phased out. It is approximated that there are more than 2,250 single-hull tankers. The International Maritime Organization (IMO) is also keen on accelerating the removal of single-hull tankers. India, with a 60% share in the world ship-scraping market, is likely to exceed the current turnover in the ship-breaking business.

Ennore terminal draws response from international players

The Rs 700-crore container terminal project at Ennore has received a good response to its expression of interest (EOI) invitation. The port is expected to float a global tender within a month. The construction will be on BOT basis and the expected construction period is two years. Also, the bidder will not come under the Tariff Authority for Major Ports and will have the freedom to fix the tariffs.

Compromise suggested at Hazira Port

The shipping ministry has suggested that of the more than 20 LNG carriers that are managed by Shell, two could be brought under the Indian flag and initially chartered by a consortium of Indian Shipping Lines. There had been a deadlock as the government pursued the dual motives of attracting FDI as well as encourage domestic flags. LNG re-gasification facility is likely to be completed by the end of 2004.

Petronet LNG Ltd bid to iron out ambiguities

While the tonnage tax regime has made the Indian flag attractive, the Petronet deal has encountered a speed breaker with the tax regime stipulating a clause that makes it difficult for foreign owners to accept the Indian flag even after acquiring a 74% stake in the Special Purpose Vehicle (SPV). The SPV is required to set aside 20% of its book profit into a separate reserve account exclusively for buying ships. However, it is felt that in this case, the entity will not have any interest in acquiring additional ships and foreign ship owners are seeking clarity on the matter.

Kandla Port Trust to increase draught

Driven by the surge in traffic, the Kandla Port Trust has expressed an interest to increase its draught from the current 11.5m to 13.5m. This will help Kandla to be at par with other major ports where Handymax and Panamax vessels are handled. It is also likely to reduce freight rates and enhance economies of scale. A tender for capital dredging contract of two years and 20 million cubic metres has been floated and seven companies have been shown interest to execute the order.

Kolkata Port Trust (KPT) to acquire dredger

Kolkata Port has evinced an interest to replace one of its dredgers, two of which are due for scrapping. The mode of acquisition is now being considered. Approaching a foreign firm could achieve this but that is likely to be expensive and building a new one can take several years and the second-hand market may not meet the unique requirements. The dredgers presently deployed by them are 'Churni', Subarnarekha' and 'Mahaganga'.

Dubai Port International seeks early transfer to Vallarpadam

Dubai Port has submitted a proposal to the Cochin Port Trust (CoPT) for early migration from the existing Rajiv Gandhi Container Terminal (RGCT) to the proposed ICTT at Vallarpadam. As against the initial plans of migrating in 8 years, it intends to do so in 4 years. Amongst other features, the proposal also has a request to reduce the upfront payment of Rs 42 crore for equipment as their life has reduced.

Indian delegation seeks bilateral cooperation with Suez Canal Authority

An Indian delegation led by shipping minister TR Baalu went on a visit to Suez Canal and Panama Canal to seek help in the implementation of Sethusamudram Ship Canal Project. The Suez Canal authorities have also expressed an interest in bilateral cooperation and shown keenness in dredging, navigation aspects and ancilliary facilities at Sethusamudram. The delegation had earlier visited Gatun and Miraflores Locks of Panama Canal linking the Atlantic and Pacific Ocean.

Russian delegation offers expertise to Kolkata Port

An eight-member Russian delegation held a number of meetings with Indian officials and Inland Water Transport was identified as a key area of collaboration. It was suggested that Russia has a huge fleet of IWT vessels of various types, some of which could be suitable for Indian rivers with low draft.

Kochi and Mumbai Port to participate in Conference

Kochi and Mumbai Ports have received an invitation to participate in the Sea Trade Middle East Maritime Conference to be held in December and also the Annual Sea Trade Cruise Conference to be held in Miami, US in May. The invitation is seen as an acknowledgment of the importance of India as an emerging cruise destination.

Juicy bits

- Varun Shipping acquires its 13th ship, Maharishi Labhatreya. The LPG carrier has a cargo carrying capacity of 43,670 cbm
- EU has floated a project of 2.24m euros to prove help ship masters control their vessels if it becomes disabled.

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JNPT Terminal clocks a record high traffic in October

Congestion apart, the box terminal at JNPT recorded a high of 96,508 twenty-foot equivalent units during October, more than its neighbouring Nhava-Sheva Container Terminal. The container traffic is estimated to have grown by 6-7 percent so far this fiscal. If this trend were to be maintained then the annual growth rate for the port would be seen at 19-20 per cent as against the national average of 13-15 per cent.

LNG shipping norms eased for Shell

The Shipping Ministry is willing to ease the norms for shipping LNG by Shell. As per the relaxed norms, Shell will have to sell two of its LNG tankers to the Indian consortium of SCI, GE Shipping and Varun, which will be converted into Indian flag carriers and chartered out to Shell for bringing gas to Hazira. Shell will have the option to hold a stake in the shipping consortium. Alternatively, Shell could use the two Indian flag LNG ships for long-term deals of 10-15 years for any other contracts involving the Group. In such an event, the LNG cargo for Hazira would be shipped on foreign flag carriers under the 'principle of equivalence'.

India comes of age with freight futures contract

In a significant development, the Multi Commodity Exchange of India Ltd (MCX), in strategic collaboration with the Baltic Exchange, London, introduced freight futures contract for the first time in the country. The industry players now have a risk management tool in their hands to manage the volatility in the freight market.

ISPS Code implementation at Kochi faces steam from watchmen

The implementation of ISPS code at Kochi port has run into rough weather on account of steamer watchmen agitating against it. The Code does not allow for on-board employment for the steamer watchmen. While a few have accepted VRS, some have raised their voices against the implementation of the code. These watchmen were denied jobs following the directives from the Port Security Committee as part of ensuring compliance with the ISPS Code. Though the IMO code is mandatory, the implementation aspects needed to be attended with more caution keeping in view the national interests and the country's sovereignty.

It is Vallarpadam versus Vizhinjam in Kochi

Vizhinjam, though a minor port, is trying to grab the sheen from Vallarpadam, the more talked about project. The port has in its quiver, the advantages of a natural water depth of about 18 to 23 metres within about 3 km from the shore, negligible littoral drift necessitating minimal maintenance dredging, proximity to the international shipping route, connecting the Persian Gulf, the Far East and Australia and a greater autonomy in fixation of tariff as it would not fall under the purview of the Tariff Authority for Major Ports. Despite these advantages, however, the competition is stiff for Vizhinjam in view of attracting hinterland cargo, at attractive rates.

Gujarat Government stops sale of Sea King's stake in Pipavav port to Maersk

Sea King Infrastructure Ltd. (SKIL), the original promoter of Gujarat Pipavav Port Ltd., had sought approval from the Gujarat Maritime Board (GMB) for selling its 37 per cent equity in favour of Maersk. Maersk will acquire the management control of Pipavav Port by hiking its stake from the existing 12.5 per cent to about 45 per cent through purchase of equity from SKIL. The change of management requires approval from Gujarat maritime Board (GMB), as the original agreement

was between SKIL and GMB. The Gujarat government is demanding the settling of the dues on the OECF loan before it approves the sale of equity.

Scientific facts of Sethusamudram project to be made public

The shipping minister is keen to disclose the scientific facts of the Sethusamudram project for those interested in the marine life in the Gulf of Mannar, as the implementation of the project is seen as essential not only for the overall development of the nation but also from the national security angle. The government has also offered compensation to fishermen in case some harm was caused to their boats.

Indian trade fails to catch up with the holiday season

The huge cargo despatch from China on account of the oncoming holiday season, has occupied most of the space in the mother vessels. This leaves little room for Indian cargo. Shippers wanting to cash in on the holiday season are faced with a dilemma of trying to despatch their products to the West. The Chinese shippers also have an advantage of direct sailings to the US and European ports, while Indians need to send their cargo, through transshipment ports. Apart from the cost advantage the Chinese goods also have the locational advantage of reaching the cargo faster to the west.

Retail demand in the US pushes up textile cargo exports

The rates for container ocean freight rates to the US from India increased by \$250 a TEU (twenty-foot equivalent unit) to \$300 in the last six months. This is mainly on account of increase in the textile exports from India, owing to the demand from retailing companies in the US. The end of quote regime in the end of the year and the oncoming holiday season are seen as causes for the increase in exports.

Paradip port gets Korean attention

Posco, the Korean steel giant, is planning to meet the requirements of its proposed steel plant in Orissa in partnership with BHP-Billiton of Australia through Paradip port. Posco's request that it be allowed to participate in the port's proposed deep draught iron ore berth project to be implemented on BOT basis has put the port authorities in a fix as the last date for submitting expression of interest (Eoi) is over.

Bharti Shipyard to complete acquisition of Pinky Shipyard in two months

Pinky Shipyard has been building and repairing ships, sea going vessels and vessels for inland waterways. Financial difficulties have not allowed the company to take advantage of the boom in the industry. Bharti Shipyard will use funds from its internal accruals. Rs 2.5 crore is estimated for the acquisition and Rs 6.5 crore is estimated for acquiring the plant and equipment of Pinky Shipyard.

PSA opts out of Hazira box terminal project

As part of the concession agreement signed between the Royal Dutch Shell Group and the Gujarat Maritime Board (GMB) for developing a 2.5-million tonne per annum capacity LNG terminal, Shell is also required to set up multi-cargo handling facilities, including containers and dry cargo, at the direct berthing deep water port in Hazira to cater to the requirements of the highly industrialised South Gujarat belt. Shell had plans to rope in a private player for the

container facility. PSA had participated in the EOI and also had the due diligence done, but chose not to submit the bid.

Concessions sought by Dubai Ports International in the Vallarpadam terminal project

Dubai Ports International (DPI) has requested for certain concessions in the development of the box terminal at Vallarpadam. It has asked for deferment of 25 per cent of royalty payable to the port for eight years and paying the deferred payment starting from the beginning of the ninth year and completing in the 16th year. DPI has also requested that the payment of upfront instalments be spread over a period of eight years, after reducing it to compensate for the short period use of existing equipment at the Rajiv Gandhi Container Terminal (RGCT) and also additional berthing space and back-up area in the Q-7 berth, free of rent within three months of awarding the contract.

Juicy Bits

- Mercator Lines Ltd, has executed a Memorandum of Agreement to acquire a second-hand Suezmax tanker of about 1.50 lakh DWT. With this acquisition, the company's tonnage will cross the one million DWT mark.
- Aranda Investments (Mauritius) Pte Ltd, a wholly-owned subsidiary of Singapore-based Temasek Holdings Pte Ltd, has picked up a 10 per cent stake in Gateway Distriparks Ltd (GDL), a port-based logistics services company providing container freight station (CFS) and inland container depot (ICD) operations at gateway ports and potential hinterlands of India reducing the promoters' holding in GDL to 68 per cent.
- SCI has earned a net profit of Rs 529 crore during the first half of the current fiscal, the highest-ever half-yearly profit for SCI, and has declared an interim dividend of 40 per cent for the year.
- James Mackintosh & Co. Pvt Ltd of Mumbai has acquired Gordon Woodroffe Logistics Ltd (GWLL).
- The New Mangalore port witnessed an increase in the container cargo throughput during the period between April and October this year, from 5,617 TEUs to 3,899 TEUs in the corresponding period of previous financial year.