

# Shipping companies face a stormy future

Despite signs of stability in world trade, the global shipping industry seems to be headed for the rocks as a result of an oversupply of new ships, low shipping rates and feeble demand for goods around the world.

Lester Peteni, chairman of Marine Bulk Carriers, which ferries iron ore and coal, estimates that about 15%-20% of shipping firms are likely to go under next year. He says most “new-buildings” — new ship orders — are likely to come on stream next year at a time when world trade is still weak.

The International Monetary Fund said in a report this month that world trade, which has collapsed due to the global economic downturn, was showing signs of stabilisation. But this does not mean trade has bounced back. Too many ships may end up chasing too little cargo.

## Dire straits

“The movement of cargo is in dire straits,” Peteni says in reference to world trade.

Concerns over the expected flood of new ships are lingering and seem destined to hobble the shipping industry.

The glut of new Capesize ships — a type of cargo ship that is too large to travel through the Suez Canal — is a case in point.

The Baltic dry index, a key measure of daily shipping rates or the price of moving raw materials such as coal, has slumped over the past two months on concerns that the order for new Capesize ships will affect the earnings of shipping companies, putting their very survival under pressure.

Alan Olivier, the CEO of Grindrod, the shipping giant, says the index has improved substantially over the past few days as a large percentage of ships due to be delivered this year have not been delivered. He said: “We expect this will continue to be the case over the next 12 months.”

Olivier says that the reason for this is probably a combination of delays at shipyards and global financial pressures.

## No indication

There is no indication that the demand for commodities, particularly iron ore and coal, is fading, and he says that over the past few months the demand for commodities has been “very strong”, and that Grindrod has a strong balance sheet and good liquidity even in these turbulent times.

Raymond Chirwa, the CEO of Richards Bay Coal Terminal, the biggest single coal terminal in the world, underlines the demand for commodities by saying historically coal exports — coal that is shipped from the terminal to other parts of the world — tend to increase in the fourth quarter.

“We expect the same to happen this year,” says Chirwa, indicating that the terminal experienced a ramp-up in coal exports in the third quarter.

Apart from bulk shipping, container shipping is also under pressure. Neil Jowell, chairman of Tencor, which leases containers, says the utilisation rate has dropped a lot over the past year in the container shipping market.

He says the market has now “stabilised”, and says there is a good chance that “we are at the bottom” of the downturn.

Utilisation in the total container shipping market is down 15%-20%, Jowell says. Despite reports of recovery in the world economy, he says the container shipping companies have not felt the effects of this recovery yet.

## **Staying flat?**

Jowell says although it is difficult to predict, the container shipping market may stay flat for the next two quarters.

Safmarine seems to be cautious. Alex de Bruyn, an executive at Safmarine, says in a report posted on its website that the company does not foresee a change in capacity for the Safari service for this year.

But, he says, the decision to upgrade capacity will depend on demand and affordability.

De Bruyn says the company's seasonal import volumes on the SA-Far East service picked up during the third quarter this year, although the increase in volumes is below that experienced in 2007 and last year.

Peteni says the demand for goods is still low and it could pick up next year, but this pick-up might not be at levels sufficient to rescue shipping firms. He says Marine Bulk Carriers will weather the storm because it is backed by the Japanese company, The Sanko Steamship, which owns 30% of the local company.

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