

The week that was....

The market has tightened to a point where it may soon become critical for both sides of the chartering divide: charterers because there is no tonnage available for Spot voyages and operators because service levels are under threat as demand for tonnage far exceeds supply. With only one vessel reported prompt at the Canal for the short to medium term, and with the possibility of that unit anyway fixing into Chile, the situation will likely worsen, particularly as Argentina has now entered the picture for a 3-vessel early grape programme.

There are a number of reasons for what may become a capacity crisis: vessels positioning for what is forecast to be an early Chilean grape season; demand from banana charterers east of the Canal as well as Ecuador, where the exit price has dropped as a result of weakening demand from China and Russia, where the banana market is under severe pressure and significant stocks are being carried forward; units are being absorbed for Moroccan citrus and potatoes from N Cont, as well as fish into West Africa; several vessels are out of position in the Far East as a result of rising demand from banana charterers in the Philippines, while meat that would usually be shipped from Brazil into St Petersburg in 270'cbft units has loaded on the 587'cbft Hansa Bremen and 691'cbft Brazilian Reefer.

Meanwhile there was some daylight provided on the Moroccan citrus season this week by the Liaison Committee for Mediterranean Citrus (CLAM). According to the CLAM forecast, Morocco will ship approximately 10% less in 2014/15 than it did last season. The forecast sees Morocco shipping a total of 527K MT of citrus this season compared to the 584K MT last year and the 380K MT the year before. Although the total volume is not hugely dissimilar this year to last, the profile of exports is very different: for example the forecast is for a 111K MT fall in soft citrus to 369K MT but an increase of 49K MT to 147K MT in oranges, led by a rise in Maroc Lates. The volume of clementines shipped is tipped to fall by 123K MT!

Elsewhere the regional authorities of Rio Negro have rejected a proposal by the Argentine government for the province's apple and pear exports to be shipped in containers via the port of Buenos Aires, claiming it would increase costs and be a "death sentence" for the Rio Negro port of San Antonio Este. Approximately 60% of the province's fruit exports are currently shipped by container. The Port of San Antonio Este is 400km from the main fruit producing area of Alto Valle, while the Port of Buenos Aires is 1,200km away.

Last season Argentina's pipfruit exporters switched a significant percentage of shipments away from the specialized reefer mode, electing to ship in containers. The move coincided with a political dispute between Argentina and neighbour Uruguay, which resulted in the container lines having to drop feeder services into the Montevideo port hub. As a result an estimated 30K MT of apples and pears were at one stage stranded in the Brazilian port of Rio Grande after having missed a

connection. Exporters suffered heavy losses. It remains to be seen whether they will revert to the reefer or make the same mistake again.

Fixtures:

To illustrate how tight the market has become, Seatrade was obliged to charter in the Capella on TC in the region of 70c/cbft plus a long BB, which calculates to a three digit TCE on a round for operators Alpha Shipping as the vessel was positioned in the Caribbean. Another unusual fixture saw a Summer unit fixing 8K MT of fish from N Cont to West Africa.

Chilean charterer CSAV fixed three of a likely 5-vessel seasonal total for shipments from Chile to the USEC. The charterer fixed a Summer and a Lady from Seatrade, and the Ice Runner from Maestro. The charterer may occasionally top up from the market with Spot requirements.

There was some good news for Star Reefers, which revealed it has entered into a contract with Fresh Carriers (FCC) to charter out the Southampton and Solent Stars, which re-deliver from Banacol at the end of the year. Significantly the charters are for a 3-year period. In addition it said that Irish multinational Fyffes has exercised its option to extend the charter of four Star-First-Class vessels for an additional year from January 2015 at what it said was a profitable rate.

Bananas:

The Ecuadorian Government has increased the Minimum Reference Price payable to banana producers by US\$0.55c per box. The new price is established at US\$6.55 per box according to AEBE President Eduardo Ledesma. The new value will hasten the procurement decisions by European retailers who must decide whether to pay more for Ecuadorian fruit, which also suffers a large import duty disparity over its Dollar banana competitors, or source more fruit from Central America and Colombia.

In the first nine months of 2014 Ecuador shipped 33m boxes of bananas more than it did over the same period in 2013, according to AEBE data. Ecuador shipped a total of 222m boxes of bananas between January and the end of September, putting it on course to reach almost 300m boxes by the year-end.

In absolute terms, N Cont accounts for the largest increase with an additional 17.1m boxes. However the largest relative rise came from the Far East, which absorbed 9.2m boxes, 7m boxes more than in 2013! Ecuador has this year benefitted from a weather-related shortfall in volumes from Costa Rica and Colombia. Shipments to China reached record levels as the Asian giant firstly lost a large percentage of its own production to the Pacific typhoons and secondly could not supplement volumes from the Philippines, which is also only just starting to recover from typhoon damage sustained in 2012.

Should, as is likely, production volumes return to normal in the Pacific and east of the Panama Canal, Ecuador will likely find itself in a spot of bother, particularly

SHIPPING

SPECIALISED SHIPPING

270,000 cbft
'14 TREND '13
 93c up/flat 104c

450,000 cbft
'14 TREND '13
 70c up 48c

BUNKER PRICES (380 cSt)

	'14	'13
Gibraltar	433	604
Rotterdam	412	574
St Petersburg	290	400
Panama Canal	415	603
Fujairah	456	613
Busan	488	643

EX RATES

	'14	'13
US\$ / SAR	10.96	10.07
UK£ / SAR	17.20	16.26
€ / SAR	13.74	13.55

US\$ / €	0.80	0.74
UK£ / €	1.25	1.20

US\$ / ¥	118	100
US\$ / RUR	46.1	32.9

US\$ / NZ\$	1.27	1.21
UK£ / NZ\$	1.99	1.95
€ / NZ\$	1.59	1.62

US\$ / CLP	599	522
UK£ / CLP	941	842
€ / CLP	752	702

US\$ / ARS	8.52	6.05
UK£ / ARS	13.36	9.76
€ / ARS	10.68	8.13

if the state-determined increase in reference price encourages an increase in domestic production. There is also the danger that customers in the US and continental Europe will look more closely at switching their attention to the more cost competitive east coast of Latin America – bananas from these sources may not have the shelf life of Ecuadorian fruit but they are closer, they do not have to transit the Panama Canal and they have a tariff advantage.

Containers:

Following on from last week's article, there are a number of other conclusions that can be drawn from Drewry's projections on global trade and the market share of each mode. According to Drewry, with a 72% market share of the total global seaborne perishables business in 2013, reefer containers moved 70.95m MT of cargo. If there were 1.145m reefer containers moving reefer cargo in 2013 then each container would have moved an average of 62 MT of reefer cargo, equivalent to only 3 moves if the weight in each box is optimized.

Drewry's forecast to 2018 assumes the same cargo/capacity ratio, with a fleet of 1.45m reefer containers moving 91.5m MT. By this time the average age of the reefer fleet will be 28 years, on the assumption that there are no newbuildings and no vessels are scrapped. And it is then that the real problems will begin for stakeholders: specialized reefer capacity has been declining steadily since the beginning of the Millennium, but there will come a time, and all at once, when owners decide not to invest the necessary for ageing vessels to be able to pass their special surveys. The steady decline will turn into a sharp fall. Unless the carriers dramatically improve their efficiency there really will be a crisis.

With specialized reefers moving a disproportionate volume of reefer cargo, the loss of, say, 150 ships will have a negative multiplier impact on available capacity. Instead of the incremental 3m MT per year, the lines may suddenly find they have to shift an additional 10m MT of cargo. They would only be able to accomplish such a feat if the number of paid moves increased or significantly more equipment was to be manufactured. At 62 MT per container per year, the carriers would need to find 161,000 high cubes (323K TEU) over and above the record number of 150,000 high cube units delivered in 2011 in this scenario. The same process would then have to be repeated as another batch of vessels reached its beaching date on the one hand and to meet ever rising demand for reefer cargo on the other.

Assuming for a moment that the lines and the lessors will have the funds to make the required investment, the impact and consequences of such a relatively sudden and dramatic increase on the logistics chain for perishables will be seismic.

Reefer RoRo mk II:

Under the circumstances now is perhaps the right time to consider an updated and realistic alternative to reefer Armageddon. After listening to stakeholder comments after the presentation of Reefer RoRo mk I, Stena RoRo, Naval architects Knud Hansen and patent holder Reefer Intel went back to the drawing board and have emerged with mk II.

In particular they found that there is a large potential of RoRo back haul cargo, especially cars, trucks and general project cargo to the ports in Central America - the vessel is designed for a banana and pineapple headhaul trade from Central America to Europe with a capacity of 12,500 all high cube pallets, equivalent to 675,000 boxes and it is prepared for plastic crates. As a result the height of the four inside decks was increased to 4.5m. On the backhaul, the vessel is designed

to be used as an ordinary RoRo with a capacity of 900-1,000 vehicles.

The Reefer RoRo mk II can load containers onto the weather deck simultaneously with the loading of the cassettes. The ship has four inside decks connected by ramps, which in all can load 385 cassettes each taking 20 high cube pallets. The capacity of loaded refrigerated FFE containers on the weather deck is 285.

Loading in two ports in Central America and discharging in Antwerp plus one port, and backhaul to Central America, the ship burns an average of 42 tons HFO per day based on a speed of 15 knots, which is achievable because the Reefer RoRo spends so much less time at point of loading and discharge.

The box rate is calculated to US\$2.50 per banana box on a long-term charter. So strongly does Stena RoRo AB believe in the concept that it is reportedly ready to part or fully finance these ships, which would suit an independent liner service or banana major in equal measure.

Bunker Review:

The Bunker Review is contributed by Marine Bunker Expert www.mabux.com

Brent crude oil steadied below \$79 and WTI between \$77-78 a barrel on Wednesday as data showed Saudi Arabia increased crude exports in September despite signs of an oversupplied market, and producers appeared divided ahead of an OPEC meeting to discuss output.

All eyes are on OPEC's response to a drop in oil prices of nearly one-third in recent months, with some smaller members calling for production cuts at the November 27 meeting in Vienna. OPEC heavyweight Saudi Arabia has so far shown no indication that it will support a reduction in OPEC production. Diplomatic and market sources claim that in recent private briefings Saudi officials said that the kingdom could live for some time with current, or even lower price levels. Even OPEC veterans say they do not know how the cartel will respond to the collapse in oil prices this year.

Traders and brokers said the oil market appeared to be stabilizing after recent volatility, and many investors were staying out of the market until the outcome of next week's OPEC meeting becomes clear.

Oil prices fell on Wednesday after data from the Energy Information Administration showed U.S. crude stockpiles rose 2.6m barrels in the week ending Nov. 14 to 381.1m including a 718,000 barrel-barrel build at the Cushing oil hub.

A bill to approve TransCanada Corp.'s \$8bn Keystone XL pipeline was rejected by the Senate after years of political fighting over jobs, climate change and energy security. The project, proposed in 2008, would have the capacity to carry 830,000 barrels a day of crude and connect Alberta's oil sands to the U.S. Gulf Coast via Montana, South Dakota and Nebraska.

For the coming week expect bunkers to be in irregular trend.

