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More than 150 years of experience

More than 150 shipbrokers

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2012 will not leave a heavy mark in the history of world shipping. As expected the overabundance of ships in all sectors weighed heavily on rates and profitability, weakening in its wake several big names of shipping (OSG, Korea Line...) and shipbuilding.

This year, in a market depressed by the world economic crisis and by a slowdown in Chinese growth, the shipyards delivered more than 2,000 ships and 150m dwt. The world fleet has increased by 35% over the last four years! This growth, the last flourish of the economic euphoria preceding 2008, has not been compensated for by the volume of ships sent for scrapping, even though a historic record of nearly 55m dwt scrapped was reached. New orders were at their lowest with just 840 ships (48m dwt) ordered, slightly above the level of 2009 but still taking levels back 11 years to 2001. The joint action of these factors bodes well for a progressive return to market equilibrium within two years, but only if there is the demand.

In the meantime, market volatility, its propensity to soar or to crash at the slightest provocation, needs to be accepted and careful attention must be paid to the political situation in the Middle East, Iran and the Maghreb. Other important pointers for the development of our maritime markets are the development of the consumption curves in the USA, investment in China and unemployment in Europe.

During 2012 the USA became an energy exporter through the exploitation of its shale gas and oil resources. This represents a major upheaval for maritime traffic which none of the many energy experts had predicted; a revolution which implies consequences for the energy market, and in particular the price of fossil fuels, which are as yet difficult to define.

In 2013 the demand for oil in non-OECD countries should overtake for the first time and probably irrevocably, the demand from OECD countries. This will lead to an increase in the length of maritime routes, while the imminent opening of the new Panama Canal will considerably modify the trade and the size of ships used between the Atlantic and the Pacific.

Shipowners and charterers are finally beginning to understand that ships can be built with more efficient bunker consumption. Progress has already been made over the last ten years in the road transport and aviation industries but the maritime sector, blinded by the low transport cost per tonne, had made no effort to adapt. It has taken the increase in bunker costs coupled with lower freight rates for the market to realise that substantial savings can be made without excessive outlay due to the fall in newbuilding prices.

However, some shipowners are not convinced and think that it is not necessary to make the effort, preferring to speculate on the current low prices for second-hand ships. The old rivalry between the industrial shipowner with long term vision and the speculator shipowner with short term vision is not about to disappear but it is useful in driving the second-hand market, which despite the scarcity of bank financing, has remained very active due to a reduction in ship prices.

2012 can be, as will most probably be 2013, defined as a transitional year towards a gradually improving market, dependent on the requirements of Asian countries, dominated by dry bulk and having to adapt to the reality of the energy market.

Jean-Bernard RAOUST
Chairman of BRS
At a low ebb
Four years have passed since the beginning of the economic crisis which brought a dramatic fall in the volume of shipbuilding orders and their prices. 2012 saw an even greater fall in orders of 40% compared to the previous year and a further decrease in newbuilding prices of 5% to 10% compared to 2011.

**CLIPPER NEW YORK**
Multi-purpose cargo carrier, 17,287 dwt, delivered in February 2012 by Chinese shipyard Jiujiang Tongfang Jiangxin to Clipper Group.
THE SHIPBUILDING MARKET
IN 2012

Only 49m dwt (or about 852 ships) were ordered in 2012 compared to 89m dwt (or about 1,375 ships) in 2011. This volume is higher than the record low of 34m dwt reached in 2009 but in line with levels seen in 1993–2003 when the volume of orders fluctuated between 40 and 60m dwt per year. However, it is well below the average order levels of about 140m during the boom years of 2003–2008 and, most importantly, it is below the world newbuilding capacity level.

Deliveries dropped for the first time with about 149m dwt compared to 159m dwt in 2011 and 149m in 2010.

The world orderbook continued its decline from 358m dwt at the end of 2011 (271m gt or 5,217 ships) to 245m dwt (164m gt or 3,766 ships) at the end of 2012. These orders now represent only 17% of the world fleet in service estimated to be 1.53m dwt at the end of 2012, compared to 25% in 2011 and more importantly 53% in 2008.

China, with a 45% market share, is in first position ahead of the other shipbuilders with an orderbook of 111m dwt (67m gt) at the end of 2012 compared to 154m dwt (90m gt) at the end of 2011.

South Korea holds second place with a 29% market share and an orderbook of 70m dwt (53m gt) compared to 109m dwt (53m gt) a year earlier.

Japan has held on to the third place with an 18% market share and an orderbook of 45m dwt (28m gt) compared to 61m dwt (36m gt) in 2011.

European shipbuilders had an orderbook of 3m dwt (4.5m gt) compared to 4.6m dwt (5.5m gt) in 2011, representing no more than 1% of the market.

The rest of the world’s shipyards held a 7% market share with 17m dwt (11m gt) compared to 24m dwt (15m gt) a year earlier.

Demand levels which fell below construction capacity increased competition and lead to a fall in prices of about 5% to 10% in 2012. Shipbuilders resigned themselves to accepting orders at less than building cost in order to secure the continuity of their operations, but buyers placed greater importance on safety and gave priority to quality shipyards.

Contract cancellations continued but the volumes involved receded to about 10m dwt compared to 21m dwt in 2011. The whole industry is under pressure. Several shipyards have ceased to operate through a lack of orders. Some more shipowning companies have asked for bankruptcy protection. Many banks that have been traditionally involved in shipping have decided to hold back and to refrain from financing new acquisitions. Some, such as Société Générale, have even decided to dispose of their maritime portfolios.

HIGHLIGHTS OF THE YEAR

WESTERN FEDORA
Handymax bulk carrier, 37,452 dwt, delivered in July 2012 by South Korean Hyundai Mipo Dockyard, operated by Westlake SA, Geneva
Global economic growth declined further to 3.2% after 3.9% growth in 2011 and 5.1% growth in 2010. Trade progressed at a similar level of about 2.8%, far behind the levels of 2011 (5.9%) and 2010 (12.6%).

Dry bulk freight rates remained low. The Baltic Dry Index (BDI) was close to its all time historic low with 918 points compared to 1,548 in 2011 and 2,758 in 2010.

**THE ECONOMY, MARITIME TRADE AND FREIGHT MARKETS IN 2012**

![Image of Baltic Dry Index (BDI) since 2002](image_url)

**IMF GDP and world trade growth forecasts (%)**

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
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</tr>
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<td>Japan</td>
<td>-0.6</td>
<td>2.0</td>
<td>1.2</td>
<td>0.7</td>
</tr>
<tr>
<td>Euro area</td>
<td>1.4</td>
<td>-0.4</td>
<td>-0.2</td>
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</tr>
<tr>
<td>China</td>
<td>9.3</td>
<td>7.8</td>
<td>8.2</td>
<td>8.5</td>
</tr>
<tr>
<td>India</td>
<td>7.9</td>
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</tr>
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<td>World Trade</td>
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<td>2.8</td>
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<td>5.5</td>
</tr>
</tbody>
</table>

IMF - Jan. 2013

ONLY 49M DWT WERE ORDERED IN 2012... DELIVERIES DROPPED FOR THE FIRST TIME WITH ABOUT 149M DWT.”
The tanker sector saw a small breakthrough with an improvement in freight rates in all vessel sizes except MRs. However, earnings fell short of allowing the depreciation of investments.

Rates in the containership sector decreased as a whole compared to the previous year. The number of containerships laid up, which had gone from 11% to 2.3% of the fleet in service between 2009 and 2010, rose to 4.5% at the end of 2012.

ORDERS FOR STANDARD VESSELS IN 2012: BULK CARRIERS, TANKERS, CONTAINERSHIPS

The 37m dwt of new standard orders in 2012 compared to 72m dwt in 2011 consisted of 22m dwt of bulk carriers, 10m dwt of tankers and 5m dwt of containerships.

There was a sharp fall in orders for bulk carriers and containerships whereas, in 2011, they were more or less identical to those of 2006, the second best year of the 2003 to 2008 boom.
Tanker orders increased from 8.4m dwt to 10m dwt, although it should be remembered that in 2011 they had never been so low even when compared to 2009, a catastrophic year as everyone remembers.

The bulk carrier orderbook reached 125m dwt at the end of 2012 compared to 199m dwt at the end of 2011. The ratio of tonnage under construction to the fleet in service continued to fall reaching 18% compared to 34% a year earlier and 61% at the end of 2009. Chinese shipbuilders accounted for 55% (an increase) of the orderbook ahead of the Japanese (29%, an increase) and the Koreans, 6% (a fall).

The tanker orderbook went from 78m dwt at the end of 2011 to 59m dwt at the end of 2012 and the percentage of the fleet on order from 16% to 11% of the fleet in service. The Korean shipbuilders hold 41% of the orderbook (a fall) in joint first place with the Chinese (41%, an increase), whereas Japan (8%, a fall) is in third place. The surprise this year came from the increased orders for MRs (97 units in 2012 compared to 49 in 2011) in particular the notable Shell/Sinokor order from HMD for 20 MRs.

### PALANCA LUANDA

High heat bitumen tanker, 15,000 dwt, delivered in December 2012 by 3.MAJ Shipyard in Croatia to Wisby Tankers AB

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**Percentage of the active fleet on order by type**

- **Containership**
- **Oil Tanker**
- **Bulk**

<table>
<thead>
<tr>
<th>Year</th>
<th>% dwt of fleet on order</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>16%</td>
</tr>
<tr>
<td>2002</td>
<td>16%</td>
</tr>
<tr>
<td>2003</td>
<td>10%</td>
</tr>
<tr>
<td>2004</td>
<td>18%</td>
</tr>
<tr>
<td>2005</td>
<td>16%</td>
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<tr>
<td>2006</td>
<td>11%</td>
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<tr>
<td>2007</td>
<td>18%</td>
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<td>2008</td>
<td>16%</td>
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<td>2009</td>
<td>18%</td>
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<tr>
<td>2010</td>
<td>16%</td>
</tr>
<tr>
<td>2011</td>
<td>11%</td>
</tr>
<tr>
<td>2012</td>
<td>10%</td>
</tr>
</tbody>
</table>
THE SHIPBUILDING MARKET
IN 2012

The containership orderbook, which had increased in 2011 for the first time since 2006, receded from 51m dwt at the end of 2011 to 41m dwt at the end of 2012. Tonnage under construction by teu represented about 16% of the fleet in service. This market remains dominated by South Korea with 56% (a fall) but still far ahead of the Chinese shipyards with 33% (an increase) and the Japanese with less than 2%.

It is to be noted that the orderbook for containerships of less than 5,000 teu represented only 5.7% of the fleet, while the orderbook for containerships of more than 5,000 teu represented 26.3% of the fleet; however the two fleets in service are more or less equal in teu tonnage with 8m teu each.

Many orders were placed for specialized ships in 2012, particularly in the now healthy car carrier sector (PCTCs), a further sign that ship prices have reached a very low level.

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RHL CONSCIENTIA
Wide beam 37.30 m containership 4,620 teu delivered in February 2012 from CSSC Shangai Shipyard, operated by CCNI, leaving the port of Hong Kong.

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The container ship orderbook, which had increased in 2011 for the first time since 2006, receded from 51m dwt at the end of 2011 to 41m dwt at the end of 2012. Tonnage under construction by teu represented about 16% of the fleet in service. This market remains dominated by South Korea with 56% (a fall) but still far ahead of the Chinese shipyards with 33% (an increase) and the Japanese with less than 2%.

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Variation in Newbuilding Prices (million $)

<table>
<thead>
<tr>
<th></th>
<th>1993</th>
<th>End 2002</th>
<th>Peak 2Q 2008</th>
<th>End 2011 China</th>
<th>End 2011 South Korea</th>
<th>End 2012 China</th>
<th>End 2012 South Korea</th>
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<tbody>
<tr>
<td>Tankers</td>
<td></td>
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<tr>
<td>VLCC</td>
<td>100</td>
<td>64</td>
<td>140/155</td>
<td>90/95</td>
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<td>80/85</td>
<td>90/95</td>
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<tr>
<td>Suezmax</td>
<td>63</td>
<td>44</td>
<td>90/100</td>
<td>56/63</td>
<td>63/67</td>
<td>50/52</td>
<td>55/57</td>
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<tr>
<td>Aframax</td>
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<td>34</td>
<td>70/75</td>
<td>50/55</td>
<td>53/55</td>
<td>42/43</td>
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<td>MR Product</td>
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<td>27</td>
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<td>33/36</td>
<td>33/37</td>
<td>29/30</td>
<td>32/33</td>
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<td></td>
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<tr>
<td>Capesize (180 000 dwt)</td>
<td>48</td>
<td>36</td>
<td>90/100</td>
<td>48/49</td>
<td>52/53</td>
<td>44/46</td>
<td>48/50</td>
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<tr>
<td>Panamax (P)/Kansarmax (K)</td>
<td>29 (P)</td>
<td>21.5 (P)</td>
<td>53/60 (K)</td>
<td>29/31 (K)</td>
<td>33/34 (K)</td>
<td>26/27 (K)</td>
<td>28/29 (K)</td>
</tr>
<tr>
<td>Handymax (H)/Supramax (S)/Ultramax (U)</td>
<td>25 (H)</td>
<td>20 (S)</td>
<td>47/50 (S)</td>
<td>26/29 (U)</td>
<td>30/32 (U)</td>
<td>24/25 (U)</td>
<td>26/27 (U)</td>
</tr>
</tbody>
</table>

Handymax 45 000 dwt / Supramax 55 000 dwt / Ultramax 61 000 dwt

THE INTRODUCTION OF ENERGY EFFICIENT DESIGNS FORCING DOWN PRICES FOR THE LESS EFFICIENTLY DESIGNED SECOND-HAND SHIPS AND RESALES.

NEWBUILDING PRICES IN 2012

Sales prices in dollar terms declined throughout 2012, with the contraction ranging between 5% and 10% depending on the type, size and of course, the shipyard and the shipbuilding country.

Weak demand, competition from a bearish second hand market (see the following paragraph), re-sales at cut price, the low level of freights and the scarcity of finance all contributed to the decline. Apart from prices, all other terms of purchase (payments deferred to delivery, the requirement or not of guarantees from the buyer, richer specifications) improved in favour of the shipowners.

The introduction of energy efficient designs by shipbuilders added a new factor to the equation in 2012, forcing down prices for the less efficiently designed second hand ships and re-sales, which in turn had a knock-on effect on newbuilding prices.
The feeling at the end of 2012 was that market prices had bottomed out. Most of the shipyards that accepted orders resigned themselves to doing so at below building cost, seen as the only way to encourage new orders. This pressure forced shipbuilders with higher costs to review their commercial policies and to reduce their production or to progressively abandon the building of certain standard ships (for example bulkcarriers in South Korea).

Shipbuilders hoped to compensate part of their initial losses by the reduction in the price of steel, which went in China from about $730 per tonne in January 2012, to $640 per tonne in September 2012, and by increased competition between equipments manufacturers. However, in the last quarter, they were forced to deal with a rise in the price of steel to $700.

Aware of the possibility of shipbuilders going bankrupt, shipowners have decided not to take any risks and have avoided small or medium-sized shipyards, privately-owned and less experienced, in favour of larger and more solid establishments, sometimes privately-owned but most often state-owned, as in China. Less well-established shipyards were not able to benefit from bank support when it came to providing bank refund guarantees for the advanced payments or funding during construction, the latter being much needed given the deferred payments terms (60% to 70% of the ship’s price payable at delivery by the shipowner).
NEWBUILDING CONTRACT RENEGOTIATIONS

Shipbuilders continued to be approached throughout the year with a variety of requests from customers: cancellations, delivery deferrals, payment deferrals, contract price adjustments, conversion of contracts to other ship types, all reflecting the new market conditions and financing difficulties.

ORDER CANCELLATIONS

Uncertainty over the exact number of cancellations persists. We estimate them to number about 145 in 2012 compared to about 260 in 2011 and 750 at their peak in 2010. Most of the 2012 cancellations concerned bulk carriers with nearly 87 units cancelled compared to 23 for tankers and 10 for containerships. The number of cancellations was higher in China (57) than in South Korea (20) and Japan (12).

Since 2008 nearly 130m dwt has been cancelled: 20m in 2008, 39m in 2009, 42m in 2010, 21m dwt in 2011 and 10m dwt in 2012.

There are two main reasons for these cancellations in 2012

• When the shipbuilder was behind schedule beyond the contractual cut-off date for the buyer to cancel (alternatively price renegotiation may have taken place before or after the cancellation), an issue principally in China but some small South Korean shipyards were also confronted by this problem.

• Or, when the buyer did not manage to arrange financing and found themselves in contractual default.

SHIPBUILDING CAPACITY WORLDWIDE IS CONTRACTING RAPIDLY

70m dwt of ships were ordered on average between 2009 and 2012 compared to 180m between 2006 and 2008.

Several shipyards have already ceased operating but the most important feature of 2012 was that busy shipyards with new orders decreased in number.

This scenario was supported by the decision of shipowners and their financers to give priority to high-quality shipyards offering the best guarantees for carrying out construction contracts both in technical and financial terms.
The shipbuilding market in 2012

We expect more closures in 2013 as well as the mothballing of dry docks and the redirecting of production into other industrial activities.

Construction capacity, which had reached nearly 200m, readjusts rapidly.

Shipbuilding in China

China reinforced its position as the world's leading shipbuilder in 2012 with the largest orderbook, even if it too has followed the world orderbook trend down, from a high of 208m dwt (120m gt) at the end of 2009 to 111m dwt (67.1m gt) at the end of 2012, compared to 157m dwt (92m gt) at the end of 2011.

China's shipbuilding market share in terms of deadweight has continued to increase over the last 12 months from 44% to 45%.

Deliveries, which had been on a continual upward trend, declined for the first time in 2012 with a level of 63m dwt compared to 67m dwt in 2011. Bulk carriers continued to make up the largest component of Chinese production (47m dwt, a fall), followed by tankers (7m dwt, a fall) and containerships (2m dwt, an increase).

With slightly more than 19m dwt compared to 36m dwt in 2011, Chinese shipbuilders won nearly 39% of all orders for merchant ships in 2012. These orders were divided up for the most part between bulk carriers (10.6m dwt, a fall), tankers (3.4 dwt, an increase) and containerships (3.1m dwt, a fall).

A continuing problem for Chinese shipbuilders was cancellations. They amounted to nearly 4.5m dwt for 2012 concerning mostly bulk carriers (4m dwt).

The orderbook (111m dwt) to delivery (63m dwt) ratio of 1.7 years is very low and the situations of individual shipyards vary widely. Many shipyards did not manage to take any orders, often because they did not lower their prices sufficiently. There were big differences between quotes for the same enquiry from different shipyards in 2012. The most assertive amongst them resigned themselves to quoting below building cost. This situation repeated itself throughout the year creating a feeling of mistrust amongst shipowners for the privately-owned Chinese shipyards, considered less sound. The latter also suffered from a lack of support from Chinese banks which often refused to open lines of credit, so necessary to financing shipbuilding, or declined to provide bank refund guarantees. A real divide opened up between the shipbuilders in 2012.

TORM ARAWA

Product tanker, 49,999 dwt, delivered in January 2012 by Chinese shipyard Guangzhou SY to Torm
For the first time since July 2005, the date when the Chinese authorities decided to put an end to the fixed exchange rate of 8.28 Yuan per dollar, the Yuan’s rise stabilised in 2012 and fluctuated around the 6.30 Yuan to the dollar mark, providing some much needed respite for shipbuilders. However, the Yuan remains under-valued compared to the dollar and its rise will certainly resume in 2013.

Chinese shipyards have at their disposal substantial margins to reduce their production costs by improving quality, enabling them to avoid expensive additional works and changes and to avoid to deliver after the contractual delivery date which inevitably leads to liquidated damages and even, often, cancellations.

Chinese state-owned shipyards also benefited from the support of their domestic shipowners that now represent 42% of their orderbook. They also had the support of their banks who did not hesitate to provide their customers with financing. The Export Import Bank of China (CEXIM) gave financing to about 90 clients with a portfolio of $12bn for about 400 ships and expect to increase their investment by 20% in 2013. Chinese Banks consider that the time is right because of low asset prices and there is little competition from Western banks, which allows them to be more selective.

Several shipyards made the news. CSTC/Hudong-Zhonghua increased their presence in various specialised segments: LNG carriers, stainless steel chemical tankers and con-ro vessels. However, in general, most of the state-owned Chinese shipbuilders consciously decided to reduce orders taken in 2012 to avoid accumulating losses. The major state group from the north of China, CSIC, which owns 7 large shipyards, secured only 39 new orders in 2012.

**SHIPBUILDING IN SOUTH KOREA**

South Korea maintained its position as the second largest shipbuilder in the world during 2012, albeit with an orderbook which declined to 70m dwt (53m gt) at the end of 2012 compared to 109m dwt (78m gt) at the end of 2011. The orderbook was 170m dwt (113m gt) at the end of 2009.

The Korean shipbuilders’ market share expressed in deadweight has decreased again this year to stand at 29% compared to 31% in 2011. Deliveries are also down at 49m dwt compared to 53m dwt a year earlier.

Only 8.7m dwt of merchant vessels were ordered in 2012 compared to 31m in 2011. These orders concerned mainly oil tankers (5.1m dwt) and LNG carriers (2.1m dwt) while bulk carriers and containerships made up only 0.4m dwt each.

However, these figures are not representative of the level of activity carried out in the Korean shipyards. Korean shipbuilders have taken onboard the reduction in prices and have progressively abandoned the standard ship sector - mainly, but not exclusively, the bulk sector. The Korean market shares in the three principle merchant segments have all come down: bulk carriers from 15% to 6%, oil tankers from 50% to 41% and containerships from 65% to 56%. Korean shipbuilders have turned their attention to the production of high value-added units, such as LNG carriers, where they now hold 85% of the market share, but also offshore units such as drillships and production facilities (FPSOs and FLNGs), which guarantee them a higher turnover.

This means that orders taken by Korea in 2012 expressed in cgrt (7.5m cgrt/$30bn) were greater than those taken by China (7.1m cgrt/$15.5bn).
THE SHIPBUILDING MARKET IN 2012

The orderbook (68m dwt) to delivery (49m dwt) ratio stands at about 1.4 years. It has not been at such a low level for a very long time. But, as already indicated, this ratio does not take into account offshore orders and it also hides wide variations between the shipyards.

Korean shipbuilders have not been immune to cancellations which amounted to about 1.8m dwt. However this number is much lower than in previous years: 7m dwt in 2011, 12.7 dwt in 2010 and 15m dwt in 2009.

Korean shipyards have also decided to increase their production in China (STX, Samsung) and in Vietnam (HMD) in order to counteract their lack of competitiveness in the merchant ship sector. However, some shipowners are still prepared to pay more (about 10%) to have their ships built in Korea.

SHIPBUILDING IN JAPAN

Japan maintained its position as the third largest shipbuilder in the world despite a declining orderbook, which dropped to 45m dwt (28m gt) at the end of 2012 compared to 61m dwt (36m gt) at the end of 2011. The orderbook represented 94m dwt (56m gt) at the end of 2009.

The market share of Japanese shipbuilders expressed in deadweight remained stable at around the 18% mark.

Deliveries amounted to more than 29m dwt. The largest component was bulk carriers (23m dwt) followed by oil tankers (3.3m dwt).

Significantly, orders increased to 11.2m dwt in 2012 compared to 10m dwt in 2011, but they amounted to 17m dwt in 2010. These orders were mostly made up of bulk carriers (nearly 9m dwt).

The orderbook (45m dwt) to delivery (29m dwt) ratio is very low at 1.6 years.

Japanese shipbuilders were once again heavily penalized by the strong Yen. The average Yen/$ exchange rate was about 79 in 2012. However with the election of Mr Shinzo Abe as Prime Minister with the declared intention of freeing Japan of its high Yen so unfavourable to exports, the Yen fell to finish at 84 at the end of 2012.

Japanese shipbuilders have also suffered from the bankruptcy of several domestic shipowners, including big names such as Sanko and Daichi.

The year was marked by the merger of USC and IHI-MU to form JMU representing a further stage in the consolidation of the Japanese shipbuilding sector. This follows the merger of NKK and Hitachi in 2002 to form USC.

Japanese shipbuilders are held in high esteem by the shipping community. They have developed new, more economic designs and their clients are prepared to pay 10% to 15% more than the prices asked for by the Chinese for the same type and size of ship. However, the pressure on them is high and some shipbuilders may choose to increase their presence abroad in the future, like Oshima in Vietnam, or reduce their presence in Japan, like Tsuneishi.

SAM WOLF
Supramax bulkcarrier, 57,200 dwt, delivered in October 2012 by South Korean shipyard STX Offshore & Shipbuilding to Shipping Asset Management (SAM) S.A.

16
Japanese shipyards have also benefited from the support of their domestic shipowners who make up the largest part of their orderbook.

SHIPBUILDING IN EUROPE

The orderbook of European shipbuilders contracted once again to 3m dwt (4.5m gt) at the end of 2012 compared to 4.3m dwt (5.6m gt) at the end of 2011. It stood at 15.1m dwt (16.2m gt) at the end of 2009.

The European zone represents only 1% of the world orderbook by deadweight.

This portfolio is divided up into 2.9m gt for the West European shipyards (15 countries of which 8 currently have orders) and 1.6m gt for the East European shipyards (11 countries of which 9 currently have orders).

New orders have also decreased sharply and represented 0.25m dwt (0.8m gt) in 2012 compared to 1.4m dwt (1.7m gt) at the end of 2011.

They fell well short of deliveries, which went from 2.5m dwt (2.5m gt) to 1.6m dwt (2m gt) in 2012.

The news in Europe was marked by Fincantieri’s takeover of all the European offshore activities of STX OSV. Croatian state-owned shipbuilders are fighting for survival but they are being put under pressure by the European Union to reform. Kraljevica closed after going bankrupt in 2012, two Croatian shipbuilders (Uljanik and Trogir) were privatised and two others (3MAJ and Brodosplit) are in the process of being privatised.

SHIPBUILDING IN THE REST OF THE WORLD

In 2012, new orders reached 1.4m dwt (1.1m gt) compared to 3.2m dwt (2.4m gt) in 2011.

Deliveries increased significantly from 3.9m dwt (2.6m gt) to 7.3m dwt (4.3m gt).

The orderbook shrank from 25m dwt (15m gt) at the end of 2011 to 16.8m dwt (11m gt) at the end of 2012.

The dynamism shown by the shipbuilding industry in the Philippines comes from its two, large foreign shipyards, the Korean Hanjin H.I. Subic, and the Japanese Tsuneishi-Cebu.

Brazilian shipbuilding now employs nearly 60,000 people compared to a meagre 2,500 in the 1990s. Currently, there are about 50 shipyards of which around 20 are in the process of being built or extended. Several foreign shipbuilders (STX, Hyundai H.I., Kawasaki...) have decided to form local partnerships. Production is dominated by the domestic needs of the giant Petrobras in exploration and offshore production, as well as by the transport of the products (oil and gas).
THE SHIPBUILDING MARKET
IN 2012

THE OUTLOOK FOR 2013

Shipbuilding has now been in crisis for four years and there is no end in sight.

There are still many reasons for the crisis to continue in 2013:

• Shipbuilding overcapacity.

• Continued delivery of large numbers of ships, albeit at a lower level than in previous years, into a depressed freight market, marked by an overcapacity of transport supply. At end 2012, the world fleet had increased by 8% year-on-year and by 40% since 2008.

• Stiff competition between shipbuilders due to shipbuilding overcapacity, competition that is likely to be aggravated in 2013 by a possible exchange rate war: the Yen fell by about 20% between October 2012 and January 2013 improving Japanese competitiveness and posing a threat to their rivals.

• Difficulties encountered by shipowners in securing financing.

• A reduction in profit margins for shipbuilders and owners. Despite the reduction in sales prices, they remain high compared to the level of the charter market.

However the situation is changing:

• If, on paper, there are still a lot of shipyards, in practice, the number of active ones internationally is reducing. There are perhaps 75 left in China, 10 in Korea and 15 in Japan. Many shipyards are also voluntarily reducing the number of orders they take on.

• The large-scale and much awaited reduction in deliveries from 2013, plus the acceleration in the rate of demolition, could stabilise the world fleet.

• Greater resistance from shipbuilders not to give in to pressure from buyers. They have already been forced to agree to a reduction in prices of more than 55% since the highs of 2008. These same shipbuilders now balk at giving away further price reductions. Certain deals agreed to by the sales directors of the shipyards have subsequently been overturned by the boards of these yards.

• A possible increase in building costs in 2013 brought about by the increase in the cost of steel, which rose in China from $640 per tonne in September 2012 to $700 at the beginning of 2013.

• Greater selectiveness by shipowners when choosing a shipyard.

• A growing feeling amongst shipbuilders and shipowners that prices have reached an all-time low and that a rebound is always possible in 2014 even if they do not increase in 2013.
Then there are other more subjective factors - but isn’t economics also a question of psychology?

- Even if history doesn’t always repeat itself in exactly the same way, shipbuilding, tends to follow 5 to 8 year cycles. Are we at the end of a downward cycle?

- The percentage of the fleet under construction has fallen substantially and is now very close to that of 2002 just before the boom years of 2003 to 2008:
  - bulk carriers with 18% in 2012 compared to 10% in 2002
  - but above all oil tankers with 11% in 2012 compared to 16% in 2002
  - and containerships with 16% in 2012 compared to 16% in 2002

- The decision taken at the end of 2012 by big companies to place large orders. For example BP with 10 Aframax and 3 Suezmax from STX, Shell/Sinokor with 20 MRs from HMD, Metrostar with 10 MRs from SPP, Oldendorff with 12 new orders in 2012, Stolt-Nielsen with 5 chemical tankers with stainless steel tanks from CSTC/HZ, Fredriksen (Frontline/Golden Ocean) with 12 MRs from STENA with 8 MR’s with CSTC/GSI.

- The IMF has also forecast a slight improvement in the global economy (3.5%) in 2013. In particular the Chinese economy, after having recorded its lowest growth rate for 13 years (7.8%), could be aiming for a two figure growth rate under its new president Mr Xi Jin Ping.

### DELIVERIES IN 2013

Nearly 149m dwt in new tonnage was delivered in 2012 compared to 159m dwt in 2011, 149m in 2010, 114m in 2009 and 92m in 2008.

In principle, total deliveries in 2013 should reach 164m dwt excluding cancellations, delays and postponements which should, in our opinion, reduce the figure to around 125m dwt.

2013 will be the last year to see large numbers of deliveries, one of the consequences of the boom years of 2003-2008, because as of 2014 deliveries should fall to around the level of 65m dwt.

### DEMOLITION IN 2013

Demolition volumes increased to 57m dwt (35m gt) in 2012. Low freight rates coupled with high demolition prices ($450 per ldt at the end of 2012) and the arrival of new more economical designs should accentuate this trend. We are expecting a range of between 50m and 60m dwt.
NEW ORDERS IN 2013

The total number of orders in 2012 amounted to 49m dwt.

What will be the volume of orders in 2013?

- Some shipyards have closed or have gone bankrupt. Others can no longer take on orders due to insufficient financial support from the banks or simply because they have lost their potential clients’ confidence. Others have diversified out of building merchant ships such as HHI, DSME, and SHI in Korea. Others still avoid certain types of ships because their building cost no longer correspond to market prices, for example the Korean shipyards which abandon the building of bulkcarriers (only 6% of the market at the end of 2012 compared to 23% at the end of 2008). There has also been a realisation on the part of many shipbuilders that building capacity needs to be tailored to demand. It is interesting to note that a number of shipyards in China and Japan have decided to reduce their orders by 30% to 50%. This trend is less noticeable in Korea (HMD, STX).

- 2012 was the year of development for new, more fuel efficient designs. The world of shipping is now ringing with the words: ‘eco-design’ and ‘eco-speed’. As in all times of economic crisis, shipbuilders are looking to offer new products to their clients, not just discounts.

There have, of course, been other economic depressions in the past when shipbuilders sought to create interest amongst investors by offering new designs that played on increased deadweight, increased cargo volume and, more generally, freight space, which would provide prospective customers with additional revenue and a competitive commercial advantage. This trend was reinforced by a progressive increase in speed and, as a consequence, in fuel consumption, made necessary by industrial just in time policies and increased trade in a globalised world. During the boom years, no-one worried about fuel expenditure let alone possible savings. With bunker prices soaring since the beginning of 2005 and now fluctuating around the $600-$700 mark for HFO and $900-$1,000 for MDO coupled with lower freight rates, it is now crucial to reduce fuel costs. This is what shipbuilders are trying to offer to their customers.

For their part, shipowners are under economic pressure from charterers who are the ones paying the fuel costs ultimately. Fuel has become the major component in maritime transport costs far ahead of investment costs, operating costs (crew, insurance, maintenance) and port costs.

For example, for a Capesize ship on a spot voyage transporting iron ore between Brazil and China in January 2013 at a quoted rate of $18 per tonne, the fuel costs (including the positioning of the ship) represented about 80% of the freight received. Any savings that can be made on this major expense should allow shipowners to improve their margins compared to competitors not equipped with fuel efficient ships, and/or to offer more competitive freight rates to the end users.

Regulatory pressure in the form of the multiplication of SECA’s or the long-term objective for ships to comply with lower fuel consumption and pollution (EEDI) levels, has pushed shipbuilders and shipowners in this direction. Banks now also prefer to finance more fuel-efficient and less polluting ships.

Naval architecture has also made enormous progress. More sophisticated software, allowing to better understand complex hydrodynamic phenomena (pressure and velocity fields, cavitation and pressure pulsation...) around the hull. Engine technology has also progressed. Super long stroke engines offer lower fuel consumption over a larger power range and can also drive a larger diameter propeller at a lower speed contributing to greater propulsive efficiency.
A debate is in full swing between traditionalists and modernists. There is fierce opposition from shipowners who consider that the market does not need new ships (aren’t there already too many?) and that bunker costs can always be reduced through slow steaming. However, shipping is a very fragmented industry and many patient shipowners who avoided investing during the expensive boom years are waiting for their moment to act. The fact that the industry can offer low prices coupled with efficient fuel consumption should generate new demand and help create a more competitive fleet.

- The last few years have seen a drop in orders for oil tankers. The orderbook/fleet in service ratio is now 11%, the lowest level since 1996. This sector may well arouse new interest, as could the less than 5,000 teu containership segment (“Under-Panamax”), which represented only 5.7% of the fleet in service at the end of 2012.

- Finally, the waiting game that often accompanies times of price reductions could give way to a flurry of expectations.

In conclusion we expect the demand for new tonnage to remain weak in 2013 probably ranging between 45m and 65m dwt.

NEWBUILDING PRICES IN 2013

After four years of economic depression, sales prices in dollars have dropped by about 50% to 55% from their 2008 highs. They are now very low and below building cost for many shipbuilders. Margins for further reductions remain weak. Apart from direct subsidies to the sector (for example to encourage exports), the only other possible supports to the shipbuilders could come from a significant depreciation of the major shipbuilding countries’ currencies: Yen, Won and Yuan.

This notwithstanding, the feeling, at the end of 2012, is that market prices have now bottomed out and they should not drop any further in 2013.
Bumping along the bottom
2011 was already a difficult year for many owners, and there was to be little respite in 2012. The newbuildings kept coming and more than 280 Capesizes were delivered into an already over-tonnaged market. Rates hit a new low, with the Cape 4TC averaging just $7,694 per day for the year, less than half that recorded in 2011, and the worst result for the dry bulk market in 25 years.
Through much of the first half of 2012 it seemed 2012 might play out much like 2011. While rates in the first quarter averaged just under $7,000, and around $6,000 in the second quarter, market participants knew from the previous year that it was possible to have a poor first half followed by a strong second half. As such, there were still optimists hoping for a rebound.

However, in May we saw a distinct change in sentiment, expressed first in the FFA market where we saw prices for the Q4 contract move from the $14-15,000 range to $11-12,000. Since many participants are using paper prices as a guide for period rates, physical contracts also started to drop.

This change in sentiment seemed to emerge from the growing realization that, in the prevailing economic climate, not only was Europe underperforming but, more importantly, China was no longer firing on all cylinders.
In fact average daily crude steel production for China increased year-on-year in first half 2012 by just 0.5%, and with increased iron ore volumes out of Australia (11% y-o-y) and the addition of new supplies from West Africa, Brazilian exports came under pressure.

In fact seaborne trade of iron ore did rise in the first half of 2012. However, the rise in exports was most apparent out of Australia, where shorter tonne-mile voyages were made at the expense of longer voyage Brazilian exports. This meant that supply growth continued to outpace demand growth, with the former reaching 21% in 2012 against just 16% growth for demand.

These themes continued into the second half of the year. Despite the low rate levels experienced during the third quarter, which averaged less than $5,000 per day (compared to $17,000 in the same quarter in 2011), it was clear that many of the larger operators were positioning themselves for firmer rates in the fourth quarter.

Looking at the supply and demand fundamentals, it was clear that a small spike was due in the fourth quarter. However it quickly became apparent that sentiment was taking over, with the majority of market participants pushing for a race upwards. In the end, the fourth quarter became a self fulfilling prophecy and averaged at $13,000.

**Australia vs Brazil**

Throughout the second half of the year, we continued to see Australia outperform Brazil in terms of iron ore export growth. The former’s exports peaked at 49m tonnes in December, compared to just 44m tonnes the year before.

At the same time, Brazil continued to disappoint and in December, normally the country’s peak month, it managed exports of just 32m tonnes compared to 34m tonnes the year before. Although the increase in Australian shipments helped the market reach a peak of $18,400 in December, the drop in Brazilian tonnes reduced ton-mile demand by a factor of almost three (when compared to Australia’s additional export ton for ton). It also contributed to a looser Atlantic market which helped put a cap on the Cape Index’s upward trend.

**Bulk Fleet & Orderbook January 2013**

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**EVELYN SCHULTE**

THE DRY BULK SHIPPING MARKET IN 2012

OTHER DEVELOPMENTS

2012 saw more attention paid to vessel speeds and consumption than in previous years. Those owners who were willing to guarantee slow-steaming consumption rates were able to secure a premium compared to those who would not. This trend was also apparent in the push towards Super Eco ships in the newbuilding market.

Another notable trend in 2012 was the increase in shipowners (and disponent owners) looking seriously at long-term layup. At 31 December 2012, there were some 14 vessels in cold layup and many more in hot layup, ready to ballast to new cargoes at a few days’ notice.

Additionally, we observe that shipping piracy incidents declined significantly in 2012, reaching the lowest level since 2008 for the bulk segment. A total of 66 bulk carriers were attacked during the year, compared with 100 vessels in 2011. Overall, global figures were cut by a huge reduction in Somali piracy, though East and West Africa remain severely affected.

Finally, now that the majority of Vale’s 400,000 dwt Valemaxes have been delivered, we also note an increasingly difficult situation for those 300,000 dwt vessels trading on the spot market, which face a growing struggle to find employment.

CONCLUSION

It has been a difficult year for shipowners, and we suspect current market levels have the potential to linger for at least another two years. With the first Super Eco vessels delivering in mid 2013, the pain may even be more prolonged for those owners with vessels at the low end of the fuel efficiency range.

For 2013, we believe market rates may average slightly higher than last year but we do not yet see a quantum shift to the next level, that is to say back over the $20,000 per day mark. As a result, shipowners will be forced to be stoical and wait a while longer before enjoying a return to profitability.
THE PANAMAX MARKET

2011 was expected to be the “blackest” year for Panamax, but in the end freight levels were healthier than forecasted. On the contrary, 2012 was more exposed to the worldwide economic slowdown while owners had no choice but to face the high number of new deliveries, which conversely made freight even more attractive for charterers.

450 Panamaxes, Post-Panamaxes and Baby Capes (60,000 dwt to 120,000 dwt) were on order at the end of 2011. Counting deferred deliveries (133 vessels) and ships sent to demolition (139 vessels scrapped) the fleet increased by 367 units or 15.7% in 2012.

Generally speaking, the market was very positional with some mini squeezes here and there opening tiny windows for traders/operators who need volatility to make things happen.

In terms of freight levels, the 4TC index was divided by almost two for the second year in a row (44% in 2011), with a yearly average of $7,142 versus $14,011 for 2011 (51% drop).

The start of the year was very weak with levels close to the lowest rates ever seen. Atlantic TC rates plunged to $4,000 levels at the end of February from $15,500 in the beginning of the 2011 after a memorable five-week downward trend. This fall set up a new feature of the Panamax market: historically the Atlantic basin was paying a premium of 15-20% versus the Pacific but for nearly half of 2012 (113 days out of 249) Transatlantic round voyage rates remained below Pacific round voyage levels. The Pacific basin averaged at $7,142 against $7,557 for Transatlantic round voyage. It was a significant change that owners had to take into account as the cost of ballasting to Atlantic could not be offset by trading ships in Atlantic. This was a less complicated triangulation to achieve in 2011 when Transatlantic round voyage and Pacific round voyage averaged at $15,308 and $11,925 respectively. On the top of this, a weaker front haul trade, down by 32% from $23,780 to $16,257, did not help at all.

However it was possible to balance this gloomy picture of a fundamental tonnage oversupply with the prospects of a slow but sustainable improvement in demand. Despite fears of a major contraction in the Chinese economy or a consequent halt to growth in the steel and iron ore industries, both Chinese ore imports and global steel production reached comfortable levels well above 2011. Coal demand from Europe also rose partly due to lower coal prices but also the closure of nuclear plants. New coal fired plants in Europe may help to sustain such volumes in 2013.

The start of 2013 has been a copy of early 2012: freight levels dropped after an encouraging fourth quarter. Owners have managed to earn more than operating costs and have not dropped anchor yet and refused to trade. However the 524 vessels on order for 2013 will not contribute to a prompt and sustainable recovery, while everyone is now watching how China will manage to set new records in commodity imports, and Europe will regain its growth.

We can say one more time that we are not out of the woods yet. New market fundamentals have been set, and demand should keep rising along with supply. Charterers will benefit from this structural imbalance in 2013. A thin light at the end of the tunnel might be the forward price curve, which is in contango, that is to say, in a situation where the future price of an underlyiing (freight) is above the expected future spot price.
In spite of the difficult market conditions, Supramax and Handysize ships have done well. Average earnings were around $9,200 per day for the Supramaxes and $7,600 for Handysizes. However, these figures hide a painful reality for shipowners as once again observed rates in the Atlantic Basin were significantly higher than those in the Pacific, at about $9,900 ($16,500 in 2011) in the Atlantic compared to $7,900 ($11,300 in 2011) for Supramaxes, and about $8,600 in the Atlantic, compared to $7,000 in the Pacific, for Handysizes.

There are several reasons for this state of affairs. First of all, deliveries of new ships out of the Asian shipyards are continuing to weigh heavily on supply. What is more, Indian iron ore, which for the last 10 years has been an important element in the Supramax and Handysize market, has now virtually disappeared. Finally the economic slowdown in China resulted in smaller volumes of iron ore, coal, nickel and bauxite at the end of the second quarter, leading to the Pacific market bottoming out at around $4,000 to $5,000.

However this phenomenon was reversed in the last quarter with a strong recovery of industrial imports into China and a sustained demand in India for Indonesian coal. Indian imports of coal increased by 7% in 2012 compared to the previous year. At the same time agribulk volumes in the Atlantic stagnated. Drought in the USA, the world’s biggest agricultural exporter, took a heavy toll on maritime transport.

Rates were then set at similar levels in both basins, at around $7,500.

Deliveries are set to continue at a steady rhythm in 2013. However, there are some encouraging signs such as the historic grain harvest in South America along with slight improvements in the American and Chinese economies. 2013 should see the appearance of areas of tension and an increased volatility. Are we starting to see some light at the end of the tunnel? Probably, but the way forward remains difficult and may lead some to the brink.
THE DRY FFA MARKET

2012 saw a slight decline in traded volume compared to 2011; the total volume traded in 2012 was 928,171 lots which represent a 5% drop on the year (one lot = one day of time charter, or 1,000 tons of cargo). This decline continues a slight negative yearly trend in total volumes since 2009. There was a weekly average of 17,850 lots, a maximum figure of 30,500 lots traded in a week, and a minimum of 8,800 lots.

Quarterly volumes were higher in Q1+Q4 than that of Q2+Q3 which averaged at 19,700 and 16,500 per week respectively. Capesize volumes displayed this trend also, whilst Panamax, Supramax and Handy volumes were relatively similar across the quarters. The C4TC started the year marked at $24,000 and declined to $5,000 by end of Q1, during Q2+Q3 it ranged from $2,500 to $9,000 and in Q4 it ranged from $5,000 to $17,000. This shows once again that when the physical market moves in larger ranges and rates are distanced away from their bottoms, improved volumes and volatility are generated on the FFA market.

Freight related markets such as iron ore swaps saw an increase in trading activity and it remains debatable whether they attract more interest to the freight market or take away some of its liquidity as they include a freight component.

Online trading platforms such as BaltEx, Cleartrade Exchange and the BRS platform ArtB did not draw the liquidity they desired, with the vast majority of trades still being voice-broked. The technology is in place and functionality continues to be improved with new tools created during 2012 to further suit traders’ needs. The relatively low volume transacted on screens however demonstrates traders’ preference to fix through conventional voice-broked channels.

Since the collapse of the shipping market in 2008, state-owned Chinese companies have effectively been prevented from using derivatives. With the introduction of RMB-denominated FFAs, there is potential for the participation of these companies to increase. The first RMB-denominated FFAs were traded in December and cleared via the Shanghai Clearing House. Settlement is currently against Baltic Exchange indices converted from $ to RMB. Due to the early life of RMB-denominated FFAs, it
is difficult to predict how liquid trading will be in 2013, and whether it will have an impact on the traditional market.

The average of the Capesize 4TC in 2012 was the lowest seen since its implementation in 1999 ($7,680) and the Panamax 4TC behaved the same; naturally this was reflected on the paper market. Hopes for recovery gradually faded throughout the year as it appeared unlikely that market fundamentals would significantly change in 2013. This can be illustrated by the trend of Calendar 2013 contracts pricing throughout 2012 (see graph). The forward price for Capesize Cal13 closed the year at $9,000 and Panamax at $6,750. If this turns out to be the case, one would expect FFAs in 2013 to have similar conditions to that of 2012.
The second hand market

CAPESIZE

At the end of 2011 we were of the opinion that in view of the number of vessels still to be delivered and the lack of available funding, it was very likely that prices would further decline throughout 2012.

Indeed, tonnage supply in this segment continued to grow despite a record year for demolition with about 73 ships in excess of 100,000 dwt sent to the beaches.

In line with previous years, we take as our yardstick the value of a 172,000 dwt ship of five years, assessed each week by the broker panel of the Baltic Exchange Sale & Purchase Assessment (BSPA).

In 2012, we saw a more active market since about 60 vessels in excess of 100,000 dwt changed hands. This is compared to about 45 sales in 2011. Buyers were mainly from the Far East with South Korean and Chinese purchasers, plus some Japanese deals which were mainly refinancings or restorations of existing contracts. Greeks buyers were, as usual, also still active but to a lesser extent. 17 of these transactions related to vessels in excess of 200,000 dwt.

In early 2012, a 10 year old Capesize was worth about $27-28m and could probably fetch only about $20-21m by year end.

For the oldest units (15-20 years), prices achieved were in direct relation to scrap prices which hovered between about $495 per ldt in January and $403 per ldt by year end (on a cash basis and delivery Indian Subcontinent).

For the coming year, a slower pace of newbuilding deliveries and hopefully a sustained rhythm of demolition should contribute to a more balanced Cape market. However, a clear tonnage overcapacity will remain and demand is not forecast to boom in 2013, so we fear that second hand prices will remain weak.

This represents a fall in values of almost 18% from early January to early December 2012.

It is worth noting that by year end, the price recorded was lower than on 16 September 2003, the first time the BSPA valued a Capesize of five years old, then at $33.379m.
THE DRY BULK SHIPPING MARKET
IN 2012

There is no doubt that 2012 has been one of the worst years in the dry bulk sector since the Baltic Dry Index (BDI) started. The BDI averaged just 920 points this year. However, low charter levels have suppressed asset values making acquisitions more interesting to those who have been prudent during the booming years. The total number of dry bulk Sale and Purchase transactions has risen from 364 in 2011 to 433 in 2012, indicating an improvement of almost 16% y-o-y. Moreover, Greek shipowners have curbed their urge to contract newbuildings and have been focusing on second hand purchases. They have spent more than $2.0bn since January 2012 on bulk carriers only, placing them again at the top of the acquisition pyramid, well ahead of the Chinese.

2012 seemed to bring most players “back to basics”. The market got closer to the “supply/demand” model and away from the direct consequences of the financial meltdown. Global dry bulk seaborne trade growth was around 4.5% in 2012, substantially less than the 6% we witnessed during 2011. These figures can be partially explained not only due to the Western slowdown but also from the considerably lower GDP growth figures of key economies such as China and India (at 7.8% and 4.5% compared to a year earlier with 9.3% and 7.9% respectively).

In addition to the lethargic demand, the number of new vessels entering the market is about 3% more than those in 2011, accounting for an impressive 1,205 units and 98m dwt, about 14% of the total dry bulk fleet. In economic terms, lower global demand for raw materials combined with excessive tonnage supply lead to lower prices for charters. The average Panamax one year TC equivalent reached $9,479 per day, the Supramax $10,052 per day and the Handysize $8,717 per day, representing a decline of 64%, 40% and 40% respectively.

Furthermore, on top of the above depressing factors comes finance, which continues to be scarce for most of the players with only a few exceptions. Many traditional ship finance banks have been offloading their portfolios at serious discounts, such as Société Générale and Lloyd’s, while other “giants” like Commerzbank have pulled out of shipping completely. The few remaining banks willing to consider ship financing are asking high margins and require substantial equity, making liquidity and decision-making even more complicated. Funding is somehow shifting from the usual banks to other institutional investors/strategic partners like hedge funds, private equity or in some cases private resources. Some well known examples are Oaktree buying 50% of the Lloyd’s Banking Group’s shipping loans at a significant discount while at the same time allocating large sums to European owners for vessel acquisitions, as well as involvement by Blackstone and Tufton Oceanic.

Heading “east” namely to China, South Korea and Japan, one could obtain some funding. Cexim and the China Development Bank have somehow opened the “tap” for financing to foreign shipowners even on the second hand market. However, one should be ready to face constraints that limit the attractiveness of such solutions (quality of signature, limitation to Chinese built units, high margins etc). As of the third quarter of 2012, the amount agreed between Chinese banks and Greek owners reached about $1.3bn, a modest figure against the $60-70bn of the Greek global banking portfolio. The Korea Export and Import Bank has been offering a similar service mainly to promote its domestic industry.

In Japan, the 30% appreciation of the Yen against the dollar over the past three years, and the fact that spot charter rates have fallen below that of long term charters, made local owners unattractive to Japanese finance. In some cases, companies like Sanko and Daiichi Chuo suffered heavy losses and had to go through a serious restructuring of their debt. The effect of these defaults in the S&P market was not as large...
as initially expected. Sanko sold only seven units and Daiichi is being absorbed by MOL. Cross-border finance deals seem more attractive to Japanese financiers like NEXI and JBIC taking advantage of the current economic situation.

The good news: demolition levels have reached impressive levels reaching 572 dry bulk units (33.7m dwt) representing an increase of 30% (units) y-o-y. Concentrating on Panamax, Handy and Handysize, there were 76%, 103% and 44% more units demolished in 2012 than in 2011. These are remarkable figures definitely needed for early recovery. Demolition levels have played a major role, giving real incentives to owners to dispose of their inefficient tonnage. Towards the end of the year, demolition prices lost about 20% y-o-y with India paying about $375/ldt, Pakistan $380/ldt, Bangladesh $385/ldt and China $365/ldt. Furthermore, the strong Turkish presence at about $300/ldt, combined with high bunker prices, provided a fair alternative for tonnage trading in Mediterranean.

Comparing 2012 values with those seen in 2011 reveals the following figures:

- **Panamax-Kamsarmax (68-76,000, 80-82,000 dwt) values end 2012**
  This segment suffered the most out of the dry bulk tonnage. By the end of 2012, a Japanese Kamsarmax newbuilding with prompt delivery reached about $26.5m, losing 19.5% y-o-y. Even more impressive is the decline of Chinese newly built Kamsarmaxes which stood at $23.0m, about 35% lower than the end of 2011 value. Similarly, a five year old Panamax was worth approximately $17.0m indicating a 35% depreciation y-o-y while a 10 year old similar ship reached $12.0m, a 29% decline since the end of 2011.

- **Supramax-Ultramax (51-64,000 dwt) values end 2012**
  Supramaxes seem to have outperformed all other dry bulk segments in terms of maintaining value. In December 2012, the value of a Japanese/South Korean built Supramax was about $25.5m indicating a moderate loss of 7.3% within the year. It is important to note that towards the end of 2012 we saw some Ultramax transactions ex Chinese yards at approximately $24.0m. The value of five year old Supramax units reached about $17.5m suffering a loss of 30% y-o-y while 10 year old tonnage prices reached $14.0m, representing a discount of 12.5% since December 2011.

- **Handysize (27-38,000 dwt) values end 2012**
  On the Handysize front, the value of a quality Japanese/South Korean newly built unit reached about $21.0m signifying a 16.0% decline y-o-y. A five year old Handysize was worth about $16.5m indicating a discount of 17.5% y-o-y and a 10 year old approximately $10.5m, a drop of an impressive 38% compared to the same values at the end of 2011. At this point it is worth mentioning that there were very few transactions of smaller Handysize units (18-25,000 dwt) between newly built up to 10 years of age.

Macroeconomic indicators, market feeling and even speculation seem to pre-define another difficult year for the dry bulk sector. On the one hand all stakeholders hope for the better returns while on the other hand the distinction between strong and weak players is necessary to bring back confidence in every aspect of the industry. Certainly, a lot of difficult and thoughtful decision making is needed by owners, charterers and financiers in order to pass through the storm as smoothly as possible.
ACAMAR
Handy product tanker, 37,577 dwt, delivered in March 2011 by South Korean shipyard Hyundai Mipo to Socatra
At the end of 2011, we wrote that the prospects for 2012 appeared bleak and unfortunately, we were proved right. A general decrease in the level of freight, higher costs, the complexity of regulations, increased requirements from charterers and financial pressures just as in 2011 have contributed to making 2012 a long and difficult year for tanker owners.
A drop of more than 8% in the general indexes reflects the nature of the fourth successive bad year recorded for the oil chartering market.

<table>
<thead>
<tr>
<th>Index Description</th>
<th>2012</th>
<th>2011</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baltic Index Dirty</td>
<td>719.51</td>
<td>782.37</td>
<td>-8%</td>
</tr>
<tr>
<td>Baltic Index Clean</td>
<td>641.28</td>
<td>719.51</td>
<td>-8.9%</td>
</tr>
</tbody>
</table>

In these circumstances more than one tanker owner has seen his situation worsen. For some of them this has had fatal consequences.

In 2012 the watchword for tanker owners was, therefore, “savings”.

In addition to decreasing bunker bills by slow steaming, owners have also striven to limit their operating costs, slop discharging, agency fees and crew management. Unfortunately, it is also possible that, despite a high level of pressure from charterers for the maintenance of an acceptable level of technical quality, inconspicuous savings have been made in the technical maintenance of the ships which will have serious consequences in the future for security.

According to the I.E.A, even if, underpinned by the strong economies of the Far East zone, the demand for oil and oil products were to increase in 2013 by about 800,000 bbls/day, the weak economies of the Atlantic zone and the addition of 240 ships of all sizes to the fleet (+5.7% of the existing fleet) leave tanker owners with very little hope of an improvement in the level of short or even medium term charters.

However, it is possible that the overall shape of oil transportation is set to change:
- The USA, the heaviest fossil fuel user in the world, which imports 20% of its oil and gas needs, plans to be energy self-sufficient before 2020.
- The refinery business is moving from the West to the East with the closure of American and European refineries and the growth of Indian, Chinese and Middle Eastern refineries.
- The opening of Arctic routes (North West and North East passages), the widening of the Panama Canal and the opening of it to Suezmaxes planned for 2015 will provide new opportunities for tanker owners.

Some of these factors could have a positive effect on the demand for oil transport and in particular on oil product transporters.

### VLCC

The VLCC market has, once again, suffered the most from the general economic situation. Average daily rates over the year were $14,800 (compared to $10,700 in 2011). This just covered operating costs (OPEX), estimated at $11-12,000, but not the return on investment for new ships (some of which were ordered for more than $150m in 2008).

Looking at the development curves for freight traffic over the year the resemblance between 2011 and 2012 is remarkable with a peak in the first quarter, due to Chinese New Year, and a drop at the beginning of the second which continued for the rest of the year with the exception of a short-lived second peak in November. This can be explained by a similar economic context for both years, depressed economic conditions and a surplus of available tonnage.

The “heart” of the VLCC market, the Persian Gulf, has been as active as in 2011 with a monthly mean of 129 spot cargoes, a (slight) increase on the previous year. However the total number of cargoes from this zone (SPOT+COA+ships controlled by oil companies) has decreased slightly (-1.5%) whereas the total number of VLCC departures in all zones has increased by as much, testifying to the diversity of the Chinese market’s supply sources.

At the same time the available fleet has continued to increase in number (a further 63 new ships in 2011 added to the 48 new ships delivered in 2012) despite the scrapping of 18 old ships and the reconversion to FPSO of six others. In addition, if Chinese imports have continued to increase they
have often been dealt with by Chinese ships. The Chinese government’s political will to control oil transport logistics can only exacerbate this trend. The fact that China is tending to diversify its supply sources to West Africa and the Caribbean (Venezuela) has brought about an increase in tonne miles and on the laden/ballast ratio and also an increase in shipowners’s daily returns, in return it has lowered the general level of freight in particular for MEG/WEST voyages.

The decline in freight rates has encouraged shipowners to drastically reduce their operating costs, in particular bunker consumption. The slow steaming trend already noticed in 2011 has grown in 2012: most voyages now take place at 13 (even 12) knots in ballast.

One of the (rare) reasons for shipowners to feel some satisfaction has been the visible increase in traffic out of the Caribbean (and less noticeably out of the North Sea and Mainland Europe) to the Far East, bringing with it the possibility of triangulation (Arabian Gulf/USG/China) minimizing ballast time. Competition from smaller sized ships (Suezmax) is yet to be felt on these routes, although by the second half of 2015 the development and effective commercial exploitation of the Panama Canal could well change this situation.

**What is the outlook for 2013?**

The fleet in service as of 31st December 2012 consists of 614 ships. 48 new ships were delivered this year (compared to 63 in 2011); 49 (+8% of the fleet) should be delivered in 2013.

The world demand for crude oil should reach 89.8 mb/day for 2012 (89 mb/day in 2011) and an estimation of 90.6 mb/day is expected for 2013, an increase of 0.9%...

The surplus in tonnage availability compared to demand should continue to increase which, despite the maintenance of a good level of activity in the Far East zone and the China/India block in particular, will contribute to a difficult year for VLCC shipowners. Two consecutive years of tough economic times have already damaged the financial situation of the latter and a third could prove fatal for some of them.

More than ever this coming year only a willingness on the part of shipowners to send their oldest ships for scrapping or, as Maersk has done, to lay up some ships, could alleviate this situation.

Sea “very rough to high” could sum up this coming year but fearless and sound ships have always managed to sail through!
SUEZMAX

Inconsistent demand and increased competition from recently delivered ships have weighed heavily on rates, while regulation constraint costs, bunker costs and operating costs have increased to a point where they endanger the financial survival of shipowners.

The structure of American oil imports has continued to evolve as America’s energy policy now consists of giving preferential treatment to resources out of nearby and politically stable areas such as Canada and the US Gulf, at the expense of politically unstable areas such as the Middle East, Africa or South America.

For Suezmax tankers, the consequences of the above were a shortening of routes, that is a reduction in WAF/USG voyages and a corresponding increase in WAF/Europe voyages. As a direct consequence tonnage supply has increased in Southern Europe and freight rates have decreased for voyages out of the Mediterranean and the Black Sea.

Furthermore, although the BITR TD5 (Bonny Philadelphia) rate remains the reference, the reality of the market (and of the yields) tends towards the WAF/Europe voyage becoming the new reference.

THE IMBALANCE BETWEEN TONNAGE SUPPLY AND DEMAND WILL WIDEN FOR THIS SEGMENT OF THE TANKER FLEET AS WITH THE VLCC SEGMENT.”

SUEZMAX tanker freight rates

Average earnings

SPEED: 14 KTS

SPEED: 13 KTS

Sidi Kerir/Fost - TCE

Forcados/Texas City - TCE
At the same time the number of cargoes of crude and fuel oil to the Far East increased due to the growth in Chinese and Indian crude imports and a favorable fuel oil trading position.

However, on the whole, average daily rates have slightly increased compared to those recorded in 2011:

<table>
<thead>
<tr>
<th>$/day</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>WAF/USG</td>
<td>13,700</td>
<td>8,500</td>
</tr>
<tr>
<td>WAF/CONT</td>
<td>16,750</td>
<td>11,900</td>
</tr>
<tr>
<td>X MED</td>
<td>15,500</td>
<td>13,700</td>
</tr>
</tbody>
</table>

Those who have been more successful than in previous years in stringing together voyages in ballast have made daily returns of $16,500-17,500.

As usual seasonality has been relatively marked. The market reached a high at the beginning of the year (more than $45,000/day in January, then fell steadily during the summer to reach a low in September (-$3,500/day).

The size of the fleet grew by 5% (45 ships were delivered for 21 ships scrapped) and with 46 new units expected to be delivered in 2013 the imbalance between tonnage supply and demand will widen for this segment of the tanker fleet as with the VLCC segment.

The outlook for 2013 is therefore not looking hopeful.
2012 has generally been quite a gloomy year even if daily returns have not been on average as bad as those in 2011.

Activity in the Europe/Atlantic zone has been middling and rates have remained stable at a low level. Shipowners have striven to keep their ships employed at whatever cost. Some of the more audacious amongst them have, however, managed to beat the market by carrying out long voyages and by gambling on finding return trips often at discounted rates.

In the MED/Black Sea zone the market was quite volatile during the first quarter but from mid July rates fell and did not recover until mid December.

In Northern Europe developments were comparable but weather conditions at the beginning of the year did not help shipowners and average daily returns were lower by 15-20% than those in 2011.

East of Suez the market was slow to take off but demand was greater from the second quarter reaching an unexpected peak at the end of the summer when supply in the Middle East fell back and the Far East market, which was very well balanced, could not offer an alternative to charterers. However, the overall trend for the year was negative. For the benchmark route 80,000 tonnes MEG/Far East, rates changed from ws110 at the beginning of the year, to ws90 in July before climbing to a peak of ws115 in September and then finishing the year at ws95. In total indexed daily returns reached about $10,000/day, a progression of 20% compared to the very low rates of 2011 and the use of triangulation has sometimes allowed shipowners to reach $12-13,000 per day.

AFRAMAX

THE OVERALL TREND FOR THE YEAR WAS NEGATIVE.”
The second hand market for crude tankers

“Any sufficiently advanced technology is indistinguishable from magic”. This is a quote from Sir Arthur Charles Clarke. He is the author of the science fiction novel “2001: A Space Odyssey” but was also among the fathers of the radar defence system used by the RAF during WWII and also developed the concept of “geostationary satellites” for telecommunications which all seafarers use today. In 2012, tanker owners had to question themselves as to whether new “ecotype” vessel features and advertised economies are due to advanced technology or are simply designers’ fantasy or magic. It is fair to say that as from 2012 all buyers of tanker second hand tonnage paid attention to both vessels’ consumption/fuel efficiency and also vessels’ ability to meet forthcoming new regulations. GHG (Green House Gases), NOx (Nitrogen Oxides), SOx (Sulphur Oxides), EGR (Exhaust Gas Recirculation), SCR (Selective Catalyst Reduction), SECA (Sulphur Emission Control Area), BWTS (Ballast Water Treatment System), EVDI (Existing Vessel Design Index) all became issues that responsible tanker owners must understand.

The poor performance of the European and American economies took their toll again on the tanker market and a lesser growth in China and other Far Eastern countries continued to reduce tankers’ earning capacity. The disappearance of shipping banks, a continuous threat from China to oversupply the tanker fleet with massive new orders, relatively moderate scrapping, additional deliveries, a stable average haul of crude transport and poor time charter rates proposed for long period impacted negatively on crude carrier prices. Values from 01/01/2012 to 31/12/2012 decreased as they did last year, but in a more erratic way across the spectrum as shown below. While VLCC owners were the hardest hit in 2011, it is clear that Aframax owners suffered the most this year. A number of forced sales in this segment could explain the phenomenon.

<table>
<thead>
<tr>
<th></th>
<th>Resale</th>
<th>5 years old</th>
<th>10 years old</th>
<th>15 years old</th>
</tr>
</thead>
<tbody>
<tr>
<td>VLCC</td>
<td>(-) 6%</td>
<td>(-) 10%</td>
<td>(-) 3%</td>
<td>(-) 2%</td>
</tr>
<tr>
<td>Suezmax</td>
<td>(-) 11%</td>
<td>(-) 6%</td>
<td>(-) 19%</td>
<td>(-) 24%</td>
</tr>
<tr>
<td>Aframax</td>
<td>(-) 26%</td>
<td>(-) 23%</td>
<td>(-) 17%</td>
<td>(-) 25%</td>
</tr>
<tr>
<td>Panamax</td>
<td>(-) 15%</td>
<td>(-) 17%</td>
<td>(-) 12%</td>
<td>(-) 1%</td>
</tr>
</tbody>
</table>

The 2012 S&P activity for tankers slightly increased compared to 2011 with 170 units changing hands as opposed to 158 last year (193 in 2010). This figure includes tankers from VLCC to Panamax but excludes OBOs. Among those 170 units, 77 tankers were sold for scrap and the respective number per category appears in the scrap and the respective number per category appears in the below table also showing the last three years’ results.

<table>
<thead>
<tr>
<th>Units scrapped per year</th>
<th>VLCC</th>
<th>Suezmax</th>
<th>Aframax</th>
<th>Panamax</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>16</td>
<td>13</td>
<td>19</td>
<td>22</td>
<td>70</td>
</tr>
<tr>
<td>2011</td>
<td>8</td>
<td>11</td>
<td>25</td>
<td>6</td>
<td>50</td>
</tr>
<tr>
<td>2012</td>
<td>18</td>
<td>21</td>
<td>27</td>
<td>17</td>
<td>83</td>
</tr>
</tbody>
</table>
THE TANKER MARKET
IN 2012

"WE EXPECT THE PRICES TO STOP DECLINING IN THE LATER PART OF 2013."

VLCC SECOND HAND MARKET

44 units changed hands this year including 18 sold for scrap. There were no single hull ships sold for conversion, showing now that offshore buyers must switch focus to double hull units. Clients of Sinokor were the only buyers of a modern ship in the early days of 2012 (purchasing the Elektra Glory built 2009 for around $79m) evidencing the total lack of interest among buyers in securing expensive tonnage in a loss-making market. Activity was focused on 1990s built vessels and Libra Shipping SA caught the market’s attention by purchasing no fewer than eight VLCCs mainly for storage purposes, including the Ti Guardian 290,927 dwt built 1993 for about $18m.

We saw 48 VLCCs entering the fleet this year (while we expected in theory 67 of them). The orderbook includes 79 vessels and 49 ships should hit the water in 2013.

SUEZMAX SECOND HAND MARKET

Suezmax deals have been extremely rare as we could only count nine units sold for further trading and 21 for demolition. Most of the trading deals were motivated by the Hellespont bankruptcy and it appeared that Dynacom and Polembros were invited to take over this fleet through a purchase process. Apart from the sale in early 2012 of the modern vessel Monte Granada built in 2004, it seems all vessels sold were again built in the 1990s. Owners of the Knock Sheen 160,000 dwt built 1998 succeeded in obtaining a reported price of $20m from Far Eastern buyers for conversion.

Although at the end of last year we were expecting 63 units delivered in 2012, we saw only 45 of them hit the water. Next year, we should see another 46 vessels being delivered while the total orderbook represents 72 ships.

AFRAMAX AND PANAMAX SECOND HAND MARKET

54 Aframaxes were sold this year among which 27 for scrap and 33 for further trading. 15 out of the 33 were less than 10 years old which can be explained by the severe price decrease that this category went through during the year. The few cash rich owners were prompted to lay their hands on low priced modern units such as the Arctic Galaxy and Libyan Galaxy both built in 2008 and purchased for $33m each. The vessels built in the 1990s were also numerous and one may remember the en bloc sale to Sinokor of four sisters of Halla, 105,000 dwt built in 1998, for a total price of $42m.

The Aframax fleet (LR2 included) saw an extra 45 units delivered in 2012 against a foreseen number established at 59 at the end of 2011. As of December 2012, the orderbook includes 59 units and 26 of them should start trading in 2013.

The S&P activity for Panamax tankers has been very limited and the price gap between sellers and buyers was just too big to overcome. In total 27 units were sold this year including 17 for demolition. The major actor in this segment has been Prime Marine Management which purchased the Rio Lillehammer and Rio Luxembourg of 75,300 dwt both built in 2011 at Hyundai Heavy for a price of $29m each. Out of the 10 ships sold for further trading, only two of them were older than six years of age such as the Kirsten built in 1988 and sold for $8m.

While 17 units were demolished, we only saw 14 vessels entering the fleet in 2012 against an anticipated number of 23 units at 1st January 2012. As of the end of 2012, we have an orderbook of 56 ships and expect 23 of them in 2013.
OBO SECOND HAND MARKET

Another year with almost no transactions. Frontline has apparently been the only successful seller at the end of 2012 when disposing of both the Front Guider and the Front Viewer of 170,000 dwt, built respectively in 1991 and 1992 at Daewoo for a price circa $9m each.

2012 saw no entry and no new orders. The orderbook is still void but 17 units were sold for scrap. It would not be surprising if some newbuilding activity is seen in the next months for this segment.

TOMORROW’S MARKET

Once again we will not dare to say that we have a clear vision of both the values and volumes that we shall see next, but we expect the volume of transactions to increase and the prices to stop declining in the later part of 2013. Little by little, older units are sold for scrap and no doubt this trend will continue. Owners of Panamax tankers to VLCCs built in 1998 (there are 67 of them in total) will decide to pass their third S/S or scrap in 2013 and scrapping should be favored as earnings are due to remain low in the first part of the year.

The questions that owners will have to consider next year will be multiple as usual but to prepare themselves for the medium and longer term they will no doubt seek to consider the following topics:

- Panama Canal dimensions change and its impact on the crude oil trade.
- Evolution of the barter deals between Venezuela and China.
- Whether or not world oil demand growth is likely to surpass 1.5% per year as from 2013 already.
- Chinese governmental policy on favoring national flag vessels and/or Chinese built tonnage and/or Chinese owned vessels.
- The possible entrance of private equity investors into the market to offset the lack of traditional shipping bank financing (Will they take the pollution risk?).
- Real output but also real depletion rates observed for shale oil gas fields in the USA.
The Product Tanker Market

LR2

The LR2 market benefitted from traders’ and charterers’ fixation with an increase in the batch sizes of transported products. The limited number of ships of this size and the possibility of finding, at least occasionally, freight for the return trip, allowed shipowners to make daily returns of about $16-17,000/day, a year-on-year increase of nearly 20%.

Not only have the traditional markets for this type of ship, Jet MEG/West and Naphtha MEG/East been active but the LR2s were often used for voyages between MEG/East Africa, implying long waiting times. The market was attractive enough for 20 ships, which usually work with crude oil, to be cleaned without having any significant impact on rates.

These favourable market conditions, which should be reinforced by the opening of new refineries in the Middle and Far East zone and the resulting increase in product exports to the Europe/Atlantic zone, explain the confidence that investors have in this segment of the product tanker fleet and the number of shipbuilding projects.

LR1

A good level of activity recorded in the third quarter, good results in the fuel market and a change in strategy from the traders east of Suez, enabled LR shipowners to secure slightly higher average daily returns to those of 2011.

Both east and west of Suez, traders strove to use LR1s instead of MR2s in order to optimise costs per transported tonne. The preferred choice of Naphtha cargoes Europe-USAC/East of Suez enabled shipowners to find freight for the return trips to MEG.

However, the average daily return for these ships was similar to that of 2011, at around $12,000, except for the ships working with fuel oil where the return was closer to $15,000/day.

MR2 (41-54,999 dwt)/
MR1-HANDY (32-40,999 dwt)

MR2 owners have had an even more difficult year than in 2011. In the Atlantic zone, the reduction in petrol transports out of Europe to the USA, formerly a market driver (TC2 index), has not been compensated for by cargoes between USA/Europe, Europe/WAF nor by an increase in voyages out of South America or Brazil to the USA.

Competition from LR1s and the risk of piracy dissuaded many MR2 owners from trying the more lucrative West African market. Finally bad weather conditions caused Argentine diesel imports to drop dramatically from the month of August. As a result the daily returns based on the TC2 index were poor and even temporarily negative during the summer.

The ships working east of Suez (60% of the fleet) have benefitted from a good level of activity in the zone, even though competition from the larger sized ships (LR1/LR2) and deliveries of new ships exerted pressure on the rates during most of the year. The level of activity increased during the last months which encouraged some owners to seek out voyages enabling them to reposition part of their fleet (in total more than 60 ships) east of Suez in order to make the most of daily returns higher by $2-3,000 to those of the Atlantic zone.

MR1 owners have felt a breath of hope because results were better than in 2011. Daily returns were about $12,800/day, a progression of $1,000/day compared to last year despite fierce competition from MR2s.

Nearly 75% of available ships were employed in transporting refined products but the percentage of the fleet employed in transporting fuel oil secured better results. Unfortunately, this niche market is gradually disappearing as greater and greater quantities of fuel oil are being transported by VLCC and Suezmax to the Far East.

Northern Europe, the Mediterranean and the Atlantic basin remained the main operating zones for MR1s. 82% of the available fleet is deployed there as east of Suez prefers MR2s with their larger capacity and which, in comparison to the west of Suez, are less penalised by port costs.

The MR1 fleet contains about 560 ships of which 9% are more than 20 years old. Five ships were delivered in 2012 and only four will be in 2013.

The MR1 fleet should therefore decrease over the next few years. If the demand for product transport increases in 2013 as many expect, competition with MR2s will diminish and MR1 yields should increase appreciably as the demand for this type of vessel could frequently exceed available supply.
Palm Oils
(Indonesia and Malaysia to Europe and the USA)

The number of MR1s and MR2s utilized on this trade went up 12%: about 190 spot voyages were concluded, up from about 170 in 2011.

“Only” 31 newbuildings (28 MR2s + 3 MR1s) were fixed with palm oil for their first trip; a reduced number compared to the 41 maiden voyages recorded in 2011 and 54 in 2010.

At the end of 2011, the 2012 orderbook for IMO II/III MR2s in Asia consisted of 56 units. The actual number of ships delivered was only 34 units; this difference being due to several cancellations and postponed orders.

At time of writing, the orderbook of IMO II/III MR2s for 2013 consists of about 85 units, most of which supposed to have an eco design and electronic engine.

The average daily returns for MR2 tankers carrying palm oils averaged close to $17,750 per day for spot voyages in 2012, reaching the low $20,000s at the end of the year.

Soya and sunflower oils + biodiesel
(Argentina/Brazil to China/India/Europe/Caribbean)

Vegoil exports decreased again this year by 10% compared to 2011 to reach about 4.9m tonnes in 2012.

For the first time ever, the volumes of biodiesel exported from Argentina reduced compared to previous year (slight decrease of 6%) reaching a total of 1.6m tonnes. Same as 2011, about 90% of the exports went to Europe.

The main destination for the vegoils was again Asia, with about 55% of the total exported. India remained the leading importer with about 900,000 tonnes; China was just behind.

Close to 100 MR1s and MR2s were fixed from South America to Asia (Iran/China range).

The new Chinese regulation (banning cpp as last cargo for import of vegoils), is likely to have an effect on the volumes exported to China, and therefore on the availability of “fosfa” tonnage for the palm oils going to Europe.

Rates from Argentina to India were between $45 and $57/tonne over the year, producing daily returns of around $10,500 per day for the MRs open in South America.
2012 marked the end of a long period of resistance from the prices of MR2s (41,000-54,999 dwt) and MR1s (32,000-40,999 dwt). The segment joined the ranks of those other sectors showing a sharp downward trend.

The price for a five year old MR2 decreased from about $25.5m to $21m (-17%) over the financial year with volumes on the increase (80 sales).

The main reason for this fall in prices was declining freight rates. For MR2s, rates have dropped by a yearly average of about $1,200/day compared to 2011 levels, falling to $12,500/day (based on a one year time charter) as a result of direct competition from LR1s. The difference between them and MR1s has shrunk to almost nothing as the latter earned $12,000/day on the same basis.

As foreseen in our previous review, second hand prices have also been affected by the newbuilding market, as well as the pressure on rates and the scarcity of financing.

Even though the drop in order prices has been relatively modest (less than 10% in nominal terms) due to the sector being protected by the comparatively limited supply of approved shipyards (GSI, Onomichi and four South Korean builders), the change came from payment terms (70% at delivery) and also from the competitive advantage of new fuel efficient designs (up to 10 tonnes/day saved compared to MR2s delivered in 2011). This “quality effect” has encouraged some shipowners to order new ships rather than buying second hand ones but, above all, it has forced sellers to adjust their prices.

The temptation is great for the big names (oil majors, traders, shipowners capable of structuring IPOs) to rush into ordering large numbers of eco-type ships with the incentive of lower prices and reduced consumption, resulting in a real competitive advantage.

The volume of MR demolitions is falling: only 11 MR2s (less than a tenth of the orderbook) were demolished compared to 10 MR1s (a figure close to the orderbook for this segment). In fact demolition suffered from the strength of the second hand market: many operators, in particular the Nigerians, have boosted the second hand market for 15 to 20 year old ships, either by purchasing them directly or via Greek buyers to whom they offer a reliable employment.

In 2013 an eye should be kept on the MR1 market which has not yet been affected by the rush towards fuel efficient ships. This appears contradictory when the structure of tonnage on offer is studied. The orderbook is abnormally low (3% compared to 15% for the MR2s) while 17% of the fleet is more than 15 years old (12% for MR2s). Admittedly, a not inconsiderable proportion (but obviously very difficult to estimate) of MR1s will be replaced by MR2s in line with the long term trend for increases in the average size of ships, but that being said, MR1s correspond to a relatively well identified demand (Atlantic/Med/Northern Europe). 2013 should therefore see a significant increase in MR1 orders which should not have a noticeable impact on their second-hand prices.

The key to the MR2 market in 2013 lies in the rhythm and extent of refinery closures (Europe, USA, Australia) which should be sufficient to soak up part of the current and future overcapacity by increasing the demand for ton miles, as illustrated by the heating up of the rates in December. Several years will be necessary before we can start talking about a two tier market as a result of the new MR2 designs: eco-ships (arbitrarily defined here as those burning less than 25 tonnes of HFO at 13.5 knots (laden) should not represent more than 60 units in 2013 and 15% of the fleet in service at the beginning of 2015. These figures need to be reconciled to the weak medium term demolition potential: ships that are more than 20 years old account for only 5% of the fleet in service (9% for MR1s). Paradoxically, after many years of speculative ordering, we are now entering a time where more considered and innovative reasons are taking over, only to arrive at the same results as before: adding capacity to overcapacity. One must hope that MR2 owners have not finally found the right reason to take the wrong decision!
Like previous year, charterers preferred either short periods aligned to the spot market or specified rates connected to the market. Their tactic was to wait for the ideal moment to take advantage of the times when shipowners were forced by their banks to find short term coverage.

Overall the number of time charters fixed was 10 to 15% higher than in 2011 and involved longer time periods, but shipowners were forced to accept noticeably lower rates than those of last year.

In the short term rates should remain more or less stable. The preference for product tankers should become more marked as the year progresses. The charterers’ fixation for fuel efficient consumption ships should bring about an increase in rates when the first ships of this type arrive on the market.

The major players (oil companies and traders) are starting to look at long term charters in the belief that the price of newbuildings has reached a low and that with their backing shipowners will find funding to be able to offer competitive long term rates.

Therefore the market should be more buoyant in 2013.

### PERIOD ACTIVITY

<table>
<thead>
<tr>
<th>Ship category</th>
<th>Time period</th>
<th>2012</th>
<th>2012 vs 2011</th>
<th>Beginning of 2013</th>
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<tr>
<td>VLCC</td>
<td>12 months</td>
<td>$19,000/day</td>
<td>-24%</td>
<td>$20,000/day</td>
</tr>
<tr>
<td></td>
<td>36 months</td>
<td>$24,000/day</td>
<td>-22%</td>
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<tr>
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<td></td>
<td>36 months</td>
<td>$20,000/day</td>
<td>-13%</td>
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<tr>
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<td>-14%</td>
<td>$13,500/day</td>
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<td></td>
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<tr>
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<td>-12%</td>
<td>$14,000/day</td>
</tr>
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<td>1.88%</td>
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</table>
Improvement in sight
Hopes of an improvement in demand for chemical carriers as a result of the good levels achieved in the last quarter of 2011 were dashed. The demand for this type of ship relies for the most part on world industrial production but also on the resumption of economic growth, growth which has not taken place either in the USA or especially in Europe. As a result, for long voyages and cabotage zones, contract volumes and spot demands have regularly gone down over the course of the year. Freight rates were under pressure and frequently reached the same low as in the summer of 2011.
Shipowners once again suffered, in particular Dorval which went bankrupt, BLT which asked the courts for limited protection before bankruptcy and Eitzen which obtained a financial restructuring from the banks. Nordic Tankers was taken over by the Triton investment fund which had already bought Herning Shipping the year before. With the addition of these two fleets (120 ships and 1.4m dwt) Triton has become the third biggest chemical carrier shipowner in terms of deadweight tonnage and the biggest in terms of ship numbers.

EUROPEAN CABOTAGE

Internal European trade is mainly covered by contracts of affreightment (COA) at varying levels of 30% to 90% of the ships’ utilization. In 2012 COAs were renewed with small increases due to a firmer spot market at the end of 2011. Although this increase fell short of covering shipowners’ fixed costs, it seemed to indicate a positive trend for the near future.

Unfortunately, on all the European routes, the spot market weakened and freight rates started to decrease from the second quarter. As a result many ships were regularly waiting for cargoes. From then on rates remained on a steady downward trend with only the fluctuations in bunker costs having an impact on them. With no improvement in economic growth, tonnage overcapacity is still relevant, pushing shipowners into joining pools or into placing their ships on time charters with operators. Other shipowners, who have ships that do not comply with the quality standards required by chemical product charterers, have changed trading zones or have focused on less sophisticated cargoes such as certain vegetable oils, liquid fertilizers or offshore bunkers.

LONGHAUL TRADES

In line with developments in cabotage traffic, freight levels at the end of 2011 suffered from the downturn in demand for longhaul trades. Freight rates out of Europe to Asia had increased by 40% at the end of the year but by the second quarter of 2012 demand was muted and freight rates were on a downward trend. There was a slight revival at the end of the year when a 5,000 tonne parcel of chemical products was fixed at $95 per tonne. The drop was also quite important between the USA and the Far East with a low of $55 per tonne during the summer and then a similar revival at the end of the year at $70 per tonne for 5,000 tonnes between Houston and Japan/Korea. Freight rates were quite stable from Europe to the USA, whereas in the opposite direction out of the USA, freight rates fell inexorably due to a lack of consumption in Europe. At the end of the year, freight rate curves across the two Atlantic routes crossed over before finally settling at the $40-$45 level for 10,000 tonnes of cargo and at $60 per tonne for 2,000 tonne parcels of chemical products.

At the end of the year when some COAs were up for negotiation, shipowners asked for quite substantial increases in the belief it was time to be more forceful in order to increase freight rates. The results were not convincing as with a sluggish spot market there was not sufficient reason to ask for an increase. Competition was very stiff on the transatlantic contracts and only the extra charges linked to fixed costs could be added.

Time charters were generally for quite short periods as charterers preferred not to commit themselves and to take advantage of rates that were close to those of the spot market. For example, 20,000 dwt chemical tankers with stainless steel tanks were fixed at an average rate of $12,500/day for periods of six to 12 months over the course of the year, whereas these same tankers secured about $13,000/day at the end of 2011.

THE CHEMICAL TANKER FLEET

Far fewer ships were delivered in 2012, only 39 units left the shipyards, equivalent to 480,000 dwt. This is 50% less than in 2011 when the total was 1m dwt. Half of these ships belonged to the 3,000 - 10,000 dwt segment and 19 of them were coated. In the 20,000 dwt and above segment only four ships with stainless steel tanks were delivered.
ANNUAL REVIEW

Chemical tanker demolition has decreased. After the demolition of 51 ships in 2011 only 19 left the market in 2012. It is to be noted that 70% of the ships sent for scrap were equipped with either full or part stainless steel tanks. Overall, the fleet grew by 0.8% in 2012.

This year, some 48 ships of 1.3m dwt should be delivered. Of these, 36 ships of 556,000 dwt are the result of shipyard delays and should have been delivered in 2012. Relatively few contracts were cancelled, most notably two ships of 25,000 dwt each which were to have been built in Japan. Finally, the number of new orders concluded in 2012 was limited to 13 ships of 402,000 dwt, quite a low level similar to that of 2011.

CONCLUSION

Overall the chemical product market has weakened in the last months and current demand is shaky but a slight increase in the size of the fleet coupled with a limited orderbook could be seen as positive signs in the medium term. Nevertheless, the fleet is still in overcapacity and all involved have realised that market equilibrium will not return until the end of this year or 2014 at the earliest.
THE POSSIBLE FAVOURABLE STABILIZATION OF THESE SECTORS IS ALREADY PERCEPTIBLE IN THE RATES BUT NOT, AS YET, IN PRICES.”

The second hand market for small tankers and for chemical carriers (3,000 – 25,000 dwt)

2012 will be remembered as the year of unfulfilled expectations. Even though there were emerging signs of recovery for the highest quality assets, shipowners had to make do with a mere stabilization of prices for the best ships in their fleets. Massive overcapacity, born of the boom (or casino?) years has had an impact for the fourth year running on shipowners’ structurally negative results in a segment of the market where operating costs per transported ton are high. That said, we did note 131 sales but balanced transactions (willing seller/willing buyer) were scarce.

The excessive number of orders placed between 2002 and 2008 makes it impossible for the market to stabilize by itself. This is underlined by the very low number of ships sent for scrapping - just 22!

THE DEFINING FEATURE OF 2012 WAS THE RENEWED DECLINE IN TRANSPORT DEMAND

While rates appeared to strengthen up to the first quarter, tonnage demand suffered a sharp fall, especially in the European Union (where it should be noted that industrial production fell by 2.3% with the contraction particularly heavy at the heart of the Euro zone). Under these circumstances, buyers were actively looking for forced sales, which in 2012 took on a bigger dimension than auction sales. The banks closed their positions en masse. From then on, the necessary consolidation took on an aggressive nature with the purchase of fleets that had been financially drained picked up by outside investors. In this way Triton swallowed up Nordic Tankers (following Herning in 2011). SRAB in Sweden was forced to throw in the towel and its assets were transferred to SIRIUS, perceived as a more financially sound company. For the first time, bankruptcy also hit the Asian market (BLT, Dorval), a sign of the depth of the crisis.

PRICES

Five- year-old tankers and chemical carriers meeting European standards (IMO II compliant, Marineline coated, inert gas system, European built equipment), no longer fetched more than $10m (compared to $17m in the 2007 market). For the resale of a 19,900 dwt fully stainless steel ship built in Japan, prices were in the order of $27m to $28m (a fall of about 50% compared to 2007-2008 when they were at their highest). However, prices are still holding up for state-of-the-art ships that are less than five years old.

The market has, therefore, erased all traces of its 2002-2008 price highs, which have now fallen back to their 2002 levels, but at today’s dollar and with an overabundant and modern fleet, the latter being the only inheritance of the hubris of the financial markets.
THE OUTLOOK FOR 2013

Again attention needs be paid to transport demand as there is nothing to be expected from supply (there being few shipyard deliveries and few demolitions in view).

With regard to oil products, the worldwide streamlining of refining capacity has benefitted the MR segment but at the same time has deprived small tankers and chemical carriers of their traditional function as regional distributors. This is a long term trend as, according to the International Energy Agency, refining capacity has dropped by 1.7m barrels a day in Europe since 2008.

The market, therefore, has still not come out of its long hibernation, except in the case of a few niche markets, and is now reliant on European economic policies. If financial austerity were to settle in for the long term in key European countries such as France, Italy or Spain, this inactivity could be dangerously prolonged.

Once again it is the niche sectors with a specific purpose (bunkering, bitumen, coated ships of more than 15,000 dwt) which should be the most profitable. The possible favourable stabilization of these sectors is already perceptible in the rates but not, as yet, in prices.

CHARLOTTE THERESA
Chemical tanker, 11,372 dwt, delivered in 2008 by Nantong Mingde, owned by Herning Shipping a.s. and commercially operated by Nordic Tankers A/S
Greater supply leading to a more dynamic market
Overall 2012 has been a buoyant year for the LPG tanker sector with the world fleet enjoying a good level of employment. Owners have remained mostly profitable, despite further increases in the price of bunkers and operating costs. In stark contrast to the situation pertaining to most other shipping segments, spot and time charter rates for LPG vessels have continued to be strong over the last year.

Similar to 2011 there has been continued volatility in the price of spot tons from the Middle East Gulf (MEG). This volatility is wrapped up in the intricacies of the North American Shale Gas revolution, European economic instability, Iranian sanctions and rampant Asian demand.
The hot topic in 2012 was the massive growth in possible supply of LPG deriving from American Shale Gas extraction. Previously an import destination, the USA has rapidly expanded its export operation to average close to 500,000 bbls pcm. However, despite recent expansion at both Targa’s Galena Park and Enterprise’s Tanker terminal there is still a deficit in VLGC loading capacity. Debottlenecking LPG export infrastructure in the Gulf will be central in reducing record high American inventory figures and paramount in absorbing the 13 VLGC newbuildings arriving in 2013.

IMPORTANT EVENTS

Iranian sanctions have upset the LPG sector by greatly reducing product supply from the MEG. Initially the sanctions were ambiguous enough to allow a reduced amount of exports to be picked up by Asian traders. However, spot loadings completely disappeared by November as the legal framework was reformulated to suffocate the Iranian economy. A resumption of exports in 2013 from Bandar Imam Khomeini and Kharg Island, where combined storage totals 207,000 tonnes, would strongly impact both vessel routes and the global market.

Inextricably linked to MEG production, the Far East remains the largest consumer of LPG. There has been a successful conversion from Kerosene to LPG in the Indonesian household sector. Chinese trading firm Orient Gas shocked the market announcing an order of a possible 16 VLGCs. The number is perhaps inflated, but it emphasizes the Petrochemical industry’s need for Propane to supply its network of PDH plants. The Japanese market has expanded following last year’s nuclear disaster and METI have pointed to a continued growth in consumption from both the Power Plant and City gas sectors. The mature South Korean market is expected to have stable growth, with the majority of consumption stemming from the Autogas sector.

The Western European market has seen weaker demand as a result of the Euro crisis, a lack of industrial competitiveness and closing refineries. European petrochemical producers will be sorely affected by American Shale Gas. However, Turkey and the Black Sea nations continue to buck the European trend and this will be an area of substantial growth in both LPG supply and demand over the next few years.

VLGC & LGC

A good year for the VLGC market; employment was high with freight rates experiencing a particularly strong 2nd and 3rd quarter. The Baltic LPG Index (BLPGI), tracking freight for 44,000 tonnes of LPG from Ras Tanura to Chiba, was low at the beginning of the year with owners achieving around $40 pmt. Warmer-than-normal temperatures for the season led to weaker demand and less spot activity. The subsequent long list of open tonnage translated into lower freight. Levels were pushed up in the summer when surplus MEG tons brought Chinese traders into the market. Owners’ earnings were perhaps highest in July when freight rates averaged $71 pmt and bunkers averaged $617.39 pmt. The freight level was exacerbated by panic, caused by Iranian sanctions, and a preference for LPG as a feedstock, due to the high Naphtha price. The BLPGI remained high peaking in August at $77.44 pmt. At the end of 2012 earnings returned to hovering just above OPEX, with similar factors as earlier in the year responsible for the contraction in freight. However, we hope extra supply will encourage freight levels to move back towards $50 pmt during H1 of 2013.

Throughout the year VLGCs in the West commanded an earnings premium above those in the East. The global TC rate was about $950,000 pcm. Three vessels have been delivered this year, with a further 13 expected for delivery in 2013. BW Gas consolidated their position as the player with the largest fleet with the acquisition of the British Confidence (83,000 cbm, 2006) from BP Shipping.

As usual the healthy VLGC employment has filtered down to the LGC size range (52-65,000 cbm) that includes 17 units. Most were locked away on long-term TC for either Panamax/Indian LPG or transatlantic Ammonia cargoes.
The monthly average for TC hire rates in 2012 was substantially higher than in 2011 with a 14.47% increase to $759,000 pcm. The impending expansion of the Panama Canal in 2015 may nullify this sector’s wild card of fitting the Panama specification.

**MGC**

The Midsize fleet is employed on TC contracts transporting Ammonia cargoes and some LPG. Unpredictable ammonia supply and refinery maintenance in the North Sea left certain owners without employment for extended periods early in 2012. The flow of product steadily improved and by year-end employment was good with few open positions. TC rates had improved to $795,000 pcm in November, rising from a low of $720,000 pcm in May, and the average was 13% higher than last year at $758,000 pcm.

Following a busy period for MGC newbuildings during 2010-2011 the rate of incoming tonnage fell. The Symi (35,000 cbm), an MR conversion, was the only vessel forecast to be finished in 2012 and was delivered to Eletson in February. The MGC fleet will grow substantially in 2013-2014 with six newbuildings penned for delivery.

**HANDYSIZE**

The Handysize market has experienced an exceptional year with demand pushing the TC hire rate to $900,000 in the last two months. Several factors caused the 16.8% increase in average hire rates to $786,000 during 2012. Increased productivity by American automobile manufacturers translated into a higher volume of long range petrochemical voyages to import C4s. Furthermore the excess of Shale Gas NGLs in the USA saw larger vessels employed exporting Propane from both Houston and Marcus Hook. Ineos struck a deal with Range Resources, starting in 2015, to export Ethane for the first time across the Atlantic from Marcus Hook to Europe. Market pressure, a result of high demand and a lack of available tonnage, led Petrobulk to accept delivery of the Gaz Providence (22,500 cbm, FR, 2010) at close to $1.1 million pcm for Nigerian coastal trade.

**SMALLER SEMI-REFRIGERATED & ETHYLENE TONNAGE**

The Ethylene market impacts heavily on the smaller SR sector’s performance. Hopes of a significant increase in Ethylene export from the Middle East disappeared due to Iranian sanctions. Consequently there was a substantial period of idle time whilst the vessels involved in this trade were re-employed. The transport of Propylene into the Petrochemical hungry nations of South East Asia and expanded winter demand for export of LPG from Black Sea ports offered a new range of employment. Therefore vessels that were redelivered managed to find employment quickly enough that rates remained stable and the average earnings for Ethylene carriers on TC only decreased by 2% to $542,000 pcm. However, owners may struggle to sustain this stability due to the substantial fleet renewal process underway, especially on account of the 39 vessels in the orderbook.

**PRESSURIZED**

The pressurized market started 2012 in a more promising fashion than 2011. Activity in the West benefitted from a combination of cold weather, berthing delays and the extra volume of refinery product leaving little available tonnage. However, this advantageous situation slowly deteriorated and the summer was less fruitful.
Spot cargoes started to disappear at the end of H1 2012 and by July more difficulties were encountered as a raft of refinery maintenance shutdowns commenced. High product prices in the latter months of the year have diminished the volume of cargoes. Furthermore warm weather and the unstable economic situation in Europe have limited trade. Outside Europe the perspective was more positive. Black Sea and Caribbean trades has seen a demand for larger pressurized vessels and supply from Central Russia has grown significantly.

In the East, employment was good for the 3,500 cbm vessels and even better for the 5,000 cbms. Later in the year strong petrochemical activity and a growing trend for LPG coaster cargoes leaving Chinese ports for South East Asia translated into tighter tonnage across the size ranges and increasing hire rates. For the first time several market commentators valued vessels in the East higher than those in the West. Countries such as Vietnam, Indonesia and the Philippines will provide a substantial boost in LPG demand during 2013.

Looking back an average monthly hire rate of $254,000 for 3,000 cbm vessels, $303,000 for 5,000 cbms and $364,000 for 7,500 cbms indicates a stable market compared to last year’s results. There is a need for a few vessels to transfer to the Eastern market but in the longer term investors continue to see the Pressurized market as a safe and stable earner.

CONCLUSION

At the end of 2012 the financial world has labeled the LPG sector as an attractive and stable investment. Firstly because the fleet is controlled by a limited number of players with a small orderbook, but also due to the growing supply and demand for LPG and petrochemical products. There is continued anxiety from inside the sector that growing interest, spurred on by attractive earnings, could translate into a train of newbuilding orders that would unbalance a historically fragile market. Reason for this anxiety is found in the current price war between the traditional Japanese and South Korean shipyards and the Chinese, who are becoming increasingly competitive in terms of experience, ingenuity and innovation. Thankfully, the technical prowess required to operate LPG vessels continues to act as strong protection for the present collection of players. Furthermore, the predicted growth in Shale Gas supply is transforming the LPG and Petrochemical sector, which has been previously constrained through its links to Oil Refining. We expect 2013 to also bring good revenue and healthy employment. However, both the orderbook and supply projects point to 2014 as being the pivotal year for the LPG sector.
The second hand market for LPG carriers

**VLGC**

Stolt Nielsen has strengthened its position in the sector. Four new ships have been welcomed into the Avance Gas fleet: two ships built in 2009 brought in by Transpetrol, who thus becomes a partner in Avance Gas alongside Stolt Nielsen and Sungas, and two other ships built in 2008 and bought for $73m each from Maran Gas. This price is consistent with other transactions undertaken in the last few years and with the price that this same buyer paid last year for comparable units.

As for older ships (20-25 years old), the firm prices noted last year have continued and some sales for ships built in the early 1990s have achieved between $20m and $25m.

This year we have noted no VLGC sales for scrapping.

**HANDYSIZE**

The event of the year was the purchase by Navigator Gas of the Maersk 20,000 cbm fleet. Eleven refrigerated/semi-refrigerated, nine of them built between 2009 and 2011 and the remaining two built in 1998 and 2000 respectively, were bought for a total price of $470m allowing Navigator to practically double the size of its fleet and to control more than 25% of the world’s fleet for this size of ship. Earlier in the year Navigator Gas also bought two other 22,000 cbm ships built in China in 2009 for $52m each.

This year Exmar, encouraged by a firm price of $32m, sold a 38,000 cbm ship built in 1998 but a few months later sold a 20-year-old 35,000 cbm ship for at least $26m.

**SHIPS OF 12,000 CBM AND BELOW**

Two 9,000 cbm ships built in 2008 for the Indonesian shipowner BLT were bought for $31m by Odfjell marking its return to the liquid gas transport market. Several elderly 8,000 to 10,000 cbm ethylene gas carriers built at the end of the 1980s and the beginning of the 1990s were sold to Greek buyers for between $6m and $10m.

As for small 3,000 to 5,000 cbm pressurized ships it is noted that a 4,000 cbm ship built 2001 sold for about $10m and two other 5,000 cbm ships built in 2006-2007 sold for between $15m to $17m each.
The LNG in 2012: Towards new horizons
The world has changed considerably since the Treaty of Tordesillas in 1494 divided it up between the Portuguese and the Spanish. One could be forgiven for thinking that since that great age of discovery all possible shipping routes have been opened up and used commercially. Yet, 2012 was a very eventful year with two new shipping routes, one unexplored and the other unused, set to profoundly change the LNG business.
First of all, the Ob River, an LNG carrier belonging to Dynagas and chartered by Gazprom, loaded with 134,000 cbm of LNG, travelled between Hammerfest in Norway and Tobata in Japan using the Arctic route. This first also served to prove the suitability of the membrane containment system to this type of voyage.

The success of this voyage is very promising because the use of the Northern Sea route represents a time saving of as much as 40% compared to the normal route via the Suez Canal. This bodes well for the development of the Russian Yamal gas fields in the Kara Sea.

The new route, which will also change the maritime landscape for LNG shipping, passes through the Panama Canal and will link the Gulf of Mexico to the Asian markets. A veritable revolution, which started in the USA with the development of the importance of shale gas and of projects to export gas in liquid form, is underway. Official approval has been granted by the federal authorities (FERC) allowing Chenière to start the construction of its first LNG trains for the Sabine Pass project. Up to now Chenière has secured long term contracts with British Gas (5.5m tonnes/year), Gas Natural (3.5m tonnes/year), Gail (3.5m tonnes/year) and Kogas (3.5 m tonnes/year). Commercial operations should start in 2016 for the first two trains and in 2018 for the next two. In total, the Sabine Pass represents an LNG export capacity of 18m tonnes/year. This project marks a real change in direction for American energy policy and is symbolic of a new model in the LNG world.

As of the end of 2012 there are more than 20 LNG export projects coming out of the USA, constituting a total capacity of about 230 Mt/year, roughly 80% of the current world LNG capacity. Even if only a few of these projects come to fruition, the USA will become a major LNG market player and this will have an impact on the world market. The cost of LNG going to Asia will be very competitive compared to the cost of LNG out of the more classic Gulf countries, in particular Qatar.

For example, taking a Henry Hub reference price of 3 $/Mbtu, a liquefaction and storage cost of 3 $/Mbtu, the Mbtu cost aboard an LNG carrier out of the Gulf of Mexico will be 6 $/Mbtu. With a distance of about 9,400 nautical miles the shipping cost can be estimated at between 2.5 $/Mbtu and 3 $/Mbtu. This gives a LNG cost of 9 $/Mbtu once it has arrived in Asia; a very competitive price for the Asian buyers when compared to the spot price which oscillates around the 15 $/Mbtu mark.

Clearly such an unbalanced situation will not last but it does serve to show that the LNG export model from the USA is a reliable one.

At the same time, ship types will have to evolve. Suitable sized ships will emerge in answer to both the constraints of the Panama Canal (maximum width of 49m) and the optimal commercial import constraints of the Asian terminals (maximum length circa 300-310 m).

These two factors will have an impact on the LNG carrier building market both in terms of ship types (Arctic ships for the Northern Sea route, Panama adapted ships for the Pacific sea route) and also in economic terms for the associated LNG projects.

For the North Sea route projects, despite the shorter distance, shipping costs will be higher due to the type of ships needed which require greater investment (Double Acting Ships) and operating costs will also be higher due to the necessity of having ice breaking ships on call to help.

The Pacific Sea route will imply a significantly longer transit time as the distances are three times as long as those between Australia and Japan.

Thus we observe the beginnings of new trends in the LNG market.
2012 saw the development and realization of new LNG projects; there have never been so many projects in the pipeline. However, in 2012 only 6m tonnes/year of liquefaction capacity was added to the overall capacity of 275m tonnes/year, of which 5m tonnes/year comes from the Pluto project in Australia.

From now until 2015 liquefaction capacity will increase at a very slow rate. The Australian projects will be operational in 2015. Capacity out of Australia and the Pacific Basin is currently 25m tonnes/year; the completion of the projects should increase it to 70m tonnes/year by 2017.

To date, Australia Pacific (9m tonnes/year), GLNG (7.8m tonnes/year), Gorgon (15m tonnes/year), Ichthys (8m tonnes/year), Prelude (3.6m tonnes/year), PNG (7m tonnes/year) and Queensland Curtis (8.5m tonnes/year) represent the core of the Pacific projects for the most part directed at the Asian market with a significant Chinese bias.

Currently China has a regasification capacity in place of 24m tonnes/year with 23m tonnes/year of additional capacity under construction. The Chinese government has given its agreement for the construction of 20 LNG import terminals which will mean an additional capacity of 60m tonnes/year.

This will have an impact on LNG carrier shipbuilding activity as Chinese imports of LNG will give priority to LNG carriers built in China.

In 2011, four 172,000 cbm LNG carriers were ordered from the Chinese Hudong-Zhonghua shipyard to serve the PNG (ExxonMobil) and Gorgon (Chevron) projects. In September 2012, China Shipping in association with Sinopec ordered four 174,000 cbm LNG carriers from Hudong-Zhonghua for the Australia Pacific project. In November 2012, BG sold 25% of its share in the Queensland Curtis project to CNOOC, the biggest petrol and gas company in China, with an agreement to build two extra LNG carriers in China.

The Asian market remains a hot proposition for the future of LNG and most current projects are aimed at this market.

Despite the postponement of the Shtokman project Russia’s high ambitions in LNG are still apparent in its Yamal project which could entail the building of 16 innovative LNG carriers. Discussions are underway with the shipyards.

The gas which has been discovered off the coast of Mozambique and Tanzania is already sparking interest because with more than 100 tcf of reserves it represents approximately 50% of the Australian reserves.

There is, therefore, no lack of gas resources worldwide and the part played by LNG in the global energy mix is set to increase in the future. This will undoubtedly have a knock-on effect on the construction market and the growth of the LNG transport flow.
Only two LNG carriers bigger than 140,000 cbm were delivered in 2012. This is the lowest number since 2001, a reflection on the lack of orders in 2009. 2013 will see the arrival on the market of more than 24 LNG carriers with a further 34 expected for delivery in 2014. This means that more than 60 new LNG carriers will bolster the existing fleet of about 360 ships in the next two years, an increase of about 17%. Currently there are orders for 94 LNG carriers with delivery dates up to 2017.

There were 34 new orders for LNG carriers with a capacity of more than 140,000 cbm in 2012, a slight decrease on 2011 which with 48 new orders was considered to be an exceptional year. It is interesting to note that the average size of LNG carriers ordered is 164,000 cbm which shows a tangible increase in the size of ships, a trend that has been observed for a few years. 170,000 cbm and upwards has become a new standard and that not only for ships with a regasification capacity.

Greek shipowners continue to represent a large proportion, a third, of new orders in 2012. They account, between them, for about 45% of new orders while currently owning just 4% of the existing fleet.

In 2012 observed rates reached an all time high with a level of 170,000 $/day for a spot contract for a Golar ship. Levels of around 125,000 $/day were reached in 2012 for two to three-year charters.

A levelling off in rates was observed at the end of the year. Some shipowners, keen to secure work for their newer ships (less than 10 years old), were ready to make an effort on the rates of medium term contracts (five years) so that their ships would not be left without work when the new deliveries of 160,000 cbm, electrically propelled ships, favoured by charterers, are released onto the market in 2013.

This trend will be accentuated by the arrival on the market of speculative orders for which certain shipowners will be ready to make a financial effort to find work for their ships.

As of 2013 the availability of extra shipping tonnage will create an excess in supply which will not be compensated for by a market increase in quantities of LNG.

**THE LNG CARRIER NEWBUILDING**

An important trend is materializing in the LNG carrier newbuilding market. In 2012, Hudong-Zhonghua delivered the last ship in a series of six LNG carriers built to well tried specifications with a capacity of 147,000 cbm and steam propelled, the first of which had been ordered in 2007. Hudong-Zhonghua’s orderbook now contains eight ships with a capacity of more than 172,000 cbm and electrically propelled for four out of eight of them. Competition is very healthy with the South Korean shipyards with a resulting price war a real possibility as the Koreans vie to preserve their market share.

The South Korean shipyards’ market share in LNG carrier newbuilding remains predominant with an 85% share; the Chinese with a market share of 9% are in second position and the Japanese have held on to their share of 7%. These facts might well hide a trend which could soon appear as the Chinese shipyards increase capacity in order to supply enough...
ships “made in China” to transport the growing quantities of LNG to their terminals. The Hudong-Zhonghua shipyard has reached the end of its learning curve and other Chinese shipyards such as Dalian Shipyard (DSIC) are all set to respond to the future demand for LNG carriers.

The solution for the South Korean shipyards would be to concentrate on diversifying their offer. The arrival on the market of more technical ships such as LNG carriers designed for navigating in Arctic conditions could represent a real opportunity for them. The same is true for carriers designed for trans-Pacific navigation through the Panama Canal.

**CONCLUSION**

2012 has been a year rich in news and possibilities for the LNG sector. There are projects in the pipeline which will transform the LNG world. The USA could become a major LNG sector player by exporting essentially to Asia. The Middle East, represented by Qatar, which formally had a large presence in the LNG sector appears to be absent from any new developments. There will be a shift in the centre of LNG gravity in the future to a new pole in the Pacific region with Asia as the main market.
Buoyant market
Over the course of the last five years, 55% of oil and gas discoveries have been in deepwater. Combine this fact with the International Energy Agency’s (IEA) estimation that global oil demand will increase at a rate of 1% per year on average until 2030 and one appreciates the two key points to take away. First, the industry is doing well with a strong barrel averaging $94 (WTI), well above the $70 benchmark where oil companies say they would “take notice” and adjust exploration and production. With robust growth, more projects are economically sound which increases the demand for offshore tonnage. Second, the focus of the key market players continues to shift towards deepwater, requiring larger and higher specification units. This, however, does not preclude the fact that shallow water activities are still a big part of the market.
THE OFFSHORE MARKET
IN 2012

DRILLING

The world market for drilling units has done well overall this year; backlogs are increasing and day rates are moving upwards. There has been less activity in corporate mergers and acquisitions but nonetheless still some noteworthy transactions, particularly in Asia: China National Offshore Oil Corporation (CNOOC) has agreed to buy Canada’s Nexen in a cash deal worth $15.1bn and Malaysia’s Petronas has taken over Progress Energy Resources in a $5.26bn deal. On the offshore side Seadrill is set to sell its tender rig business to Malaysian joint venture partner SapuraKencana Petroleum for $2.9bn and thus spin off its shallow water business. Besides, in addition to entire companies being taken over by larger players, we have also seen numerous sales of individual rigs under construction.

IOCs have fared well, with the sustained high price of oil enabling projects to go forward in a profitable way. The overall utilization rate was of 80%, with the North Sea average utilization in excess of 90% throughout the year. The worldwide backlog for all types of units increased even faster in 2012. Most units have seen their day rates either go up or plateau after a downward trend observed since 2008. Jack-ups have surpassed expectations to reach a global average day rate of $113,000 per day in the month of December. A new cycle in the retirement of jack-ups has begun: among the 191 existing jack-ups worldwide that were built before 1985, approximately one fifth will be up for retirement from next year.

The principal players have been active in the renewal of their task force, offloading older units and replacing them with high specification units in order to refocus on a modern fleet. The Transocean deal in which 38 units were sold to Shelf Drilling International for a total of $1.6bn is a prime example of refocusing. High-end specification and harsh environment capability are the two key elements that have been driving the newbuilding projects, as operators such as Petrobras and Statoil require ever more advanced and modern units.

On top of the remaining 21 Sete Brasil ultra-deepwater rigs that were confirmed in February last year, another 25 semis and drillships were ordered throughout the year with five of them that could be ranked as mid-water units. Jack-up orders considerably slowed down with 22 orders in 2012, compared with 67 a year before. The significant number of deepwater rigs on order worldwide could put pressure on rates in the near future.

SUBSEA AND CONSTRUCTION

With IOCs strongly gearing towards medium and deep-sea projects, the subsea sector is benefitting from the positive effect of a strong barrel price, thus projects are more numerous than ever. Such a buoyant market allows mid-size prime contractors (Aker Solutions, Mermaid, Micoperi...) to gain market share as industry leaders primarily focus on very large sized projects. This upward trend is set to continue over the year to come in all regions.

The increase in the number of projects and tenders has given hope and trust to owners and contractors, encouraging them to place new orders alongside. About two dozen orders were placed this year for medium and large size subsea construction vessels. Among the significant orders, DOF Subsea has contracted a new offshore construction vessel with STX OSV. The order was placed in conjunction with DOF Subsea’s sale to Australia of its under construction newbuild at STX OSV, Skandi Bergen. In turn, Siem Offshore has also inked a pair of similar 121m LOA construction vessels with the same builder.
Size wise, we are witnessing a trend towards enlarged IMR ships with enhanced capabilities allowing them to compete for medium subsea construction works. The Kleven Yard in Ulsteinvik, Norway, has been contracted to build several Marin Teknikk design MT6022 vessels for REM Offshore and Olympic Shipping. The REM units will be 108m long while the Olympic ones will have a length of 115.4m. All the four vessels will be equipped with a 250t offshore crane that can work down to 3,000m depth and have capacity for 110 people onboard.

McDermott International has in turn commissioned Keppel O&M in Singapore to build a high specification deepwater pipe-layer named DLV2000. The vessel will be fitted with a 2,000t fully revolving crane, a 250t heave compensated crane and a deep-water pipe-lay capability, together with accommodation for 400 people.

Subsea 7 is engaged in a vast fleet expansion and renewal program that has seen the order of a high specification saturation diving vessel at Hyundai Heavy Industries, as well as an agreement with IHC Merwede for a 550t top-tension pipe-lay vessels to be contracted with Petrobras. The stout appetite of the Brazilian oil giant to order additional offshore support and pipe-lay tonnages via tenders floated during 2012 might be reduced by recent financing constraints.

Technip has continued to enlarge its capability by forging a five year worldwide alliance with Heerema to focus on ultra-deepwater EPCI projects in all subsea markets.

The sale and purchase market has been dynamic with several transactions executed such as the three pipe-lay vessels Helix (USA) sold to Coastal (Singapore) for $238.8m, as well as the subsea construction and pipe-lay vessel Lewek Connector which was sold by AMC Connector (Ezra-Aker Solutions Joint Venture) to Ocean Yield (Norway) for $315m.

The current orderbook will hit the market in 2014-2015 and triggers some fears about tonnage oversupply. The other ongoing challenge is the potential lack of qualified personnel to crew the subsea and construction vessels. As projects are becoming ever more complex, this flood of deliveries will put significant pressure on the specialized and qualified marine labor force.

**SEISMIC**

It has been a good year for the seismic vessel market, especially for 3D services. The return of the Gulf of Mexico market to “business as usual”, combined with increased demand in all regions, has generated favorable market conditions with increasing rates.

It is usual for seismic vessels to have a seasonal cycle as they cannot operate in stormy seas. They leave regions where winters are rough, like the North Sea, for the Mediterranean or Southern hemisphere waters for the season to find hire. This year the migration to West Africa has been very active as the market was competitive but very profitable for seismic vessels with sustained activity all along the African coastline.

As far as newbuildings are concerned, the seismic market has been dynamic and contractors have contracted a number of exceptionally high specification units. WesternGeco has ordered two 127m Arctic capable seismic vessels at Flensburger (FSG/Germany) for 2014 delivery; and Petroleum Geo-Services (Norway) has exercised an option for additional two 70m wide Ramform class vessels from Mitsubishi Heavy Industries (MHI) for a total of four vessels that will be a part of their 11 vessel fleet of Ramform.

There has been a polarization of the market, diverging from a deprived 2D imaging towards the high-end, broadband segment with 3D/4D imaging sought by operators.

CGG has just finalized its three-year renewal and upgrade fleet programme, making every vessel ready for the very popular BroadSeis sytem; its acquisition of Fugro’s Seismic data unit for a €1.2bn cash deal will add another four 3D vessels to their existing highend 3D fleet.
SUPPORT VESSELS

The market for support vessels has been active in the past year. However both PSV and AHTS term rates have ended the year on a downward trend. Excepting the larger units, owners have been asking for rates similar to those observed in 2011. The key structural drivers that impacted the fleet are the significant increase in deepwater operations and the limitation of the vessels’ age by many oil companies and contractors. As for the other categories of the offshore industry, the support vessel market has benefited from more projects coming online. From the supply side, the factors will be the effects of a large orderbook with 15% of the existing fleet on order, new orders and an ageing fleet.

PSV

Lots of PSV have been contracted during 2012. For instance, after buying two 4,850 dwt newbuild PSVs from Sanko at Universal Shipbuilding Corporation (USC) in Japan, Swire Pacific Offshore (SPO) has announced the order of six PSV of 3,700 dwt (with options for a further four vessels) at the same yard.

We can also notice that Deep Sea Supply has ordered 12 PSVs of 4,500 dwt (Ulstein PX105 design) at Sinopacific in China for their sister company Seatankers.

French shipowner Bourbon has ordered 15 PSVs Liberty 150 of 1,703 dwt at Sinopacific China.

We would like to emphasize the three major trends about the newbuilding orders in 2012:

- Changes in classification and navigation rules regarding compliance of such vessels for transportation of large quantities of chemical and noxious liquids. To illustrate this issue, we can mention the Far Solitaire UT754WP type which has been awarded “Ship of the Year 2012” in Norway, as it is able to carry over 800 cbm of chemicals.
- More LNG burning vessels have been delivered in an effort to be more environmental friendly, as well as to anticipate upcoming rules about emissions of SO2, CO2 etc. in the atmosphere.
- A sharp increase in the projected amount of accommodation on board, either for deep or shallow water employment. Charterers are requiring accommodation for up to 60 people on board including crew.

AHTS

The spot market rates for AHTS, either large or medium size, were quite strong at the beginning of 2012.

AHTS vessel deliveries are expected to reach about 170 units in 2012 and can be considered as a peak, as deliveries in 2013-2014 will be considerably lower.

Another significant development from last year was the increasing share of AHTS (DP1, 60-80t BP) newbuildings contracted at Malaysian shipbuilders.

We also note that the Asian market for small AHTS was rather good during 2012 regarding utilization and time-charter rates.

The worldwide orderbook for AHTS above 50t BP represents about 200 vessels, far less than for the PSVs. It represents also about 9% of the existing fleet, with a large majority of small vessels. This leads us to think that, as demand for larger AHTS is still robust, the employment and time-charter rates should be on the good side in 2013.

The Gulf of Mexico, East Africa and specifically Brazil are still in demand of support vessels.

West Africa supply owners as well as operators have “geared up” their AHTS fleet by almost 15% while the PSV fleet has increased 20%. This influx of vessels has not only been in quantity. Operators have also brought in larger, more capable units, notably DP1 and DP2.
DREDGING

Even though employment rates were not expected to rise in the dredging market in 2012, sustained growth in the oil and gas and offshore wind park construction market made for a reasonable year. We have seen the main industry players further expand their activities in order to benefit from the buoyant adjacent oil and gas market.

Van Oord and Boskalis both penned significant contracts for Australia’s Ichthys LNG project. Van Oord raked in dredging works in Darwin Harbour worth $700m while Boskalis bagged $263m to build a landfall and dredge an 18 km pipeline trench.

After acquiring SMIT Towage and Salvage in 2010, Boskalis, backed by largest shareholder HAL Investments, successfully raised finance to fund its takeover of heavy-lift outfit Dockwise. Dockwise, the world’s largest heavy transport shipping company completed a hostile takeover of rival heavy-lift owner Fairstar earlier in the year. The family-owned dredging and marine services company Jan de Nul intends to further develop their footprint in the offshore energy related markets.

OFFSHORE WIND FARMS

With about 1,250 MW of offshore wind turbines installed off Northern European coasts during 2012, bringing total capacity to about 4,500 MW, it was a busy year for the offshore wind farm market.

The industry has gained maturity and seem to have found its cruising speed and its own identity. Years of “puttering around” to install wind turbines with unadapted Oil and Gas offshore tonnage have passed now; with the delivery this past year of seven purpose-built jack-up Wind Turbine Installation Vessels (RWE’s Victoria Mathias and Friedrich Ernestine, Seajacks Zarathan, Seafox 5, Sea Installer from A2Sea/Dong, BraveTern from Fred Olsen and Pacific Orca from Swire). Four more of these vessels are scheduled to arrive in 2013.

However, the 2010-2011 days of excitement seem to be fading away. No new WTIV orders were placed in 2012, since the largest new European projects have seen their commencement delayed by one or two years.

On the French side, in 2012 the first 2,000 MW offshore wind farms were awarded to EDF-Alstom-Dong for three sites and to Iberdrola-Areva for the last site. Construction of these sites should not start prior to the end of 2014. In early January, a second tender was issued for a complement of 1,000 MW.
A year which started badly
Just as the cruise companies were trying to improve their margins after a turbulent 2011 the Costa Concordia disaster put all their efforts into question. This avoidable accident plunged the industry, which had up till then displayed exemplary safety statistics, into mourning. It was also a brutal wakeup call that no human transport or pleasure activity, even the safest, is immune to accidents, forcing the industry to rethink and to change its security regulations and practices.
A year later the resilience of the industry and its ability to bounce back from a crisis is once again visible. The upturn in load factors and prices show that the cruise industry had regained an enviable growth rate of more than 3% at the end of the year.

Admittedly the economic crisis which has lasted for more than four years has had an impact on the cruise industry, bringing about a price war and the use of special offers which have weighed heavily on operating margins. What is more, lower prices attract less financially well-off customers who spend less on board and customers are also more likely to book later hoping for last minute deals.

To counteract this strong market trend bigger and bigger ships are needed allowing margins to be protected by their size and a scale effect on operating costs, leaving smaller ships to serve the more specialized, niche markets.

In this difficult and competitive market shipowners have considerably reduced their orders. Some, such as MSC, have clearly announced their intention to wait for better days before ordering any new ships. It took until the last quarter of the year for a significant number of new contracts to be seen in a climate of stiff competition between the hungry European shipyards.

Lastly, this year all the specialist European shipyards received new orders helping to avoid closure for one of them, at least for now.

Only seven ships were delivered in 2012 adding nearly 16,000 beds to the cruise industry’s accommodation capacity.

This rhythm of six or seven extra ships a year which started last year is set to continue for the foreseeable future. It corresponds to a deliberate choice by shipowners to reduce the growth rate of their fleet in order to adapt to the market slowdown.

Once again the Carnival group leads the field with three ships delivered:

- **Costa Fascinosa**: 113,200 gt/1,500 cabins delivered in April by Fincantieri.
- **Carnival Breeze**: 113,200 gt/1,826 cabins delivered in May by Fincantieri.
- **Aidamar**: 71,300 gt/1,096 cabins delivered in May by Meyer Werft.

Celebrity Cruises, of the RCCL group, took delivery in October of the **Celebrity Reflection** (122,000 gt/1,500 cabins), the last ship of a series of five built by the Meyer Werft shipyard.

Meyer Werft also delivered the second ship ordered by Disney Cruise Line, the **Disney Fantasy** (128,000 gt/1,250 cabins) in February.

In May, Oceania took delivery of the **Riviera** (66,000 gt/632 cabins) from Fincantieri.

The STX France shipyard delivered the **MSC Divina** (140,000 gt/1,740 cabins), the third ship of the Fantasia class, to their faithful client MSC Cruises; this represents the twelfth ship built for MSC by the Saint-Nazaire shipyard.
NEW ORDERS

The year started very quiet for orders with shipowners more focused on market recovery than on increasing the size of their fleet and shipyards increasingly concerned by their underused building capacity.

As expected, RCCL confirmed their intention to order a second ship of the Sunshine class (158,000 gt/ 2,050 cabins) from Meyer Werft at a price of nearly €700m to be delivered in the second quarter of 2015.

In addition, MSC has taken over, for a price of €565m, the Libyan order with STX France for the sister ship of the MSC Divina, while asking for a postponement in delivery to the first quarter of 2013. The ship has been renamed the MSC Precioza.

In the first quarter the French lost the new shipping company Viking Ocean Cruises’ order to their Italian competitor Fincantieri, due to a lack of satisfactory funding for the shipowner. This was a hard blow for the shipyard which had at that time no further ships to deliver after the first quarter of 2013.

In the second half of the year, shipowners made up for lost time and the following orders were placed:

• NCL, co-owned by the Apollo investment funds and Star Cruise, ordered a ship in October 2012 with Meyer Werft with a delivery date set for October 2015 and an option for a second ship to be delivered in Spring 2017, a bigger version of those already being built, called Breakway plus Class (163,000 gt/2,100 cabins) whose price is €700m per unit.

• It was not until the last quarter that the Carnival group signed new orders for two ships from their usual supplier, Fincantieri: a ship for Carnival Cruise Line (135,000 gt/ 2,000 cabins) to be delivered at the end of 2016 and another for Holland America Line (97,000 gt/1,330 cabins) to be delivered at the end of 2015.

These ships are new prototypes which hulls will be adapted in the future by the shipowners for further orders, a practice he has already used in the past.
In November, TUI, a joint venture between RCCL and Hapag Lloyd finally confirmed their intention to order a second ship from STX Turku (99,000 gt/1,250 cabins).

The surprise came just before Christmas with the confirmation of an order for a new Oasis class ship (227,000 gt/2,700 cabins), for nearly a billion euros from STX France with delivery set for mid 2016, when all the observers thought that the order would logically go to the Turku shipyard, builder of the first two ships. This order comes with an option for a second ship to be delivered in 2017. Admittedly the two shipyards are part of the same family but competition was stiff and was particularly visible in France’s financing capacity compared to Finland’s.

Without a doubt the lesson of Viking Ocean Cruises has been learnt and the French did not want to let themselves be beaten over a question of finance. It is true that the future of the French shipyard was in danger due to the paucity of new orders and that such a lifesaving opportunity was worth every effort.

This case is symptomatic of the changed circumstances in shipbuilding where financing has become a major factor in the choices made by shipowners. The time when money was easy and only the building costs counted has long gone.

It is worth noting that, except for Viking Ocean cruise order, six ships have been ordered and two options of more than 100,000 gt ordered this year, confirming the trend for bigger ships which allows shipping companies to withstand the decrease in revenues.

SECOND-HAND SALES

In an intensive industry whose growth has been linked to the arrival of new and efficient ships, the second-hand market remains sluggish due to a lack of serious buyers; modern ships are too expensive and the older ones are not attractive to customers.

Consequently only a few niche markets are interested in second-hand ships and to the best of our knowledge there have only been three noteworthy sales this year:

- **Vistamar** built in 1989 in Spain (7,400 gt/152 cabins) was sold for about €5m to the Lebanese shipping company Abou-Mehri.
- **Delphin** built in 1975 in Finland (235 cabins) was sold to an Indian company.
- **Ocean Pearl** built in 1970 in Finland (540 cabins) managed by ISP was finally sold for around $17m to a Taiwanese buyer and renamed Formosa Queen.

Few second-hand sales have been noted but several sales for scrapping have been observed: the Emerald, Sapphire, Costa Allegra, Mirage 1, Lyubov Orlova, Pacific.

Cruise ships age well but they are not eternal.

The French company, Compagnie du Ponant, has finally left the CMA CGM fold and has found a buyer, the Bridgepoint investment fund, which hopes to expand this shipping company which is renowned for its polar exploration cruises in the comfort and security of newer ships.
CRUISE SHIP RENOVATIONS

A sign of the times is the growing importance of cruise ship renovations. Confronted by a slowdown in orders and a sluggish second-hand market, shipowners are remodelling their ships and the renovation market is growing.

This does not just imply a simple redecoration of the ships; it implies bringing them up to the same standard as new ships in terms of public spaces and the comfort of the cabins.

It is estimated that in the next few years shipowners will spend more than a billion dollars on remodelling their ships.

Some shipyards, such as Fincantieri, have begun to take a serious interest in this market but competition is wide as this kind of work can be carried out by shipyards in Asia or in the Bahamas.

As a consequence, the Costa Romantica, built in 1993 (57,000 gt) has undergone an almost $120m transformation. Carnival has also entrusted the Carnival Destiny, built in 1996 (120,000 gt), to Fincantieri for a €120m renovation. The ship should be delivered in April 2013 and will be renamed the Carnival Sunshine.

Royal Caribbean has sent the Rhapsody of the Seas, built in 1997 (78,000 gt), to the Sembawang shipyard in Singapore for a renovation of more than $50m while the four ships from the Millennium Celebrity series (90,000 gt) will undergo the same treatment at the Grand Bahama shipyard in the Bahamas for a total cost of $140m.

These big renovation projects can, in part, compensate the shipyards for the slowdown in new orders.

CONCLUSION

Micky Arison, president of the Carnival group, said recently that 2012 was the worst year he had ever known; it should be remembered that the group endured the tragedy of the Costa Concordia.

This accident put a stop to the whole industry’s marketing campaigns for several months which at a time of economic crisis had a negative impact on commercial activity.

For all shipowners the coming year will be one of recovery with their prime concern being the improvement of operating margins by increasing prices and reducing discounts.

In 2013 only six ships will be delivered which should allow the reestablishment of equilibrium between supply and demand.

The successful flotation of NCL on the stock exchange at the beginning of this year bodes well for the future as a sign of the increased confidence that investors have in the growth of the cruise sector.

2012 ended much better than it started.
Breaking records
Changing Tunes
2012 was a troubled year due to the political and economic uncertainties in Europe which brought about the sometimes hasty introduction of higher taxes and charges. In spite of this 2012 was a successful year for the luxury yacht market.
OVERVIEW - YACHT SALES

A recent study by Bain and Company purports to show that luxury yachting is one of the weakest performing sectors in the luxury goods market. Yet, the latest statistics published by luxury yacht brokerage house, Yachting Partners International (YPI) and leading industry publication, Boat International, indicate a market that is not only growing but in some areas, growing at a record pace. More than 270 superyachts (yachts over 24 m in length) were sold in 2012, 39% more than 2009, 2% more than 2011. The first and fourth quarters of 2012 were the best since the beginning of the global financial crisis, registering 58 and 80 sales respectively. Sales represented a total of €2.26bn, a drop of 9% on 2011, but well up on all previous years.

The economic and political uncertainties surrounding elections in many key countries during 2012, as well as the ailing Euro zone, noticeably slowed down sales between April and September. They were boosted, many would argue, by a revitalized and more confident American market, a market which, despite its own economic difficulties and its place in the shadow of China, remains the world’s leading market for Ultra High Net Worth Individuals, those with a disposable income of over $20m and who are luxury yachting’s target clients.

WHAT SOLD BEST IN 2012?

In terms of size, the last few years saw most growth at the smaller, entry-level end of the market: the 24-40m range.

The most popular sector in terms of the number of superyachts sold each year is the 30-40m range accounting for between 30-40% of all annual sales. In 2011, this sector experienced a record year-on-year increase of 70%. 2012 not only saw the sector retain that ground, but actually increase it by 4%. The real story in 2012, however, lies with the 24-30m range which grew by 38% to reach a total of 92 sales: a jump from 2009 of 200%. The 24-40m sector now accounts for over 74% of all superyachts sales in 2012.

Turning to mid-size and larger yachts, the 40-50m range, with a total of 43 sales, remains largely unchanged, increasing by just 8% on 2011. The 50-60m range also remains consistent at 13 sales, it too recording only a slight increase on last year. It is, however, with the 60m+ sector that most ground was lost in 2012, with sales dropping to levels not seen since 2009. The same trend played out again in orders for new-builds.

With regards to the age of the yachts purchased, buyers’ habits have not changed dramatically over the last four years with almost as many buyers investing in older vessels as new. The most popular age sector was 4-7 year old yachts, attracting 26% of buyers, however a healthy 25% invested in 8-13 year old vessels and 23% bought yachts up to three years old. Well-maintained pedigree yachts, correctly priced, continue to sell irrespective of age.
SAILING YACHTS – FOR THE PASSIONATE OWNER

Traditionally sailing yachts account for around 20% of all yacht sales however, the last few years have seen a marked increase in interest for both pre-owned yachts and new-builds. There were no less than 18 deliveries in 2012, the largest being the 50.5m “Better Place” by Wally Yachts followed by Perini Navi’s 50m “Enterprise”; while the most eagerly awaited was World Superyacht Award Finalist 2013, the 40m Holland Jachtbouw J-Class replica, “Rainbow”, now for sale and charter with YPI.

In 2012, 19 pre-owned sailing yachts were sold. 11 orders were placed for new-build projects, of which two make the top 5 largest orders of 2012: the secretive 147m Nobiskrug project, “White Pearl”, not only set on becoming the largest sailing yacht in the world when she is launched in 2016 but also the largest order overall of 2012. Sailing yachts make up 15% of the orderbook and we anticipate this trend to continue.

NEW-BUILDS

Orders for new-builds generally remained consistent in 2012. Just over 30% of all those yachts now in build (407 vessels over 30m according to the Superyacht Intelligence Global Order Book 2013) are the result of orders placed last year. As with the merchant fleet, the number of deliveries remains higher than orders with 182 deliveries for 111 orders. The building capacity is, therefore, under-employed. 76% of the orderbook remains with European yards, with most buyers opting to contract with financially robust, long established, reputable builders with long track records. In terms of size, similar to the pre-owned yacht trends, by far the most popular for new-builds in 2012, with 42% of all orders, was the 30-40m range. This is closely followed by the 40-50m range with 31% of orders. Finally the 50-70m bracket remained steady taking 17% of orders; Benetti and Heesen are the two builders leading the field, whilst yachts over 70m recorded a steady 10% of the market.

NEW MARKETS AND THE OUTLOOK FOR 2013

2012 was a year when a raft of new regulations and legislation were introduced with some of the most far-reaching financial consequences superyachting has ever seen. Most of these measures will come into force in 2013.

The long debated MLC 2006 was finally ratified in 2012 – it comes into force in August 2013. The MCA’s LY3 was launched, by all accounts one of superyachting’s most far-reaching regulatory updates ever. Port State Control inspections were significantly increased in 2012 and they are set to increase further in 2013. On the legislative front, following on from the costly uncertainty sparked by the Berth Tax and Charter VAT issues in Italy in 2012, 2013 is the year France, the world’s N°1 mega yacht charter destination, will almost certainly be forced to drop its longstanding commercial exemption from VAT thus making charters in French waters liable to tax…and possibly from as early as summer 2013. 2013 is also the year popular charter destination Croatia joins the EU, and the questions about its proposed new VAT charges begin.

Confronted by these new constraints and tax rises, buyers and charterers are trying to drive prices and commissions down, in a bid to offset the costs they will need to pay in the future.

The story for luxury yachting’s potential new markets such as South America, India and China remains similarly restricted, for whilst all are suitably warming up, activity of any consequence remains strapped by hefty import duties, a lack of facilities, services and know-how and, in many cases, a lack of on-site product.

2013 is set to be a challenging year dominated by the financial crisis and the major regulation and tax changes in Europe.

* See Bain & Company “Luxury Goods Worldwide Market Study” 2012

Report prepared by Yachting Partners International (YPI), a wholly owned division of Barry Rogliano Salles. www.ypigroup.com
Containerships
A market awash with capacity

CMA CGM VERDI
Containership, 5,782 teu, delivered in October 2004 by South Korean shipyard Samsung, operated by CMA CGM
Overcapacity continued to plague the container shipping markets all through 2012. The container freight market saw its most volatile year while charter rates remained moribund.

Several carriers could however manage to raise a profit for the whole year, thanks to a significant spike in spot freight rates in the 1st half 2012. On their side, non operating owners are struggling to raise profits, or even to survive, with charter rates barely covering operating expenses without allowing to repay capital.
Carriers were able to exercise some degree of market power, by raising average freight rates by 51% in several successful rounds of general rate increases in the 1st half of 2012 despite generally weak demand and poor load factors. The successful rate hike was driven by a rare show of carrier unity and pricing discipline, after almost all of them posted negative operating results in the 1st quarter of 2012. However, their success was partly quashed by renewed rate competition in the 2nd half of the year as positive operating incomes spurred some carriers to revert to grabbing market share through rate cutting.

In contrast, the containership charter rates, measured by the Alphaliner charter index, failed to move out of the rut. Average charter rates remained close to their 20 year lows, with 2012 the 2nd worst year for charter owners, just ahead of 2009. Non operating owners were unable to lift the charter rates, with the idle fleet remaining stubbornly high throughout the year.

Although these bad numbers are related to the overall state of the economy, with a moribund demand from Western countries crippled by debt, they are also the consequence of the carriers race to market share which triggered an unwelcome order wave from mid-2010 to mid-2011.

**SEVERE OVERCAPACITY**

This order wave occurred to a background of severe overcapacity following the September 2008 Lehman collapse, which was compounded by the huge ordering wave that preceded it. Several carriers that did not order 10,000+ teu ships during the pre-crisis peak took advantage of lower newbuilding prices to place new orders in order to maintain their competitive presence on the Far East-Europe route, thus compounding the over-supply problem.

The excessive influx of large ships combined with a weak demand in the West forced the carriers to resort to unorthodox cascading, which is expected to continue during 2013. Surplus 6,000-10,000 teu units initially scheduled to stay longer on the Far East-Europe route continue to be cascaded into trades that previously employed 4,000-6,000 teu ships. This has upset carriers newbuilding plans for secondary routes and has created a squeeze on the medium size sector.

So, carefully crafted newbuildings programs designed to focus on a specific trade do not work as expected, especially on north-south trades and on Middle East related trades. Ships of 5,500-7,000 teu that were thought to become workhorses on such trades when ordered a few years ago much today compete with much larger ships.

The strength of the Latin American economies has also contributed to these size upgradings. This has mostly benefitted the largest carriers, who either assigned surplus ships of 6,000-8,500 teu or high reefer capacity newbuildings of 7,000-8,700 teu. Wide beam ships of 9,000 teu are to become the Latin American trades workhorses. The three mega carriers Maersk Line, MSC and CMA CGM and the Latin America specialists Hamburg Sud, CSAV and CCNI have invested in 8,000-9,200 teu new tonnage aimed at Latin America. The other carriers are currently left behind this race to size on the north-south routes and therefore they risk losing competitiveness and market share. Regarding the 10,000+ teu ships, Evergreen is behind an order for 10 ships of 13,800 teu (leased from Enesel SA) ordered in July 2012, while Yang Ming backed an order for five ships of 14,000 teu (leased from Seaspan), ordered in January 2013, with five more optional ships. These orders were expected as these two carriers and K Line were the only east-west carriers that did not order ships of over 10,000 teu in the previous years. Only K Line remains behind, although it is considering ordering such ships.
<table>
<thead>
<tr>
<th>#</th>
<th>Operator</th>
<th>Total existing</th>
<th>Orderbook</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>teu</td>
<td>ships</td>
</tr>
<tr>
<td>1</td>
<td>APM-Maersk</td>
<td>2,584,922</td>
<td>605</td>
</tr>
<tr>
<td>2</td>
<td>Mediterranean Shg Co</td>
<td>2,225,011</td>
<td>454</td>
</tr>
<tr>
<td>3</td>
<td>CMA CGM Group</td>
<td>1,384,428</td>
<td>408</td>
</tr>
<tr>
<td>4</td>
<td>Evergreen Line</td>
<td>723,378</td>
<td>182</td>
</tr>
<tr>
<td>5</td>
<td>COSCO Container L.</td>
<td>716,868</td>
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</tr>
<tr>
<td>6</td>
<td>Hapag-Lloyd</td>
<td>632,049</td>
<td>139</td>
</tr>
<tr>
<td>7</td>
<td>APL</td>
<td>576,163</td>
<td>126</td>
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<tr>
<td>8</td>
<td>Hanjin Shipping</td>
<td>573,977</td>
<td>110</td>
</tr>
<tr>
<td>9</td>
<td>CSCL</td>
<td>549,192</td>
<td>140</td>
</tr>
<tr>
<td>10</td>
<td>MOL</td>
<td>506,239</td>
<td>110</td>
</tr>
<tr>
<td>11</td>
<td>OOCL</td>
<td>449,905</td>
<td>98</td>
</tr>
<tr>
<td>12</td>
<td>Hamburg Sud Group</td>
<td>421,159</td>
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</tr>
<tr>
<td>13</td>
<td>NYK Line</td>
<td>400,669</td>
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</tr>
<tr>
<td>14</td>
<td>Yang Ming Marine Transport Corp.</td>
<td>358,132</td>
<td>83</td>
</tr>
<tr>
<td>15</td>
<td>K Line</td>
<td>352,754</td>
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</tr>
<tr>
<td>16</td>
<td>Hyundai M.M.</td>
<td>347,325</td>
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</tr>
<tr>
<td>17</td>
<td>Zim</td>
<td>318,180</td>
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<tr>
<td>18</td>
<td>PIL (Pacific Int. Line)</td>
<td>297,312</td>
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</tr>
<tr>
<td>19</td>
<td>UASC</td>
<td>271,034</td>
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</tr>
<tr>
<td>20</td>
<td>CSAV Group</td>
<td>258,754</td>
<td>56</td>
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<td>21</td>
<td>Wan Hai Lines</td>
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<td>70</td>
</tr>
<tr>
<td>22</td>
<td>HDS Lines</td>
<td>86,320</td>
<td>21</td>
</tr>
<tr>
<td>23</td>
<td>X-Press Feeders Group</td>
<td>78,695</td>
<td>61</td>
</tr>
<tr>
<td>24</td>
<td>TS Lines</td>
<td>75,946</td>
<td>37</td>
</tr>
<tr>
<td>25</td>
<td>NileDutch</td>
<td>65,565</td>
<td>31</td>
</tr>
</tbody>
</table>

Consolidated subsidiaries:
APM-Maersk includes Maersk Line, Safmarine, MCC-Transport, Seago Line and Mercosul Line
MSC includes WEC Lines
CMA CGM Group includes CMA CGM, Delmas (with OTAL), ANL, US Lines, Feeder Associate System, Cagema, MacAndrews, Cheng Lie Navigation Co and CoMaNav
Evergreen Line includes Evergreen Marine Corporation, Evergreen Marine (UK) Ltd, Evergreen Marine (HK) Ltd and Italia Marittima
CSAV Group includes CSAV, CSAV Norasia, Libra (Brazil), Libra Uruguay
CSCL (China Shipping Container Lines) includes Shanghai Puhai Shipping Co
Zim (ZISS) includes Gold Star Line and Laurel Navigation
PIL (Pacific International Lines) includes Advance Container Line (ACL), Pacific Direct Line (PDL) and Malaysia Shg Corp.
Hamburg Sud Group includes Hamburg Sud and Aliança
Based on Alphaliner’s forecasts for 2013, volume growth will continue to remain below overall capacity growth, resulting in continuous weakness in utilization levels, at least on the core routes. Large newbuildings of over 10,000 teu will continue to pile up at a rate of one unit delivered every eight days on average. Most of them will be deployed on the Far East-Europe route, displacing ships of 7,500-9,000 teu.

How to employ these latter ships is the question of the year, and there are no obvious solutions. Some of them will replace 5,500-7,000 teu ships on Far East-Middle East trades and Far East-WCNA trades. Some others will join South Africa and South America trades, at least on the routes that do not require specialist ships catering for large reefer volumes. Several carriers are also mulling a revamp of their Far East-USEC services in re-routing several loops from the Panama route to the Suez route. They will then be able to use many of their surplus 8,000-9,000 teu ships at the expense of the Panamax units of 4,500-5,000 teu. The already badly affected Panamax sector will therefore be dealt a further blow.

This will lead to an increase in Panamax vessel idling and to the scrapping of the older Panamaxes, especially those redelivered to non operating owners at expiry of their charters.

The employment prospects for the maxi-Panamaxes are dim. The opening of the new Panama Canal locks in 2015 will push them into a corner as many of the 4,000-5,100 teu units transiting Panama will be displaced by ships of 8,000-10,000 teu.

On the positive side, speculative ordering by non operating owners and their financial backers has been reduced to a trickle and concerns mostly wide beam units of 5,000-7,000 teu with a moderate speed of 21-22 knots and ships of 2,200-2,300 teu aimed at regional and feeder trades.

With the fall in grace of the German KG market and the vanishing of the fiscal incentives that accompanied it, the ordering activity is now driven by the carriers, through orders financed either internally or through long term lease. Nonetheless, alternative sources of funding have emerged and carriers are finding alternative financial backers for their newbuilding orders.

This was heralded by the entry of China International Marine Containers (CIMC) into containership leasing, with an order for 10 9,200 teu vessels backed by a 12 year CMA CGM charter, announced in September 2012. More deals involving non-traditional owners are expected to emerge in 2013.

This re-orientation will however have consequences on the small ship sector, which are not yet acknowledged by the market. The German owners have been the traditional providers of charter market tonnage under the 3,000 teu size for the past 30 years and they have virtually not invested in such newbuildings during the past five years (apart from a few isolated orders).

The ordering abstention of the German charter market owners is unprecedented and so far there has been only marginal interest from non-German owners in the small size charter market tonnage. Carriers or common feeder operators usually do not invest in such tonnage, only a handful of regional carriers do. A dearth of such tonnage is foreseen in the 1,000-2,500 teu bracket as soon as the economy picks up (See insert 1).
Global cellular containership fleet capacity had reached 16.34m teu as at 1 January 2013, for an annual growth of 6.0%, according to Alphaliner’s annual fleet survey. 207 cellular ships of 1.25m teu were delivered in 2012, while deletions (comprising scrapped, lost and de-celled ships) reached 201 units of 351,000 teu. In addition, there were 18,000 teu added from capacity upgrades of existing ships, arising mainly from the capacity augmentations of Maersk’s 8,200-8,600 teu ‘S’-class ships, boosted to around 9,600 teu. The global container throughput fell to an estimated 4.5% in 2012. This contrasts with the relatively healthy throughput growth of 8% in 2011. The global throughput should rise by 5% in 2013 but at the same time the cellular containership capacity is expected to grow by 7.5%, based on Alphaliner projections. The capacity growth is however biased towards large ships, exacerbating the overcapacity in the large ship bracket while a shortage of small ships of 1,000-2,500 teu is looming.

The supply-demand imbalance and the constant influx of large newbuildings thwart hopes of reducing the pool of unemployed ships. The idle fleet grew from 595,000 teu at the beginning of 2012 to 810,000 teu at the end of the year, after a low of 435,000 teu during the summer peak season. The most affected tonnage stands in the 3,000-5,000 teu range, which comprised 40% of the total unemployed capacity at the end of 2012.

Deletions reached 351,000 teu in 2012, of which 335,000 teu were scappings. The average age of ships scrapped fell to 24 years, against a long term average scrapping age of 27 years. This average age was dragged down by the unusual number of 15-20 year old units sold for scrap and this trend is continuing with forced sales by non operating owners facing insolvency (See insert 2).

### Global Cellular Containership Fleet Capacity

<table>
<thead>
<tr>
<th>Size ranges (TEU)</th>
<th>1st January 2013 - Existing</th>
<th>1st January 2013 - Orderbook</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Ships (All) / TEU</td>
<td>Ships (Of which chartered fm NOO) / TEU</td>
</tr>
<tr>
<td>10,000-18,000</td>
<td>162 / 2,066,495</td>
<td>64 / 828,574</td>
</tr>
<tr>
<td>7,500-9,999</td>
<td>326 / 2,825,749</td>
<td>119 / 1,014,076</td>
</tr>
<tr>
<td>5,100-7,499</td>
<td>475 / 2,915,449</td>
<td>212 / 1,291,783</td>
</tr>
<tr>
<td>4,000-5,099</td>
<td>739 / 3,399,269</td>
<td>399 / 1,797,093</td>
</tr>
<tr>
<td>3,000-3,999</td>
<td>296 / 1,012,646</td>
<td>168 / 581,242</td>
</tr>
<tr>
<td>2,000-2,999</td>
<td>677 / 1,723,561</td>
<td>515 / 1,312,093</td>
</tr>
<tr>
<td>1,500-1,999</td>
<td>572 / 972,341</td>
<td>352 / 599,302</td>
</tr>
<tr>
<td>1,000-1,499</td>
<td>702 / 823,031</td>
<td>438 / 516,979</td>
</tr>
<tr>
<td>500-999</td>
<td>786 / 584,197</td>
<td>493 / 375,878</td>
</tr>
<tr>
<td>100-499</td>
<td>226 / 72,659</td>
<td>49 / 16,134</td>
</tr>
<tr>
<td>TOTAL</td>
<td>4,961 / 16,335,397</td>
<td>2,809 / 8,333,154</td>
</tr>
</tbody>
</table>

The slowing down of loops in 2012 contributed to the absorption of 340,000 teu of capacity which would have otherwise swelled the idle fleet. The total capacity absorbed by extra slow steaming and super slow steaming has thus increased by 45% during 2012 to reach an estimated 1.06m teu at year end, or 6.5% of the cellular fleet. In 2012, carriers have extended the rotation duration of 50 intercontinental loops in slowing down ships into extra slow steaming and super slow steaming, which are two steps further to first step slow steaming, which itself keeps busy over 1m teu (including the component which is inherent to the two other steps as the capacity kept busy through successive slowing downs is cumulative, i.e. for each teu of capacity running in extra slow steaming there is already a teu kept busy by the first step slow steaming component).

Deletions reached 351,000 teu in 2012, of which 335,000 teu were scappings. The average age of ships scrapped fell to 24 years, against a long term average scrapping age of 27 years. This average age was dragged down by the unusual number of 15-20 year old units sold for scrap and this trend is continuing with forced sales by non operating owners facing insolvency (See insert 2).
The 1,000-2,000 teu segment has suffered severely during the downturn with a substantial idling of ships and a recent wave of scrappings. However, the light is appearing at the end of the tunnel for this size range.

During 2012, no less than 67 cellular units of 1,000-2,000 teu have left the fleet according to Alphaliner records, of which 62 units were sold for scrap and five units were de-celled and converted into straight bulk carriers.

In the same period, 48 newbuildings of 1,000-2,000 teu joined the fleet, leaving a net loss of 19 ships in this size bracket. Interestingly, 25 of these 48 newbuildings were destined for regional carriers for their own networks, with the balance of 23 ships aimed at the charter market, of which 16 have joined German owners.

Consequently, the 1,000-2,000 teu cellular fleet has dropped by 2% during 2012, to 1,795m teu. It will continue to shrink in 2013 as many cash-strapped German owners have exhausted their reserves and cannot face the expenses to maintain the ships, especially when classification survey deadlines are reached. Even the lay up option is not affordable, leading them to sell for scrap ships of only 15 years old.

There are a few buyers around, but they are offered a wide choice of younger ships at rock-bottom prices and tend to leave aside the medium-aged ships. There is nevertheless a small flow of these unfortunate mid-life ladies that are purchased by Asian carriers at just above the scrap price for operation on regional and domestic networks.

Only 11 ships of 1,000-2,000 teu have been ordered in this size range during 2012, of which nine were ordered by Chinese carriers for their own networks and only two are aimed at the charter market. The orderbook to existing fleet ratio for this size range stands at only 5.8%, which is well below the replacement rate.

This unusually low replacement ratio reflects a sentiment that the 1,000-2,000 teu ships are, or will be, displaced by larger ships. Indeed, some of these units have been displaced by 2,000-2,700 teu ships but this segment is not severely affected by the cascading triggered by the onslaught of medium-sized ships displaced by the 10,000+ teu ships deluge, which has affected mostly the 2,800-5,000 teu ships.

The reason is that the 1,000-2,000 teu ships cannot be displaced massively from the services on which they are currently plying, for both physical reasons (length and draft) and operational reasons (regional carriers’ networks or feeder operations are not ready for upsizing).

As for the 2,000-2,500 teu segment, only 10 ships were ordered in 2012, all of them being wide beam-low draft ships aimed at the charter market.
2012 has been marked by the scrapping of charter market ships as young as 15 years and this trend continues in 2013. The main reason is that their owners have exhausted their cash reserves after four years of bleeding. Most of these owners are German KG companies (in which individuals invested savings in ship shares with fiscal incentives), usually backed by German financing houses linked to banks (which complete the financing of the KG ships through loans) and to conventional shipowners (who take the KG ships on long term charter at a notional rate decoupled from the real charter market rates).

Although these owners are eager to keep their ships a few years more to benefit from a market revival, they cannot weather the storm. They struggle to pay for the necessary drydockings and class requirements (especially when a special survey is due) or to support the cost of mothballing, which implies expenses without any income and which only postpones the maintenance/class deadlines.

Many non operating owners are unable to bridge the gap until an eventual market recovery, despite agreeing that a shortage is developing in the 1,000-2,500 teu segment.

This situation has fuelled an unusual flow of German tonnage for sale, with too few potential buyers. These buyers fall into two categories. On the one side there are regional carriers that are interested in investing in low priced ships to develop their regional or domestic services (they seek mostly ships of 500 to 2,000 teu).

On the other side, there are speculative buyers who could be interested in buying sound ships at just above scrap levels, which limits their downside risks, while substantial profits could be raised at a later stage in chartering them out or reselling them at a profit when the market picks up (emulating a strategy used in the 1980s with very large tankers, which proved highly profitable for many of these asset players).

Traditionally, the Greek owners play this role, but after having tested the containership market for the past few years, they have shifted their interest elsewhere, reverting to their traditional businesses of tankers and bulkers (apart from a few like Costamare, Technomar, Diana Shipping or Victoria Oceanway).

For asset players, bulker and tanker charter rates and resale values can reach heights that containerships cannot reach when a boom occurs. This is due to the fact that containership charterers cannot pay sky high rates as they are pressurized by the box rates that their numerous clients are willing to accept.

Rescue plans have also been set up by German banks to avoid fire sales that would damage the banks themselves (as creditors). However, banks may hold the financial risk but they do not wish to hold the ships they rescue as that they want to keep them off their balance sheets. One solution is to set up a company to park the ships purchased from deficient KG companies, until they can be sold at a decent price or chartered out at remunerative rates.

For the ships that are fully depreciated, it would make sense to retain at least 15-18 year old units as supportive charter rates can be expected in the medium term. However, for ships over, say, 20 years, the higher maintenance costs are compounded by the likely implementation of the Ballast Water Convention, requiring retrofitting from 2016 (Convention not yet fully signed by enough states for the moment).
The second-hand market for containerships

Despite the respectable figure of 159 second-hand ships sold in 2012, it is still necessary to shed some light here on the depression in the sector. First of all, values fell by 30% over 2012. As can be seen below, some shipowners had to reduce their expectations by 50% compared to the previous year in order to find buyers. At the beginning of the year, yet another attempt to bring about an agreement between the major players to increase container rates on the main shipping routes gave the illusion that things were improving, but this soon gave way to pressure from tonnage overcapacity and a fall in volumes. Nearly 50 ships of more than 10,000 teu were delivered in 2012. Admittedly, in 12 months there has only been a small increase in the number of cellular units, an additional 23 ships (4,961 compared to 4,938). However the differential in terms of teu is considerable +925,000 teu, or nearly 8%.

The pressure felt by shipyards that are short of orders has led them to produce new designs which are technically better adapted to the new market conditions; more economical and above all extremely competitive compared to the existing ships. This competition is visible in the small amount of interest generated by ships less than 10 years old (17% of total sales).

Ships more than 15 years old represented 64% of sales and illustrate the small capital commitment to this market.

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 900 teu</td>
<td>44</td>
<td>58 incl (18 mpp)</td>
<td>43</td>
<td>33</td>
<td>33</td>
<td>55</td>
</tr>
<tr>
<td>900 teu to 2,000 teu</td>
<td>85</td>
<td>54</td>
<td>64</td>
<td>92</td>
<td>33</td>
<td>76</td>
</tr>
<tr>
<td>2,000 teu to 3,000 teu</td>
<td>51</td>
<td>22</td>
<td>19</td>
<td>25</td>
<td>9</td>
<td>15</td>
</tr>
<tr>
<td>More than 3,000 teu</td>
<td>45</td>
<td>20</td>
<td>6</td>
<td>54</td>
<td>29</td>
<td>13</td>
</tr>
<tr>
<td>Total</td>
<td>225</td>
<td>154</td>
<td>132</td>
<td>204</td>
<td>104</td>
<td>159</td>
</tr>
</tbody>
</table>
MORE THAN 10,000 TEU

No second-hand ships of this size were sold. As noted above, today’s ships were ordered at between 20% and 35% above current newbuilding prices. It is, therefore, impossible to attract the usual investors to second hand ships especially when the purchase price to charter ratio (with or without charter back) remains significantly negative.

OVER-PANAMAX (SIX VESSELS)

Three pairs of ships were respectively sold by MISC (which has left the container sector), CMA CGM (restructuring and fleet adjustment) and OOCL (ships built in 1996). The three buyers were, unsurprisingly, Greco-American investors (Capital/Technomar/Box Ships (Paragon)) not operators, who have made ultra secure financial transactions thanks to long term employment (with or without charter back). All of these transactions were concluded during the first half of 2012.

PANAMAX (THREE VESSELS)

Despite newbuilding prices in the region of $60m apiece, 15 Panamaxes have been sold to some brave investors in 2011. With newbuilding prices at about $45m in 2012 the situation has changed dramatically with only a handful of old ships (APL’s ships built in 1996) being bought (Diana Containerships), with a charter back securing the purchase. Non-operating buyers may also have been concerned by the delivery of 40 ships between 4,000 and 5,000 teu onto the market in 2012 and the scheduled arrival of an additional 60 ships of the same type expected in 2013.

2,000 TO 3,800 TEU (20 VESSELS)

In this segment too, nearly all the ships sold were more than 15 years old. With freight rates below daily costs, these sellers, German KGs for the most part, managed to sell their outdated ships to trading buyers for prices 50% to 60% below those of the previous year. Even the rare modern ships for sale have suffered, illustrated by the Jenaz, 2,800 teu, built in 2006 by Hyundai and sold to Sea Consortium for $13.5m, while her sister ship had been sold by the same shipowner the year before for twice the price. For the record, Irenes Respect, another sister ship, was sold in 2006 for $58m!

1,000 TO 2,000 TEU (43 VESSELS)

Indonesian and Chinese buyers dominate this sector. There have been very few noteworthy transactions apart from those at scrap related prices.

Two Wenzhong type ships of 1,700 teu, built in 2008, were sold to Thor Dahl but, despite 100% financing, only fetched $21.8m each, 20% lower than 2011 prices.

Also, the X-press Annapurna and X-press Dhaulagiri, 1,700 teu, built in 2008 by CSBC, were sold by Sea Consortium to the German company Carsten Rehder for $23m each. A small orderbook has encouraged shipowners to invest in the best units available, but these are very rare.

LESS THAN 1,000 TEU (34 VESSELS)

This segment is characterised by an ageing fleet and a small orderbook levelling out at 1.1% for the 500 to 1,000 teu ships and at 0% for ships of less than 500 teu. The buyers remain the same, principally from South East Asia plus a few Europeans. Prices fluctuated between $1m and $4m and as such remain stable compared to the previous year.

To finish on a positive note, 183 ships were demolished (compared to 70 in 2011) amounting to 335,547 teu and 3.7% of the existing fleet (4,961 ships) in units and 2.05% of the container capacity (16,335m teu in total).

Unfortunately, this number is still not high enough when one considers 304 new units (not counting slippage) are due for delivery in 2013 for a total of 1.8m teu (compared to “only” 207 ships for 1.2m teu in 2012).

If the economic horizon seems slightly brighter in Asia and America, Europe is having trouble moving forward. Coupled with this, the withdrawal of Europe’s banks from the maritime sector is worrying for European shipowners and leaves the door wide open for countries who see in this another reason to develop their shipping industry.
Out of my turf!

SEATRUCK PERFORMANCE
Ro-ro, 2,166 lm on 4 decks, 21 knots. Third in a series of 4 sisters ordered by Seatruck Ferries at FSG, delivered in April 2012 and operated by Stena Line under the name of Stena Performer.
Although market fundamentals remained constant for a fourth consecutive year, the developments of 2012 are likely to usher in some important changes, at least in the short to medium term. While a general excess of tonnage persisted, its severity varied throughout the course of the year depending on the geographic region and the size segment. Overall charter rate movement was mostly sideways, but it would be premature to suggest that rates may have bottomed out.
Industry consolidation was without a doubt the main theme of the year. At the very end of May, Scandlines opened the floor by selling its non-core freight-only routes together with their respective vessels to both Stena Line and Swedish Orient Line (SOL). In August, first Cobelfret, part of the Compagnie Luxembourgeoise de Navigation (CLdN) group, announced the closure of the Ipswich – Immingham route, then Stena Line proceeded to take on charter the two vessels released by Cobelfret/CLdN’s route closure as well as two of Seatruck Ferries’ newbuildings from Flensburger Schiffbau Gesellschaft (FSG), which Seatruck was able to release after the decision to halt their Heysham – Belfast service. At the end of August, Cobelfret/CLdN purchased the trio of Odense-built vessels belonging to Epic Shipping and New Paragon Investments Ltd. (NPIL) and shortly thereafter the Grimaldi Group purchased the entire ro-ro fleet (six units!) of Pacific Basin. Towards the end of the year, there was the absorption by Finnlines of Power Line’s route and vessel as well as the cooperation agreement between Transfennica and P&O Ferries dubbed “Landbridge” centered on the P&O terminal in Zeebrugge.

This flurry of activity, which was concentrated in Northern Europe, took the industry’s consolidation drive to a whole new level. Faced with stagnating intra-European trade flows and declining cargo volumes, the main market players resorted to a sensible approach of cooperation in a concerted effort to alleviate tonnage oversupply.

At the same time, and perhaps more importantly, this round of consolidation marked the exit of speculative outsiders such as Epic Shipping, NPIL, and Pacific Basin from the industry. By doing so, it assisted in the restoration of balance to the over 3,000 lane meters (lm) size segment, which had been consistently suffering from overcapacity and was acting as a drag to the entire tonnage demand and supply equilibrium. Indeed, by the end of December, also as a result of Transfennica’s chartering spree, which saw them charter in and extend seven vessels equivalent to more than 13,800 lm, the supply of large and modern vessels had dried up.

Centrifugal forces remained, though, spurred by the availability of tonnage at historically cheap prices. Towards the end of January, North Sea RoRo was established, launching a new service between Gothenborg and Killingholme to rival the DFDS route between Gothenborg and Immingham. The new set up has the backing of Swedish logistics player NTEx, which was one of the main shippers on DFDS’s service. Similarly, at the very end of the year, UN Ro-Ro suffered the defection of a key shipper, Eko Logistics, which started its own ro-ro operation between Istanbul and Trieste by chartering the three Odense-built ships earlier purchased by Cobelfret/CLdN.

In the Mediterranean, Libya was the driving force behind a surge in demand for tonnage, which started towards March and continued throughout the year. Centered on the small and medium size segments, it was driven by imports of vehicles and construction equipment, and witnessed a plethora of hitherto unheard of companies, together with new set ups, appearing on the scene (Castor Shipping, Glenhallen, Med Cross Lines, etc.) and chartering in tonnage, mostly on a short term basis. In addition, as a result of the continued civil war in Syria and the need to circumvent the traditional road transit through the country, a few new lines were launched connecting Turkey’s southern coastline with Egypt. This “sea bridge” in the Eastern Mediterranean was complemented by a further connection in the Red Sea, between Egypt and Saudi Arabia.

Sale and purchase activity was of course influenced by the industry’s consolidation and remained steady with 21 deals registered against last year’s 18. This amounted to a total of approximately 47,900 lm with an average age of approximately 16.8 years and average lm of approximately 2,300.

20 new units were delivered during the course of the year for a total of approximately 65,500 lm, which is remarkably in line with the figures for 2011, with 21 units delivered equivalent to approximately 67,600 lm. Out of these 20 units, originally none were destined for the tramp market, but all three of the Kyokuyo built ships for Cobelfret/CLdN and two of the FSG built ships for Seatruck ended up being chartered out. Sea-Cargo’s two LNG powered units under construction at Bharati (hulls 357 & 358) were again deferred, as was the Al Hurreya 3.

Scrapping activity slowed down a bit with a fall of 27% year-on-year (y-o-y), but remained relatively solid at 33 deals versus last year’s 45. Average age was 32.9 years, average lm were approximately 1,700 and the total lm amounted to approximately 57,400. Primary victims were units in the larger size of over 1,800 lm with 14 versus 10 units for the under 1,200 lm segment and nine units for the 1,200-1,800 lm segment.

Beyond our wildest expectations new orders rose 46% y-o-y to 19 units versus last year’s 13. Although this figure includes
two railfreight ferries for the Azerbaijan State Caspian Shipping Company (ASCSC), the remaining 17 consist of five Post-Panamax versions of the Grande Morocco class of con-ros for the Grimaldi Group at Hyundai Mipo Dockyard (HMD), five revolutionary G4 class con-ros for Atlantic Container Lines (ACL) at Hudong-Zhonghua Shipbuilding, a quartet of con-ros for Messina at STX Offshore & Shipbuilding, one fast ro-ro each for Nippon Kaiun at Mitsubishi Shimonoseki and for Kawasaki Kinkai Kisen at Naikai Zosen Corporation, and one ro-ro for Visemar at Cantiere Navale Visentini. The latter marks the return of the Italian yard to building ro-ros after an absence of 13 years, during which time it had concentrated on ro-pax vessels. With an average lm capacity of approximately 4,800, these orders will add approximately 82,100 lm to the total fleet. The orders of ACL and Messina are clearly going to replace existing vintage tonnage, which thereafter will most likely head for demolition.

Newbuilding prices have reached historic lows, but the tight credit environment endures. In addition, the fleets of the major operators are relatively young, many having already completed or being in the process of completing their rejuvenation programs. Historically low charter rates are unlikely to attract speculative investors, who will in any case probably give the ro-ro sector a wide berth following the experiences of Epic Shipping, NPL and Pacific Basin. Consequently, for 2013, we do not expect to see any speculative orders, but suspect that some operators with solid balance sheets will be placing orders, although not to the tally of 2012.

In the 1,200-1,800 lm size segment, the fleet reduction has continued with a fall of approximately 4.6% y-o-y from 130 units or approximately 191,200 lm to 124 units or approximately 181,900 lm. By December 2013, 41 units or 33% of the fleet will be 30 years or older and so prime candidates for demolition.

In 2013, 18 units are due to be delivered, accounting for an influx of approximately 57,800 lm, including the two 2,838 lm units under construction at HMD for Compagnie Maritime Nantaise (CMN) and the two 4,094 lm behemoths on order at FSG for Ulusoy Seelines and UN Ro-Ro. Only one ship, the Al Hurreya 3, is destined for the tramp market, provided it is actually delivered. However, with a recovery in demand being unlikely, some of the Turkish and French ships could end up as charter candidates themselves.

There are also the two 3,000 lm units almost completed at former P+S Werften GmbH (which filed for insolvency in August), contracts which were cancelled by DFDS. We would not be surprised if DFDS and the yard reached a new agreement, allowing the ships to be completed and delivered. It is unclear how their phasing in will affect DFDS’s fleet, but, unless growth in Europe has rekindled, they could potentially release tonnage for the charter market. We suspect that the latter will not be able to absorb this extra tonnage, having already 12 units or approximately 60,200 lm with an average lm of 3,210 scheduled for delivery in 2014.

With the 0.1% sulphur ceiling fast approaching and the debate raging over which system (scrubbers vs. LNG) is best suited to meet this target, most operators have concentrated on maximizing their economies of consumption arguing that it translates into lower emissions footprints. Interestingly, Stena Line will undergo tests to switch to methanol/DME instead of the controversial LNG.
Two steps forward, one step backward?
There were a lot of high hopes for the car carrier sector in 2012 but ultimately the market was unable to live up to them all. Indeed, charter rate levels, the most reliable market barometer, found themselves at a lower point at the end of the year than at the start. With global economic growth still stuttering and the potential of a slowdown in the emerging economies – which have increasingly carried the market – we suspect that 2013 will be another year of transition.
Prospects looked promising between February and March, when the floodgates opened in Libya to car imports, mainly second hand, boosting the European and Atlantic market, where the West Africa trade had been fueling demand. Most affected by the Libyan boost were vessels in the 3,000-4,000 car equivalent units (CEU) sizes, which saw their charter rate levels rise by as much as 30%. The effect was transferred upstream to the larger sizes and across to the Far East during the ensuing weeks, where tonnage was already tightening as a result of strong vehicle sales in the United States (USA), a recovery in Japanese automotive production and steady Korean automotive exports. It all peaked around June-July with a flurry of activity, which saw mainly Asian carriers secure tonnage of 5,000 CEU and above in anticipation of a seasonal uplift in demand during the last quarter.

It is from this moment onwards, however, that forces began working against the market. First there were the labour strikes in South Korea, substantially reducing automotive output and disrupting carriers’ services. At the start of September the offices of Nippon Yusen Kaisha (NYK), Mitsui Osaka Shosen Kaisha (MOSK), Kawasaki Kisen Kaisha (K Line), EUKOR Car Carriers Inc. and Wallenius Wilhelmsen Logistics (WWL) were raided by the Japan Fair Trade Commission for alleged anti-trust law violations, dampening Japanese carriers’ spirits. Also in September, the territorial dispute between China and Japan over the Senkaku/Diaoyu islands flared up after Japan purchased the islands, with tremendous fallout on Japanese automotive sales and production in China. Against this backdrop, cargo forecasts from Japan and South Korea turned out to be weaker than expected, keeping most carriers away from the charter market and instead forcing them to adjust their fleets by shedding surplus tonnage. Concurrently, back in Europe and the Atlantic, cargo flows to Libya and West Africa had deflated. As a result, the overall rate improvements from the first half of the year had been eroded.

On the demand side, year-end statistics provide a compelling picture to the above narrative. Light vehicle sales in the USA reached approximately 14.5 million units and represented a 13% rise year-on-year (y-o-y). Indeed, sales in the USA arguably carried the market throughout most of the year, with Japanese automotive exports experiencing an increase of 19% y-o-y to the country. In Europe, by contrast, full year sales of passenger cars fell by 8.2% y-o-y to 12.5 million, the lowest level recorded since 1995. The spillover effects of Europe’s crisis hit hard in Asia, where Japanese automotive exports to the region plummeted by 14.7% y-o-y. In Japan, passenger car production increased by 19.5% to 8.5 million units, of which 4.1 million were exported, up 6.8% y-o-y. However, these numbers have to be read taking into account the lost production of 2011 because of the natural disasters. In South Korea, passenger car production came in at 4.5 million units, a fall of 2.1% y-o-y, of which 3.1 million were exported, accounting for a rise of only 0.6% y-o-y. Exports to the USA, however, declined by 8% to just under 500,000 units. In China, the world’s largest market, light vehicle sales rose by 4.3% to 19.3 million units, with annual passenger car sales increasing 7.07% y-o-y to approximately 15.5 million units, and production of passenger cars accounted for approximately 15.5 million units, up 7.17% y-o-y.

Global light vehicle production is forecast to slow down in 2013, rising by only 2.0% to approximately 82.7 million units versus 6.0% in 2012. Hyundai and Kia have predicted their slowest growth in seven years with 7.41 million vehicles for 2013, or 4.1% more than in 2012. In addition, South Korean exports are likely to be negatively affected

IN CHINA, PASSENGER VEHICLE SALES IS POISED TO REACH 20.7 MILLION UNITS, OVERTAKING EUROPE FOR THE FIRST TIME EVER.”
by a strengthening won. In Europe, for a sixth consecutive year car sales are expected to drop by 4.1% to 11.27 million units. However, Japan’s weakening yen could tilt the balance of trade terms back in favor of Japanese automakers, even though it will be very difficult in the short term to reverse their plans to increase overseas production. In China, passenger vehicle sales are forecast to increase by 8.5% to 16.8 million whereas vehicle production is poised to reach 20.7 million units, overtaking Europe for the first time ever.

On the supply side, the industry continued to be blessed with solid fundamentals, namely a balanced fleet characterized by organic growth and a low rate of renewal. Based on a capacity of 1,000 CEU and above, at the turn of the year, the fleet counted 738 vessels equal to approximately 3.7 million CEU, with an average age of 9.5 years. The overall orderbook stood at 47 units or approximately 305,450 CEU, representing 6% of the fleet, stretching out to 2015. 33 units were delivered during the course of the year, accounting for approximately 196,400 CEU, versus last year’s 56. Despite this fall, it is interesting to note that the average size of the vessels being delivered continues to rise, from 5,472 CEU in 2011 to this year’s 5,952, equal to a 9% increase. To put things further into perspective, the average size of vessels being delivered in 2000 was only 4,485, so the gain has been of 33%! This confirms the well established trend of ordering larger sizes to maximize economies of scale.

Unsurprisingly, the average size of the orders placed during 2012 rose 10% y-o-y to 6,528 CEU, on the back of 29 units or approximately 189,300 CEU. For the first time ever post-Panamax beam vessels of 7,300 CEU were ordered for deliveries between 2013 and 2015, three by Hyundai Glovis, three by EUKOR, and four by NYK.

Demolition activity experienced a 53% fall y-o-y, from 15 to seven units, accounting for approximately 20,450 CEU. Average age was 28.0 years. With 40 units, or approximately 157,800 CEU, representing 5% of the fleet due to be 28 years or above in 2013, we can expect a good number to be demolished over the next 24 months.

In 2013, 21 units, representing 3% of the fleet, or approximately 131,700 CEU, are due to be delivered. In 2014, 18 units or 2% of the fleet are due for delivery accounting for 114,500 CEU. In other words, holding all other variables steady, if all of the demolition candidates mentioned above are scrapped between now and 2015, the fleet might experience zero growth in terms of number of vessels and only marginal growth – 2% based on approximately 88,400 CEU – in terms of capacity.

Sale and purchase activity picked up significantly with 16 deals registered in comparison to last year’s six. John Fredriksen’s Ship Finance International Limited dipped its feet into the industry with the purchase of two units of 6,400 CEU from Japanese interests, placing them both on long term charter deals with Hyundai Glovis.

VIKING SEA
Car carrier with approximately 35,000 square meters on 11 decks equivalent to 4,200 CEU with 2 hoistable decks. Delivered by Nantong Mingde Heavy Industry in November 2012 to Gram Car Carriers and operated by Mitsui O.S.K Lines (MOL)
Fluctuat nec mergitur
Overcapacity and high-value losses are the two main particulars of the marine insurance market in 2012. Overcapacity in the market is by no means a new issue but has dominated the International Union of Marine Insurance (IUMI) conference in San Diego this year and has continued to drive market conditions in all classes of marine business.

With respect to major events, the insurance market has been overwhelmed by the loss of the *Costa Concordia* this year, without doubt the largest single loss it has ever had to endure with a cost now estimated well above $1bn for combined interests (Hull, P&I but also Cargo). However the marine market remains strong – “fluctuat nec mergitur”.
The increasing cost of salvage and removal of wreck are two specific risk areas on which the underwriters focus.

Volatility within the blue water portfolio has been clearly illustrated during the 2011 and 2012 years with a series of major casualties in addition to the Costa Concordia that have taken their toll on many underwriters’ loss ratios. The increase in casualties has been compounded by a general increase in the average hull and machinery claims cost during 2010 and 2011. We cannot forget to mention the Hurricane “Sandy” which last October destroyed high-value pleasure crafts and commercial vessels as well as cargo such as imported cars when it hit the North East of the USA. Although marine insurance costs from “Sandy” are estimated to account for less than a 10th of the $25bn that the storm cost insurers overall, the disaster is nevertheless expected to become the costliest catastrophe for marine insurers in absolute terms.

This rather undesirable combination has resulted in very poor incurred loss ratios for many underwriters during the 2010, 2011 and 2012-to-date years of account.

Total insured losses for 2012 are being estimated between $50bn and $60bn. The immediate effect is that the marine reinsurance market experienced substantial rate increases at the 1st January 2013 renewals with a minimum of 15% on most lines, even on loss-free offshore energy excess-of-loss contracts.

### Marine premium 2011 by line of business

- **Total**: $31.9bn - Actual increase 2010 to 2011: +7%
- **Global Hull**: 26.2%
- **Transport/Cargo**: 14.2%
- **Marine Liability**: 5.7%
- **Offshore/Energy**: 54.0%

### Serious and Total Losses 1995-2011 by number (vessels > 500 gt)

- **Number of Incidents**
- **Source**: LMIU, total losses as reported by Lloyds List

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102
Hull technically at loss for 16 consecutive years

<table>
<thead>
<tr>
<th>Hull - Gross Ultimate Loss Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underwriting years 1996 to 2011</td>
</tr>
</tbody>
</table>

2012: Strong total loss impact (on uw years 2011 & 2012)
Costa Concordia: Carnival Corporation & PLC website 508+17 MUSD from H&M insurance (Q2 financial report issued 02.07.2012)
…and more total losses in excess of 30 MUSD did incur 1st half 2012 (partly attaching to uw year 2011)

HULL MARKET

In 2012 the marine hull market has been “soft” again whereby most shipowners were able to renew their insurance policies with a reduction in premium or on “as before” basis. Only fleets having shown difficult statistical results have possibly been penalized although relatively modestly thanks to large available capacities.

Marine hull insurers are claiming that their class of business has generated continued losses for the last 16 years (see graph below). Although official claims figures for 2012 have not been published yet, some Lloyd’s syndicates and large international marine insurance companies are indicating loss ratios in excess of 130%.

The market can be summarized as follows:

- Underwriters are under extreme internal pressure to increase rates but competition and excess capacity prevent hull premiums from rising.
- An unprecedented major loss activity in the last 18 months and certainly in 2012. Already reeling from this, super-storm Sandy has thrown the reinsurance segment of the market into further turmoil as the 2013 renewal season looms.
- Continuing downturn in insured values since 2008 reduces the premium income and is exposing insurers to more Constructive Total Losses.
- Claims inflation is an ever-present ‘bête noire’. The cost of hull repairs has doubled since 2001.
- Large increases in hull reinsurance premiums will have to be transferred to direct clients as otherwise will continue to affect the marine insurers’ margins.
- Increasing vessel size and increasing the maximum foreseeable loss.
- Market withdrawals.
THE MARINE INSURANCE MARKET
IN 2012

There are signs recently that some markets outside the traditional international underwriting centers are under pressure, with withdrawals and security downgrades.

Aviva, CV Starr, Chartis and the American Hull Insurance Syndicate have all pulled out from international marine hull insurance (the later after 90 years in hull business).

Groupama Transport has downscaled and centralized hull underwriting back into France and sold to Swiss insurer Helvetia Assurances.

Delta Lloyd has withdrawn its capacity previously delegated to DMI.

We still anticipate continued contraction in the hull market over the next 18 months as poor results continue to catch up with risk carriers.

CARGO MARKET

In 2012, cargo underwriters have tried to maintain their book of business which could be achieved through relatively stable rates, however claims volumes have increased by about 4%, mainly due to larger number of general average cases.

The loss ratio for the cargo underwriters is however remaining at about 70% allowing a small profit to insurers.

Cargo insurers seem now to be targeting an increased premium income mainly by trying to participate on large accounts which might only be achieved through rate reductions as evidenced by lower tariffs being seen on Europe/Asia shipments.

The French cargo insurance market has proven its good financial strength and showed a larger underwriting capacity in 2012 despite Groupama Transport being absorbed by Helvetia Assurances which has now become the 2nd largest cargo insurer in France.

It remains to be seen what will be the strategy of this new insurer as well as many others (including reinsurance companies establishing direct marine branches) who are showing a growing appetite for what remains a dynamic and still profitable market.

**Cargo premium 2011 by region**

Total: $17.2bn
Actual increase 2010 to 2011: +9%

- Europe: 42.3%
- Asia/Pacific: 32.9%
- Latin America: 10.5%
- North America: 6.1%
- Middle East: 5.1%
- Africa: 3.1%
PROTECTION & INDEMNITY – P&I CLUBS

With an average request of 7.5% increase, the Clubs are seeking a larger premium increase than has been the case in the preceding few years, where increases have hovered around 5%. Claims activity is back on the rise, especially at the pooling level, and many Clubs returned to an underwriting deficit in 2011-2012.

It has been well documented that the Costa Concordia loss is the largest the marine insurance market has had to bear and it has been labeled a “loud and very expensive wake-up call” for the industry. Regarding the wreck removal costs alone, the estimation given in January 2013 increased from €300m to €400m and claims are now being made on the second layer of the International Group reinsurance program.

The last P&I claim estimation at the time of writing this report is $652m in respect of the Costa Concordia and $300m for the containership Rena.

As a consequence the 2013 P&I renewal season is hit by a big change in the international group reinsurance program (see the change below).

A recurring theme that both issues highlight is the increasing gap between the fleet profile for particular risk types and the capabilities of the salvage industry, also an issue raised at successive IUMI conferences.

### P&I results

<table>
<thead>
<tr>
<th>CLUB Financial year</th>
<th>Standard increases 20 Feb 2013</th>
<th>Technical Surplus or (deficit) (A) 2011-2012 USD millions</th>
<th>Investment Income 2011-2012 USD millions</th>
<th>Deficit or Surplus Feb 2012 USD millions</th>
<th>Free reserves Feb 2012 (B) mutual USD millions</th>
<th>Owned GT millions T Feb 12</th>
<th>Nr of vessels owners P&amp;I</th>
<th>Last S&amp;Poor’s Rating</th>
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<tbody>
<tr>
<td>AMERICAN</td>
<td>10.00%</td>
<td>-10,359</td>
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<td>-3,393</td>
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</table>

(A) Technical surplus or deficit including change in net outstanding claims
(B) Free reserves including forecasts additional calls
(C) Britannia investment income including all lines of business and Free reserves including Boudicca
(D) Figure including Free reserves including all lines of business Swedish club free reserves including all lines of business
Main changes in the reinsurance program as from 20th February 2013:

**Club retention**
The retention of individual Clubs before pooling is increased from $8 to $9m each claim.

**Excess loss renewal**
The 2011-2012 policy year produced the first and third largest ever claims on the Group reinsurance program resulting in a very significant exposure to the Group’s reinsurers. This exposure, coupled with general concerns regarding the increased cost of major casualties, and in particular wreck removal and SCOPIC exposure, has led the Group’s reinsurers to seek significant rises in the renewal premium for the 2013-2014 policy year.

For 2013-2014, a three-layer pool structure will be introduced with a lower pool layer from $9m to $45m, an upper pool layer from $45m to $60m (within which as currently there is a claiming club retention of 10%) and an upper upper pool layer from $60m to $70m (within which there is a claiming club retention of 5%).

**IRANIAN SANCTIONS**

This year, the P&I clubs have also spent much time and energy grappling with Iranian sanctions that have prevented them providing cover to ships carrying oil from Iran.

The uncertainty surrounding restrictions has been a real headache and clubs have argued that the sanctions on third-party liability could prove dangerous in the event of an incident in which cover is compromised.

**PIRACY FALLS IN 2012, BUT SEAS OFF EAST AND WEST AFRICA REMAIN DANGEROUS, SAYS IMB**

Piracy on the world’s seas has reached a five-year low, with 297 ships attacked in 2012, compared with 439 in 2011, the International Chamber of Commerce (ICC) International Maritime Bureau (IMB) global piracy report revealed today. Worldwide figures were brought down by a huge reduction in Somali piracy, though East and West Africa remain the worst hit areas, with 150 attacks in 2012.

<table>
<thead>
<tr>
<th>Vessel Category</th>
<th>$ per GT</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dirty Tankers</td>
<td>$0.7565</td>
<td>+16.12%</td>
</tr>
<tr>
<td>Clean Tankers</td>
<td>$0.3245</td>
<td>+15.98%</td>
</tr>
<tr>
<td>Dry Cargo Vessels</td>
<td>$0.4942</td>
<td>+38.78%</td>
</tr>
<tr>
<td>Passenger Vessels</td>
<td>$3.1493</td>
<td>+125.08%</td>
</tr>
</tbody>
</table>

These increases represent the largest in recent years despite increased risk retention (see below) by the Group Clubs.

In 2013-2014 the excess point on the reinsurance contract will be increased from $60m to $70m with the additional $10m retained within the Group pool reinsured by the Group captive Hydra for $40m excess $30m. In addition, the Hydra coinsurance share in the first layer of the Group General Excess of loss ($500m excess $70m) will be increased from 25% to 30%.
Globally, 174 ships were boarded by pirates last year, while 28 were hijacked and 28 were fired upon. IMB’s Piracy Reporting Centre also recorded 67 attempted attacks. The number of people taken hostage onboard fell to 585 from 802 in 2011, while a further 26 were kidnapped for ransom in Nigeria. Six crew members were killed and 32 were injured or assaulted.

In Somalia and the Gulf of Aden, just 75 ships reported attacks in 2012 compared with 237 in 2011, accounting for 25% of incidents worldwide. The number of Somali hijackings was halved from 28 in 2011 to 14 last year.

The Gulf of Oman, southern Red Sea and the Somali basin: Pirate mother ships and skiffs were reported in these regions, with a number of attacks close to the Straits of Hormuz and the energy routes out of the Arabian Gulf.

As of 31 December 2012, Somali pirates still held 104 hostages on eight ships and 23 more were detained on land, pending negotiations for their release.

Gulf of Guinea: As for West Africa, piracy is rising, with 58 incidents recorded in 2012, including 10 hijackings and 207 crew members taken hostage. Pirates in this area are particularly violent, with guns reported in at least 37 of the attacks.

Nigeria accounted for 27 incidents in 2012, with four vessels hijacked, 13 vessels boarded, eight fired upon and two attempted attacks. Only 10 incidents were reported in 2011, including two hijackings. Togo has also seen an increase from five reports in 2011 to 15 in 2012, including four hijackings.

Off the Ivory Coast, five incidents were reported in 2012, up from one in 2011.

Across the Indonesian archipelago, there were 81 reports of petty theft, accounting for more than a quarter of global incidents in 2012. 30 vessels were attacked in the last quarter of 2012. Reports from Indonesia have increased yearly since 2009. Vessels were boarded in 73 incidents and 47 crew members taken hostage. Fourteen incidents were reported at Belawan by ships anchored or berthed.

**CONCLUSION**

2012 has been a tough year for most shipowners, for many traders, for P&I Clubs, for hull underwriters, and for reinsurers... only cargo, war risks and K&R insurers seem to have enjoyed a profitable year.

As from 1st January 2013, reinsurance costs have been significantly increased for most classes of business, including for P&I Clubs and all insurers will have to reconstitute their reserves.

Whilst P&I Clubs have announced an average 7.5% general increase in 2013, most specialists believe that general increases will be of a minimum 15% in 2014.

Cargo insurers seem to show an appetite for larger market share and increased premium volume which will most likely affect their margins.

So far in 2013 hull insurers are trying to avoid further premium reductions which indeed are more difficult to achieve but we are not seeing any sign of increases as the overcapacity is definitely still there! Most likely a 17th year of underwriting losses for this class of business in 2013 and further market withdrawals are to be expected.
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