

Mumbai box congestion driving cargo elsewhere

Pinaki Routray

New Delhi

The beginning of the monsoon season in India is playing havoc with operations at the country's biggest containership port.

JawaharLal Nehru port (JNPT) near Mumbai faces severe congestion at its terminals, forcing ship-owners to shift cargo to neighbouring facilities.

The problem is due to high tides, incessant rain and heavy wind conditions. Port operations have been severely affected during the past couple of weeks.

JNPT officials indicate that all the port's three box terminals are presently bottlenecked because of the backlog in clearing containers.

According to an official estimate, over 50,000 teu of containers are still lying at the three facilities, as well as around 9,000 teu at the inland container depot (ICD) that serves the port.

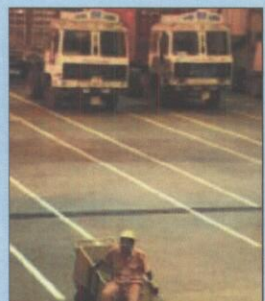
In addition to monsoons, the lack of sufficient railway wagons has further escalated the problem at the terminals, officials say.

Sources at the port say companies are making alternative plans, including Hamburg Sud, which is currently operating a liner service between Europe, the Middle East, India and Pakistan. It announced last week that it plans to route its shipments through Mundra port in the north-west of India.

Similarly, Maersk Line wing Safmarine has also announced that it will divert all of its shipments destined for customers in northern India to Pipavav in the north-west.

The problems at JNPT are expected to continue for the next few weeks until the terminals are cleared of the current backlog and the monsoon eases. This might lead to further diversion of cargoes to ports in Gujarat state in the north-west.

(For more on general ports developments in India, see pages 22, 24 and 25.)



MONSOON BOTTLENECK: A JNPT dock worker

Photo: Bloomberg News

First cleared deal to get ball rolling

It is hoped that a first for the derivatives market will kick-start container swaps.

Geoff Garfield

London

A whirlwind few months has seen the execution this week of the first cleared container freight swap agreement (CFSA).

It is hoped that the move, which followed swiftly after LCH.Clearnet launched an over-the-counter (OTC) CFSA clearing service, will kick-start the trading of box freight

derivatives in a multibillion-dollar container market.

Clarkson Securities, which handled the first cleared trade — between Kerry Logistics UK and Credit Suisse — has been working closely for two years with the Shanghai Shipping Exchange (SSE), against whose Shanghai Containerised Freight Index (SCFI) it was settled.

The derivatives arm of the London-based shipbroker is already involved in wet and dry swaps and since January has brokered approaching 50 CFSA, albeit all until now on a purely bilateral, uncleared, basis.

It believes that the removal of credit risk through clearing could see container-derivatives trades

mushroom in the next five years to maybe 10% of the underlying physical market.

The US dollar per teu trades contracts will be cash settled monthly against the SCFI.

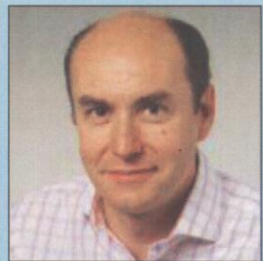
Other players are expected to join LCH.Clearnet in offering clearing, which now accounts for around 98% of the dry-bulk forward-freight-agreement (FFA) sector, a figure stemming from counterparty failures visible in the OTC market post 2008.

Similarly, other brokers executing dry, wet and iron-ore swaps, for example, are expected to challenge for a piece of the CFSA action. Among them, Freight Investor Services (FIS), whose managing director John Banaszkiwicz says

containerised exports on the Far East to Europe and US routes now covered by LCH.Clearnet account for nearly 25.2 million boxes, with an estimated value this year of over \$40bn.

LCH.Clearnet will focus initially, however, on just four of the 15 routes covered by the SCFI albeit the most important. All are out of Shanghai to North West Europe and the Mediterranean, as well as the US East and West Coasts.

Isabella Kurek-Smith of LCH.Clearnet says the company is working closely with brokers and its members in terms of marketing. Margins to begin with will be around 10% to 15% of contract value and its fees \$3 per lot, the equivalent of one box.



Clarkson Securities chief executive Alex Gray: "They have been looking for a derivatives product to take out some of that volatility to be able to manage a smoother curve in terms of their freight costs."



BENJAMIN GIBSON: Freight-derivatives broker at Clarkson Securities

Photo: H. Clarkson

Kerry Logistics lead no surprise in cleared swap

Kerry Logistics's involvement in the first cleared container-freight swap agreement (CFSA) is probably no coincidence.

The company's Brian Dempsey is vice-president of the recently created Container Freight Derivatives Association (CFDA), which stages its inaugural meeting and forum in Shanghai on 14 September, a "platform" to inform the wider market.

Clarkson Securities executed the first CFSA trade at the beginning of this year between Morgan Stanley and regional container line Delphis, albeit not cleared.

Alex Gray, chief executive of Clarkson Securities, says the focus since then has been to grow and bring to the market a couple of clearing houses. The involvement of LCH.Clearnet, which has been at the forefront of developing FFAs, changes considerably the "supporting dynamics".

Contracts will cover up to 23 months forward.

Gray claims that coupled with travelling plenty over the past six months to meet a diverse and of-

ten different client group, a lot of new participants have entered the market.

"There are owners of containerships that are common to the bulk market and there are banks and financial institutions that have an interest in it but the container lines for us on the derivatives side are a relative unknown," said Gray.

Dempsey believes CFSA will also become an essential tool for logistics companies on behalf of their diverse client base.

"What all these companies have said is they have had a pressing need for some method of managing their freight risk in what is already a very volatile market," added Gray.

"They have been looking for a derivatives product to take out some of that volatility to be able to manage a smoother curve in terms of their freight costs. That is the view echoed by the end users, the retail customer as well as the logistics providers, the freight forwarders who are looking to be able to offer a little bit more struc-

ture in terms of long-lasting, durable business."

Freight Investor Services (FIS) managing director John Banaszkiwicz describes container derivatives as the "missing link" in the forward-freight-agreement (FFA) market.

On the retail-side potential, Banaszkiwicz commented: "In contrast to the bulk markets, containers are easy to grasp and far more in line with the general public's perception of shipping."

Derivatives broker colleague Arthur Worsley points to the approximately 140 million teu of containers carried in 2009 and expectations of over 144 million this year.

Banaszkiwicz says developing a two-year forward curve for container rates will be useful also in pricing stock-listed companies and identifying an arbitrage in the way that some equity players already trade FFAs against stocks.

The Shanghai Shipping Exchange (SSE) introduced an index as long ago as 1998 and the two

years of work between then and last October, says Clarkson Securities' Gray, has been to produce a balanced index embracing input from owners, carriers and non-carriers.

It was felt that the original Shanghai Containerised Freight Index (SCFI) was not transparent enough for use as a derivatives settlement mechanism. Clarkson's role has been advising and assisting to develop the new index.

Gray said: "What they have arrived at is the first-ever really neutral product that captures a US dollars per teu freight rate for export volumes out of China."

The SSE provides a similar role to the Baltic Exchange for FFAs by gathering and publishing route assessment information using a panel of 15 carriers and 15 service providers.

But Banaszkiwicz says it is a shame that the Baltic Exchange, which publishes indices for dry and wet freight swaps, has missed the "golden opportunity" to add containers.

(Continued on page 16.)

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ConTex raises hopes for parallel plays

Much of the discussion during the past 10 years about container derivatives has focussed on creating an index for time-charter period rates, a sector that preoccupies numerous brokers especially in Hamburg and London.

The recent launch of a new German-based ConTex Index has raised hope of a paper market developing also for boxship chartering.

Alex Gray of Clarkson Securities says the current US dollar per box container freight swap agreement (CFSA) initiative is meant as an alternative, not a replacement.

Freight derivatives broker colleague Benjamin Gibson says the container industry differs fundamentally from dry bulk by being two tier — the charter market participants and, very separately, the freight market for goods in containers between the lines and their customers.

The latter is huge — manufacturers, retailing groups such as Wal-Mart and IKEA, specialised logistics providers, freight forwarders and consolidators among them.

"We see that market as potentially more interesting as a derivatives product," said Gibson.

Risk management is needed, he argues, because of container freight-rate volatility, not only in its extreme form during the past couple of years but going back 10 years. Much more so than on a long-term period vessel basis, he says.

Also, the more diverse range of counter parties meant it was interesting to develop a product "applicable to not just shipping companies but global manufacturers and retailers".

Clarkson Securities has executed close to 50 contracts since the first uncleared trade six months ago but during that time "we have been working very much within the constraints of a market that doesn't want to deal on a bilateral basis", says Gibson.

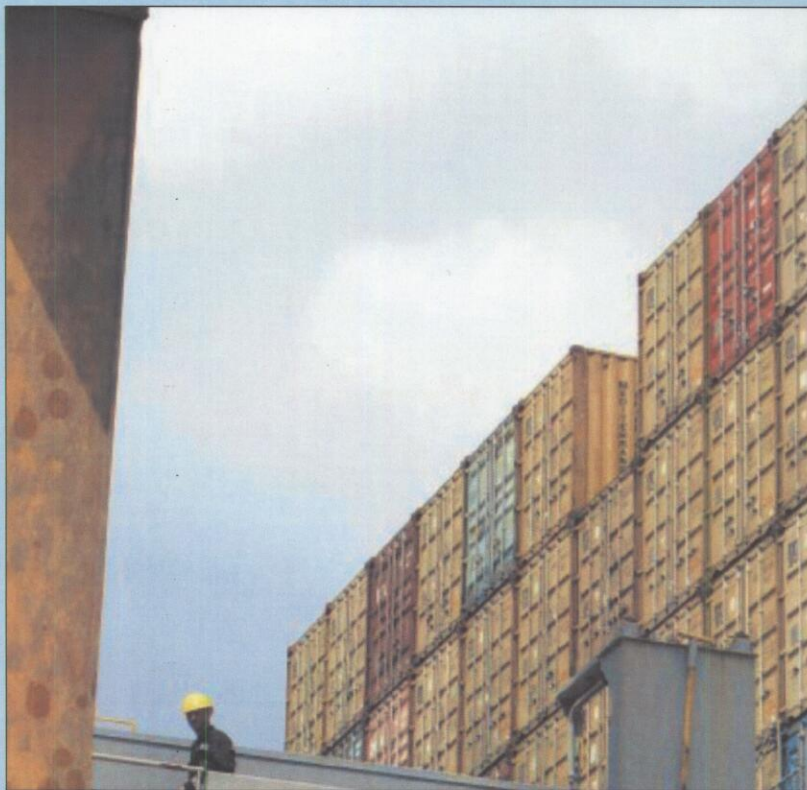
Added Gray: "A number of companies have held back waiting to see a cleared product. We know that with the container market, most people have said that once it is cleared we will take it [derivatives] seriously."

Gibson puts container traffic in 2009 at a massive 130 million teu and Clarksons expects this to grow by around 10% in 2010, close to the historical averages between 1997 and 2007.

The Transpacific Stabilization Agreement (TSA) has reported first-quarter container volumes on the Asia-to-US route increasing around 13% from a year earlier to 1.27 million teu, albeit still below 2008 levels.

Broker Freight Investor Services (FIS) says it is conducting a survey into the potential for the CFSA market, with plans for a daily market report.

The four routes on which the



BOX TRAFFIC: Clarksons Securities broker Benjamin Gibson puts 2009 figures at 130 million teu

Photo: Skoerberg News

Shanghai Containerised Freight Index (SCFI) cash-settled CFASAs are based on are the largest by volume of the 15 published by the Shanghai exchange and include the busy and changing Asia east and westbound legs. It leaves the possibility of adding 11 more routes.

Gray, however, concedes that a "huge amount of work" lies ahead attracting "meaningful volume and by that I mean the big movers in containers".

The natural arbitrage that exists between the time-charter value of ships and achievable container earnings also presents an opportunity to play financial arbitrage between the two, he says.

"As our products develop, I think we will be even more enthusiastic to see the development of a financial time-charter market and we are very happy to see how that moves alongside what we are doing."

He reckons that there has been sufficient growth statistics this year to assume that the recovery in container shipping is more fundamental than simply restocking.

Gray says that after putting in two years of development work "we have also created a Container Freight Derivatives Association (CFDA), a push to invite participation from everyone — other brokers, principals, all areas of the industry".

Its inaugural president is Brian Nixon of Morgan Stanley. A first forum of the association planned for September in Shanghai, where speakers will address market development so far, the possibilities created by clearing and what the container industry can learn from other derivatives markets.

Gibson says Clarksons could have sought an exclusive agreement with the Shanghai index provider but experience had shown that competition is essential to create a successful market.

"It has never been our intention to exclude other brokers," he said.

The contract is described as simple and similar to that in the dry-FFA sector.

As for criticism from other quarters that the Baltic Exchange has missed an opportunity, Gibson says there had been open dialogue with the St Mary Axe body, including at least one face-to-face meeting between it and the SSE.

He said: "I believe the Baltic's position was always that the container-freight market was a little bit too far removed from their core operation in dry and wet freight and I think they felt it would be a dilution of their reputation and expertise to get into it."

The focus since the introduction this week of clearing will be to drive liquidity and "make sure the market is meeting a need for those who are hedging their freight risk", says Gibson.

He says Clarksons already has interest from people keen to trade other routes on the SCFI, although there is nothing to stop them on an over-the-counter (OTC) uncleared basis.

But it is probably wiser to concentrate liquidity on the original four LCH.Clearnet-cleared routes as Shanghai to Northern Europe

for container lines is "incredibly important".

Not only does it have the volatility but it is also where most of the container lines' key clients really important cargo flows are found.

Gibson claims that as well as banks, there has already been huge interest from the hedge-fund community, which does not have any physical exposure to the container market.

Such funds have been looking for ways to mitigate their exposure to Chinese gross domestic product (GDP) by using dry-bulk FFAs. Instead, the SCFI may be a better tool because it effectively is a measure of Chinese manufactured exports, says Gibson.

Arthur Worsley of FIS describes LCH.Clearnet's involvement as a "massive vote of confidence in the whole system", while FIS managing director John Banaszkiwicz eventually expects arbitraging between time charter and container rates.

Banaszkiwicz predicts growing interest to come from banks, as demonstrated already by Credit Suisse and Morgan Stanley's involvement, as well as charterers such as Cargill and Toepfer which already have FFA exposure.

The stage has been set with, for example, lower box rates having encouraged the movement of more commodities such as rice and sugars — which are difficult to hedge in containers.

Also, publicly-listed Wal-Marts, IKEAs and Michelins have huge container exposure and have to go to the big lines to agree a price, says Banaszkiwicz.

"Now they have a tool to hedge their forward orderbook using derivatives guaranteed to be settled because they are credit cleared," he said.

Bergen duo call it quits and file for bankruptcy

Trond Lillestolen

Oslo

Troubled tanker owner and operator Bryggen Shipping & Trading and broking shop Network Chartering have declared bankruptcy.

In June, Tore Haagensen, the sole owner of the two Bergen-based companies, told TradeWinds the companies were closing down to be replaced by two new outfits — Bryggen Shipping & Trading International and Network Chartering International — and that business would continue through them.

But on the Bryggen website this week the operated fleet has been reduced from 17 to just seven chemical tankers.

Manager of the bankruptcy estate Bjorn Aage Hamre says the picture surrounding the bankruptcy is complicated. It includes Bryggen's owned ships — the 16,500-dwt *Bryggen* (built 2003) and *Vaagen* (built 2006) — and three ships on time charters — the 19,700-dwt *Holmen* and *Hellan* (both built 2006) and 19,700-dwt *Dreggen* (built 2008).

The *Bryggen* and *Vaagen* have now been taken out of the fleet list. The other four are the 19,200-dwt *Bold World* (built 1996) and *Bright World* (built 1997), both owned by BW Group in Singapore but commercially managed by Bryggen, plus the 15,000-dwt *Maasen* (built 2008) and 10,000-dwt *Sanmar Majesty* (built 1996).

Haagensen declines further comment on the bankruptcy other than saying "now you really must leave me be".

Bryggen was set up in 1988 and has for many years been a success story primarily in chemical tankers. But a weak charter market created problems, not least for the *Bryggen* and *Vaagen*, which are both under arrest.

Nordea Bank arrested the *Bryggen* and has \$51.7m outstanding from the company. TradeWinds recently reported that the bank will shortly sell the ship.

Bryggen is also in a \$22m charter dispute with World Line Maritime, which has arrested the *Vaagen*, and the case is heading for arbitration in London.



TORE HAAGENSEN: Sole owner of Bryggen Shipping and Network Chartering

Photo: Adam Corbett

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