

Lloyd's List, 69-77 Paul Street, London, EC2A 4LQ

Boxed in by the rebound

ONE of the startling features of the recession for the port industry was the way in which many of the world's leading terminal operators managed to maintain profit margins while volumes fell precipitously.

In stark contrast to container carriers, which cumulatively suffered near-catastrophic losses, terminal operators, especially those with a diversified global portfolio, were still able to post results firmly in the black despite throughputs declining in an unprecedented fashion.

This was achieved through some severe belt-tightening, the basis of which was nothing short of a complete paradigm shift in the mentality of operators. For almost the entire history of containerisation, terminal operators have only experienced one trend: continued, year-on-year growth. Each year they handled increasing numbers of boxes; it seemed to be the one constant to life as a container port.

In theory, of course, terminal operators must have suspected that sooner or later that trend would be reversed, but it was not until the latest recession that the possibility became a reality. Up until 2008 operators had only experienced growth, and all their business plans revolved around expanding facilities and capacity, and increasing box-handling productivity, and suddenly those plans had to be shelved.

However, in the rollercoaster fashion of modern global economics, the rebound has been even more surprising than the decline, and operators are now being asked to dust off those same plans and begin thinking once more about expansion, and it is not entirely clear that they are willing to do so after their recent white-knuckle ride. For many, it may be a

mental jump too far, whatever the cargo forecasts may now be suggesting.

The predictions are that within five years there will be global shortfall in terminal capacity to the order of about 100m teu, the equivalent of about four Shanghaies. Not a trifling amount, especially given the long lead time required to bring new capacity on line. It is in container carriers' general interest to encourage this to be addressed, because it is not just about having enough space to handle boxes, but also ensuring that competition between terminals remains — after all, every customer wants a choice.

A league of three

IF, AS Germanischer Lloyd's Hermann Klein expects, the world's first 18,000 teu containerships are ordered within the coming year, that could mark the start of a new super-group of global carriers.

The money has to be on Maersk Line, which is known to be in discussions with yards about the next generation of boxships. The Danish line has been at

the forefront of containership design for many years, having broken through the 6,000 teu barrier in 1996 with *Regina Maersk*, which set new benchmarks. A decade later *Emma Maersk*, officially declared at 12,500 teu, was launched. Competitors are only just catching up with ships of that magnitude.

If Maersk is poised to move up to another class, which lines will be able to follow? Parent company AP Moller-Maersk proved its popularity in the credit markets by raising €500m (\$666.7m) through a bond issue in only two hours last week. Few other shipowners are in such a strong position.

Heavily-indebted CMA CGM would not be a contender. Mediterranean Shipping Co probably would have similar difficulty tapping the financial markets after last year's debt reschedulings.

German owners are probably out of the picture as well, while Seaspan is expected to go for ships of around 10,000 teu when it finalises its next order. Evergreen and NOL also prefer smaller sizes. Zodiac Maritime has just signed for 13,000 teu.

So that probably just leaves the two major Chinese lines. Is this the future? A trio of lines in a league of their own? ■

Industry Viewpoint



JENNIFER WARREN

CNOOC's recent foray in the US Eagle Ford shale field is indicative of the nation's desire to move towards using cheaper, greener fuels

China ramps up its gas investment

THE unlocking of shale gas in the US has changed the landscape for natural gas supply and demand for decades to come. From a series of continual technological breakthroughs in drilling practices spanning roughly 25 years, reserves calculations in the US natural gas industry have been greatly altered.

Oil majors across the globe — Norway's Statoil, India's Reliance, France's Total and others — have lit on shale plays in North America to gain transferable expertise, much of the action being in Texas and Pennsylvania.

New to the game is China, with China National Offshore Oil Corp's recent announcement that it is to invest \$2.2bn in the south Texas field Eagle Ford.

It was only a matter of time until the Chinese came. In a December 2008 article — 'China's Green Future', published in the *Far Eastern Economic Review* — the idea was sprung that the nation might consider exploiting its "unconventional" gas reserves vis-à-vis US drilling technology.

Contingents were expected to be sent to China around that time, according to a gas developer and renewables executive operating in the country. Gas missions ensued between the US and China.

One impetus for China's move into natural gas is energy portfolio diversification. The use of natural gas can displace portions of coal-based power generation. It can also be used as a transportation fuel, paring back oil consumption as well.

The Chinese government would like domestic shale gas output to reach between 15bn cu m and 30bn cu m per year by 2020. The nation's expected usage this year is 110bn cu m. The gap in supply will have to be met by liquefied natural gas shipped to the country's border or by pipeline.

China's new shale gas research centre, opened in August, estimates resources of 30trn cu m. The US Energy Information Agency says the nation's gas reserves are 107trn cu ft (32trn cu m) as of January 1, 2010 — in comparison with the US' 245trn cu ft, a 100-year supply, and Russia's 1,680trn cu ft.

Natural gas is the new go-to source as it becomes more plentiful, taking a share from oil in transportation and coal in power generation. Gas-fired power plants are less expensive compared with coal-fired and nuclear plants.

Gas-fired plants can also be easily sited next to wind and solar-energy power plants to reduce their issues of intermittency. China, simply put, is redirecting its energy consumption to suit its development path.

A second rationale for China to use more natural gas is related to climate change. First, natural gas emits 45% less CO₂ than coal and 30% less than oil. The nation's growing carbon emissions from burning fossil fuels, particularly coal now and more oil in the future as vehicle demand grows, will overwhelm the globe's atmosphere on its current trajectory.

China can help reduce its role in rising carbon emissions and it has every reason to do so — health benefits for its population, reductions to weather variability that



The CNOOC headquarters in Beijing: the company is investing \$2.2bn in the Eagle Ford field in Texas.

enhance drought and flooding, resource conservation, and others.

But is there another driver in this new gas paradigm? What about the price of natural gas? In summer 2008, natural gas prices were hovering in the \$12-\$14 per million British thermal units range, compared with \$3-\$4 now.

One oil major, ConocoPhillips, announced it will "shut in" some of its natural gas supply owing to low prices. The company plans to shift capital to areas that produce more profitable, "liquids-rich" natural gas like the Eagle Ford Shale.

Geological consultant Arthur Berman of Labyrinth Consulting Services says the marginal cost of shale production for most operators is about \$8 per 1,000 cu ft. He expects current levels of drilling and oversupply of gas to persist at least into mid-2011. "The present emphasis on liquid-rich plays [such as Eagle Ford] does little to mitigate low gas prices because most of these plays produce considerable volumes of gas," he says.

Other analysts at Morgan Stanley expect the \$4 price to continue through 2011. Given the oversupplied US market, exporting gas is one solution, unless the US government creates further incentives for the use of natural gas in the transportation sector.

Drilling less is another solution and some companies are beginning to pull back on a case-by-case basis.

There are two other scenarios that will impact the gas gale blowing across the globe — climate change agreements and the fundamentals playing out through economics. If governments, particularly the US government, ever tax or place caps on the heaviest-polluting fossil fuels such as coal and oil, then gas will benefit.

However, the price is likely to rise for gas as well as it still has carbon content. This is one top-down scenario to which China is no stranger. In the past, the country made great strides in reducing energy consumption. It quadrupled gross domestic

product from 1980 to 2000 and only doubled energy consumption.

China effectively reduced energy intensity and plans to do so again, which is reflected in its Copenhagen promises. The nation loses about 3% of GDP from air and water pollution, with energy production and manufacturing processes underlying much of these losses.

The other scenario is driven by the fundamentals of supply and demand of an exhaustible resource. New research by energy expert James Smith of SMU Cox School of Business shows how the idea of peak oil, or peak other-resource for that matter, will drive the production and consumption of an exhaustible resource.

If demand continues to rise for gas and LNG, prices will eventually rise to balance out the motivations of suppliers. ConocoPhillips' actions are exactly the kind of rationale made by producers. They would rather "hold" some inventory back until the price is higher and the rewards for their risk make sense.

While prices are low and oversupply currently exists in natural gas markets, a rebalancing will occur when either demand stokes up or suppliers hold back.

The news of China's forays into US gasfields adds a new and interesting chapter to the evolving gas story. China's desire to reduce operating costs and increase energy diversification is completely justifiable. It is just good business sense.

Amid the welfare gains to economies, companies and consumers from increased gas consumption, we must keep watching the key characters in this narrative that can redirect events — governments, consumers and producers. ■

Jennifer Warren is principal of *Concept Elemental*. She researches and writes about global economics and resource sustainability, mixing theory with practice, serving institutions, businesses and governments

Maritime Blogspot

Slice of cake at Maersk that leaves a sour taste

THE likelihood is that Marie Antoinette never really did say 'qu'ils mangent de la brioche', loosely translated as 'let 'em eat cake'. It takes a 21st century shipping executive to be as insensitive as that.

The story is that Louis XVI's missus proffered this dismissive rejoinder on being told that the peasantry was starving for want of bread. It has been repeated so many times that it is generally accepted as fact by those whose knowledge of the French revolution does not encompass the tennis court oath, the Civil Constitution of the Clergy or the flight to Varennes.

But historians now believe the tale is a lie, purposely put about by dastardly revolutionaries who, for their own selfish reasons, wished to discredit the monarchy by painting it as out of touch with the concerns of the hungry toilers.

By contrast, it really is true that Maersk Line chief operating officer Morten Engelstoft put out a memo to seastaff telling them that office employees had celebrated the company's recent \$4.2bn third-quarter profit by feasting on Danish cream cake, and calling on them to do likewise.

Given the thousands of recent job losses, not to mention budgets that have been pared to the extent where paper napkins have been declared an unwarranted luxury and seafarers mandated to make do with squares of kitchen towel instead, the missive predictably went down rather badly.

One master had the guts to put his head above the parapet and sent HQ a curt response, in an act of courage comparable to that of the guy who started the chanting against Ceausescu, at what turned out to be the last rally the Romanian dictator ever got to address.

This proved something of an 'I am Spartacus' moment for officers throughout the fleet, who spontaneously emailed messages of support. Many seemed somewhat insulted to be told that their efforts, which materially contributed to a massive boost to the bottom line, were deemed worthy of nothing more than an injunction to tuck into some cholesterol-laden sugary baked dessert.

History never repeats itself, so we are unlikely to see numerous Maersk bosses carted to the guillotine by tumbril as haggard tricotouses look on gleefully. But it is pleasing to see seafarers — many of whom have responded to orders to jump simply by asking 'how high?' — discover some sense of self-assertion.

Abbé Sieyès wrote one of those pamphlets whose impact has resonated gloriously throughout all subsequent history, penning the document titled 'What is the Third Estate?' Maybe he should have asked 'who are the third mates?' instead. Liberté, Egalité, Fraternité! A bas de laggage! ■ *Barratry's is an irreverent place, designed for opinionated takes on daily maritime news, where the only unwelcome opinion is a conventional one. We invite you to join the discussion. <http://barratry-blogs.lloydslist.com>*