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

Channelled anguish

IT LOOKS a simple enough proposition to outsiders.

All you have to do is run a ro-ro back and forth between two ports a couple of dozen miles apart, as many times as you possibly can in any given 24-hour period, making sure you cram on as many cars and trucks as will fit the ship. Any fool could manage that, surely?

Yet as the recent history of the cross-Channel ferry market shows, life is not that simple.

Stena, Superferries and Hoverspeed have all dropped by the wayside, and LD Lines is only the latest name to bite the dust. The existing big two are not having a high time of it, either.

Interestingly, both are state-owned. Unfortunately, only one is expected to do anything as remotely capitalistic as provide a return on investment. Separate P&O Ferries accounts have not been available since the company was purchased by Dubai World in 2006. We are told that it is profitable, albeit not adequately so.

That is more than can be said for SeaFrance, which were it not the repository of so much Gallic national pride, would surely face a Sartre-style existential crisis more likely to resolve in nothingness than being.

The genesis of this sorry situation is of course the arrival of the Channel Tunnel, which has brought permanent excess capacity ever since its 1994 inception. Eurotunnel is another venture that would now have gone under had it not been able to undergo restructuring on advantageous terms.

In short, this is anything but a rational market. There simply is not enough traffic to support all three players, and logic demands that sooner or later, something will have to give. Unfortunately, an impressive determination to throw good money after bad still seems to prevail in certain quarters.

Collusion concerns

RUNNING an air freight story in the pages of the leading daily shipping newspaper might, on the face of it, seem a trifle odd.

But the case against a group of the world's largest freight forwarders, which are alleged to have colluded in fixing the levels of fuel surcharges added onto air cargo freight rates, has important implications for the container shipping sector.

Unlike container shipping lines, freight forwarders have never enjoyed any form of immunity or exemption from anti-cartel legislation, and neither have airlines, many of whom have been embroiled in defending themselves from the same charges — and not with the greatest success.

The latest charges in New Zealand are nothing new. They stem from the same charges faced by the group of around 20 airlines in the US and Europe, and to which they have admitted culpability, with the result that several air freight executives have subsequently been jailed, while several senior air freight figures remain unable to travel to the US for fear of arrest, and airlines have paid millions of dollars in fines.

While the case against the forwarders continues, the fact that other forwarders have come forward as whistleblowers does not bode well for the remainder.

Prosecuting authorities are deadly serious about this, and shipping lines would do well to take note, because their actions, particularly in regard to the implementation of bafs, cafs, peak season surcharges and the rest, are doubtless also under scrutiny, especially that they might violate regulations regarding signalling.

This is the practice by which a company tries to influence a market through announcing its pricing intentions. While it is notoriously difficult to prove, given that in a free market there is also a requirement to clearly price goods and services, any evidence that carriers have might have transgressed will be picked up by investigators. ■

Industry Viewpoint

Jennifer Warren

Coal still king and its reign is far from over

Ambitious green agendas may have emerged from Beijing but if China is just paying lip service to the need to cut global emissions than coal is likely to dominate the energy mix for some time to come

CHINA and India's appetite for coal imports has been voracious in 2010, even amid the global economic malaise from the developed world. China's coal imports grew 114% to nearly 70m tonnes in the January to May period compared with 2009. India has had a similar growth dynamic, with expectations that it will import up to 150m tonnes of coal in 2015.

But China is now slowing its economy down to a projected 8% growth rate versus 10% and more. Economic growth drives the demand for power generation and industrial production in China, and so too goes the demand for coal imports. While these equations appear linear and straightforward on the surface, more complexity may be emerging. Demand for coal and, by extension, demand for its transport on ships, could eventually ebb under pressure of environmental concerns, even in coal-hungry China.

Government policies in China are leaning toward a lower-carbon economy on many fronts. Under its Copenhagen pledges, the Chinese government has indicated it will reduce the intensity or trajectory of carbon emissions by 40%-45% up to 2020. Still, China, the largest global carbon emitter, will emit double that of North America by 2015 from coal use alone, according to a business-as-usual scenario by the US Energy Information Administration.

To support growing coal demand, substantial investment in coal mining and coal transportation infrastructure will be required. Shipping companies get the implications of this. Over the last 20 years, seaborne trade in steam coal has increased about 7% per annum, and coking coal by 1.6%. Australia is expected to continue its dominant role in coal exports, with new capacity expected from Mozambique and Botswana as additional suppliers.

But the coal story has a new unfolding sequel, and some imagine coal's role diminishing over the decades ahead. As the most carbon-intensive fossil fuel, it contributes more gravely to carbon emissions considered to be harmfully warming the planet. In 1990, China and India accounted for 13% of global carbon emissions, which rose to 25% by 2006. In 2030, together they are projected to account for one-third (34%) of global carbon emissions from a heavy reliance on coal-fired generation, with China taking the lion's share at nearly 30%.

Adding to the complexity of the global warming issue is that today's tonne of CO_2 is worse than that emitted decades ago, like in the 1960s, for example. According to a climate science update by the Union of Concerned Scientists, the capacity of oceans to absorb the excess CO_2 has been diminished, as has the ability of forests with the effects of deforestation. In 1960, from a tonne of carbon emitted, 400 kg remain in the atmosphere—and now 450 kg hover in the air.

While the days of coal look promising for businesses related to extraction and transportation, other forces loom on the horizon. China has serious environmental obstacles to overcome related to air and water pollution. From a 2006 assessment by the Chinese government, it loses about 3% of gross domestic product to pollution impacts. Coal, with its intense carbon and other toxic greenhouse gas emissions, is a primary target for reduced usage economy-wide. Respectable gains in emissions reductions can occur by using less coal in power generation and replacing it with greener sources. Ambitious green agendas have emerged from Beijing with targets for greater use of wind, solar and hydropower. These targets are being met and exceeded in some cases.

Newcastle loading: Australia is expected to continue its dominant role in coal exports. *Bloomberg*

Coal will eventually have to adjust to new ways in a different energy mix. "China will make the best use of energy only if the production and the usage of coal are processed in a green way," said Wu Yin, vice-president of the National Energy Bureau, in a recent news article. A new plan to invest $739bn to 2020 includes a clean coal tract alongside the usual low-carbon suspects — nuclear, wind, solar and biomass. It is a virtual energy stimulus. Additionally, more natural gas is expected to be used throughout China's economy in the 12th Five-Year Plan (2010-2015), doubling from 4% of the mix to 8%. Renewables share of world power generation is expected to grow to 23% by 2035 (3% annually) with coal in second place at 2.3% a year to 2035, absent climate change legislation. China doubled its wind capacity in 2009, and led the G-20 countries in small hydropower capacity, and moved aggressively in solar as well.

40%
Coal's share in power generation from 2006-2020

China's green play is a smart strategy to move its economy forward in a climate-stressed world. If recent pronouncements are for public relations effect however, coal will stay king.

While roughly two decades or more of coal's reign are likely, the best hope for the shipping industry under a serious climate change regime in Beijing would be advances in carbon capture and storage technology. If coal continues as a majority player in countries' energy mixes, cutting its harmful emissions should follow to avert worsening air and water pollution effects. From 2006-2020, coal's share in power generation hovers in the low 40% range, ebbing and flowing very little.

Carbon capture technologies, which would keep coal a player in the energy loop longer, are touted to be able to remove 80%-90% of CO_2 from the atmosphere. But investment in CCS is minimal in relation to renewables investments. In 2009, more than $162bn was invested in clean energy, with China's contribution at $47bn to the US's $67bn. About $20bn was spent on CCS in 2009.

According to Emerging Energy Research, $30bn-$70bn is expected to be spent per year by 2030 on sequestering carbon, offsetting 15% of carbon emissions over the period.

It sounds like a lot of money is being spent to keep using coal, but absent the next generation of advances in the energy-climate conundrum, and its use may be on the cards until we cost-effectively and greenly combust many forms of biowaste.

In the end however, there will be many more things to ship to each other even if the fortunes of coal reverse. ■

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Maritime Blogspot

Alarm bells should have been ringing for years

CONSIDER the steady adding of new rules and requirements an unstoppable force. Consider the pool of available seafarers the immovable object. What happens when the two meet?

Corners get cut, that's what happens. A master recently told me in an email "in fact, 10%-15% of seafarers are not up to their task". Thomas Jacobsen of DNV Seaskill relates to me a quote he heard from an executive at a major shipping company: "We're promoting captains far too early."

Both of these assessments are symptomatic. What they mean is this: the people who are supposed to have A, B and C, often only have A and B. Some only have A. That's not even considering E, or experience, which is probably lacking across the board.

I asked Mr Jacobsen and DNV Seaskill — one of the few outfits designed to provide certifications of the quality of a training regime — whether the unstoppable force and immovable object mentioned above were driving more companies to use services like theirs to ensure training really is training.

Mr Jacobsen told me yes and no. Starting in 2004, when DNV Seaskill began, business boomed. Then the recession hit. Business dawdled. The company has put its focus in particularly training-intensive businesses like offshore operations, or complex tonnage.

It's understandable business slowed. There were less ships to be crewed during a recession. But I'd be worried anyone involved with training would take short-cuts during a recession to protect the bottom line. That erosion of culture may remain eroded after the market picks up again.

There are high points and low in training today. Mr Jacobsen cites Teekay, which has pro-actively used its Seaskill certification of training courses as part of a management system to create seafarer loyalty, and build confidence with charterers.

On the other hand, dynamic positioning training is generally problematic. A DP certificate comes after one course, 30 days at sea and then another course. But, as Mr Jacobsen points out, many of those courses have no exams — and those 30 days at sea are too often spent far from the DP operator's work station.

Both Mr Jacobsen and my captain source conclude on a pessimistic note. Jacobsen feels little will really shake up the industry until the ephemeral "big accident". The master fears a stricter training regime, in line with heightened demands, would dry up the pool of potential seafarers.

I have a radical suggestion: why not associate higher training standards with greater status? It may be unreasonable, but why aim just to clear the low bar instead of reaching for the high one? ■

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