



Tees and Hartlepool — on the cusp of a new era **Pages 10-13**



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Dry bulk at risk from China 'orgy'

Newbuilding glut poses a "potential disaster"

Michelle Wiese Bockmann

A "VERITABLE orgy" of newbuildings and slowing Chinese steel production could see a global downturn hit dry bulk shipping faster and much harder than expected, one of London's most respected ship brokers forecast yesterday.

The report outlined a series of new scenarios which could dramatically slow iron ore exports to China, which have been at the heart of the five-year bulk shipping market boom. With the global steel industry accounting for half of dry bulk demand, there are "potentially disastrous" consequences, Howe Robinson Shipbrokers warned in its annual dry cargo report.

"I don't think we're bears," said one of

the report's authors. "I just think we are highly cautious about certain things that I don't think have been factored in yet."

The views found support from the International Steel Trade Association, which said China's rising steel production accounted for 40% of global supply.

China's unforeseen and dramatic increase in steel production over the last five years has encouraged a huge expansion in the whole supply chain, including the ordering of bulk carriers and opening of new mines, said ITSA chairman Ian Sherwin.

"China is a net exporter of steel, the EU is a net importer and the US is a net importer. These are the markets that determine trade balance and they are suffering a little," Mr Sherwin said.

Howe Robinson's chief concerns centre on the longevity of the six-year-old commodity supercycle, the swollen bulk carrier orderbook, and a "highly likely" move by Chinese steel mills to use more domestic iron ore from the second half of this year, reducing cargo flows.

"We are rapidly becoming much more concerned than the prevailing consensus and see ever growing downside risks for the shipping industry," the report said.

The dry bulk orderbook last year grew to 2,832 ships of 244m dwt, including a new generation of very large ore carriers to be delivered over the next five years.

"We don't believe our own orderbook figures," Howe Robinson said, in what was an "embarrassing caveat".

But the "veritable orgy" of ordering added to question marks and uncertainty over tonnage flows in 2008 and beyond.

A significant but as yet unexplained slowdown in Chinese steel production in the second half of 2007 was of "potentially great significance", the report said.

If the lull was caused by delays in building and commissioning new blast furnaces, the Chinese faced short and medium-term constraints.

But if the slowdown was related to shortages of metallurgical coal to feed blast furnaces, there would be serious implications for the capesize fleet, which has driven the dry bulk chartering boom.

"If we have reached a point in the cycle where coal has become a bottleneck in China, its implications for the iron ore trade and hence the dry bulk market are potentially disastrous," Howe Robinson said.

The report also raised the possibility China could switch to using more of its lower-grade domestic iron ore in steel

mills to "settle a few scores". Mr Sherwin said the technology had improved in the last five to 10 years to allow China to more efficiently use its domestic iron ore.

Howe Robinson forecast Chinese steel production in 2008 to grow by 13%-15%, or 63m-73m tonnes, the lowest rate of growth since 2001. Likely expansion for international iron ore trade was around 100m-110m tonnes. "If they [China] were to opt not to buy all the increase in international production, shockwaves would be sent through the international ore markets, and the capesize market would plummet if unsold stocks were permitted to build at the major ports of shipment for the first time in a decade."

Howe Robinson said these and other factors "are becoming very real concerns and may have a greater impact than expected, rather earlier than is thought".

US Coast Guard signals winds of change



Over here: Chief Michael Baltzgar signals to a US Coast Guard HH-65 helicopter during flight operations aboard the cutter *Hamilton*.

USCG

NEW plans for a major restructuring of the US Coast Guard will today be unveiled by Commandant Thad Allen, writes *Rajesh Joshi in New York*.

Speaking exclusively to Lloyd's List, Adm Allen said that the modernisation is driven by a realisation that the US Coast Guard "has not kept pace" with the demands placed upon it in the post-9/11 regulatory world and by global trade and trading volume. Adm Allen is scheduled to outline the plans today in Washington.

The aim of the changes will be to instil the coast guard's operations with a sharper business edge while creating a more adaptable structure for the future.

The overhaul involves a change to the coast guard's organisational chart, the induction of more civilians into marine safety operations, streamlining the Washington headquarters and making the agency more user-friendly, especially when dealing with seafarers.

The coast guard also needs to work seamlessly with other federal agencies, both military and non-military, during emergencies, and to remain readily deployable at all times, Adm Allen said.

The genesis of the modernisation went far back into the agency's history: "It is not that it is broken; it was never constructed correctly to begin with."

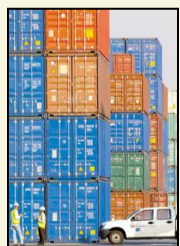
Adm Allen's four-year term expires in May 2010, by which time he hopes most of the reorganisation will be completed.

He said: "I hope my legacy is to teach the coast guard to think and react in accordance with its external environment. It will be a new coast guard, a change-centric, learning organisation, agile and adaptive."

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DP World hits 11m teu mark in UAE



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Devil in the detail as NOL-Hapag merger talks reach stalemate

SINGAPORE'S Temasek and Germany's Tui have reached a standoff over a potential merger of their liner shipping operations, but any sign of progress would almost certainly force other potential suitors out into the open, writes *Janet Porter*.

Lloyd's List can confirm that the two sides have held exploratory talks about combining Neptune Orient Lines with Hapag-Lloyd, but any amalgamation would be so complex that the benefits could be questionable.

JP Morgan is representing NOL, while Tui has appointed Deutsche Bank and the US investment bank Greenhill.

Contact between the parties is said to be at an early stage, but should talks appear to be moving forward, then several

other lines are likely to swing into action, say sources close to the discussions.

Hong Kong's Orient Overseas Container Line, an alliance partner of Hapag-Lloyd, could make an approach for the German line rather than risk massive market disruption as consortia are reorganised. Hapag-Lloyd belongs to the Grand Alliance, while NOL's container division APL is a member of the New World Alliance, along with Japanese line MOL.

Past industry shake-ups have led to price wars that have wiped out profits.

Adding to the intrigue is market gossip that MOL could also be a player in any future consolidation, after recent remarks by the Japanese line's president Akimitsu Ashida about the need to improve the per-

formance of its container division. The prospect of Germany's biggest line falling into foreign ownership could persuade some of the big Hamburg owners to put in a bid for Hapag-Lloyd, including Oetker-owned Hamburg-Süd, which has tried in the past to buy or merge with its near neighbour.

NOL, responsible for the first major cross-border acquisition of a container line when it bought APL in 1996, has since failed in several other takeover attempts, including for both OOCL and P&O Nedlloyd.

Industry sources rule out a counter-bid for Hapag-Lloyd from AP Moller-Maersk at this stage, but would expect CMA CGM boss Jacques Saadé to express interest,

even if it went little further than that. What could torpedo any further advance of discussions between Tui and Singapore's state fund Temasek, which owns 68% of NOL, would be the corporate structure that Tui chairman Michael Frenzel has created and "which makes little sense to anyone but him", according to one well-placed observer.

Egos and politics could also come into play and scupper any deal, the same source added.

The rumours, which first surfaced last month, have galvanised the container shipping industry, which understands the benefits of consolidation but has so far proved less able to manage big mergers successfully.



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A high price for rock

IT USED to be said that no ordinary mortal could imagine what a billion of anything might be. It is still pretty hard, although the astounding endeavours of the French trader, the fiasco of Northern Rock and the price of Olympic success seems to indicate something of an inflation of our imagination.

The battle over Rio Tinto, with the Australian giant BHP wrestling with the Chinese government for the soul of this huge mineral company, is a further indication of how the value of basic raw materials has hugely escalated. It is a contest between monster companies which nobody can afford to lose. It is an early warning of the way in which commodities will come to control national policies, and how access to minerals and energy will come to dominate a world in which arguably too much interest has been paid to financial services.

As the latest developments are weighed up, it is worth considering the very different agendas of the combatants. While BHP and Rio may regard their bidding and rejections as part of a fight for market share, the Chinalco management is considering its long-term, raw material needs. These constitute a major element in China's industrial renaissance, which has a momentum of its own, but which they know might well be stalled by an inability to access raw materials at an acceptable price. The proposed merger of the two mineral suppliers can be seen, through Chinese eyes, as a major obstacle to their future industrial expansion.

It is fascinating stuff, this contest of giants, but we should not forget for a minute the hard, red, dusty prize at the end of the race.

Class room gossip

DESPITE the eerie hush that has fallen over Europe's classification societies after last week's raids by European Commission cartel investigators, there can be no doubt there is an awful lot of activity going on behind closed doors.

The raids came as a bolt from the blue to the leaders of one shipping's most clubbable sectors, although we hear that the self-proclaimed cartel busters were the epitome of good mannered bureaucrats. They even turned up at a very civilised time of after nine in the morning, somewhat undermining the eagerness of journalistic hyperbole to label them 'dawn raids'.

Notwithstanding their gentlemanly approach, the potential gravity of the probe simply cannot be overstated. But to genuinely assess its significance we need to know what has driven the investigation in the first place, and in the absence of any substantive comment from the authorities involved, that remains the subject of idle speculation and gossip.

One of the most debated causes could be the position of the Polish Register of Shipping, which was kicked out of the International Association of Classification Societies in 2000 over alleged lax standards relating to the lost bulk carrier *Leader L*.

Of course, back in 2000, Poland was not a member of the EU and so was not covered by competition law, but that changed in May 2004, when it finally joined Europe's political and trading block. PRS is declining to say if it formally complained to Brussels about its treatment, and in many ways that is not the issue since it is clear that the class society remains fuelled with barely concealed anger about how it believes it has been unfairly hamstrung.

Under the terms of the EU classification directive, societies are required to consult with each other to maintain standards, but PRS claims IACS has refused to do, thereby excluding it from its legitimate market. Until the probe is completed, few will know what penalties, if any, will be imposed, but its outcome could have fundamental implications for the behaviour and shape of class in the 21st century.

'The world is changing, and we need to remain relevant'

That's the word from US Coast Guard Commandant, Admiral Thad Allen, who is charting an ambitious new course for the agency, as it seeks to add a contemporary edge to the 'Always Ready' principle it has faithfully upheld for more than two centuries. Rajesh Joshi reports



THE economic and emotional shambles that was Hurricane Katrina arguably had only one bright spot: the sterling response of the US Coast Guard.

Now, the chain of events started by that unfortunate calamity may be poised to deliver a sweeter reward still, in the shape of the "new US Coast Guard for the 21st Century".

The architect of this monumental change is Admiral Thad Allen, who became the 23rd Commandant of the US Coast Guard in May 2006, less than a year after he shot to national fame.

In the aftermath of Hurricanes Katrina and Rita in 2005, Admiral Allen served as the principal federal official for response and recovery operations, while also serving as the Coast Guard Chief of Staff. The USCG's pedigree and performance in hurricane relief work stood out all the more because of the shambolic response of the US Federal Emergency Management Agency.

Riding high on this wave, Adm Allen as Commandant brought along a fresh enthusiasm that was shaped by the way the USCG co-operated with other federal and local agencies.

Coupled with the experiences drawn from the USCG's response in New York harbour on September 11, 2001, Adm Allen clearly saw an unavoidable need for an internal transformation.

The changing external realities of a "networked, globalised world" form the practical basis of the Adm Allen's beliefs. These include expanding trade, bigger ships, newer trade routes, and more national and international regulation on safety and security.

New energy exploration has expanded the USCG's functions in the offshore industry. Increasing activity in the Arctic related to energy, as well as climate

"We live in a 'zero tolerance for failure' world. We must therefore adapt and evolve into a change-centric, learning organisation, agile and adaptive"

Admiral Thad Allen

change, has added a new layer of responsibility.

Adm Allen recognises these changed realities in an internal presentation as he embarks on educating USCG personnel about the modernisation and enlisting their support and participation.

"Speed of action is the key to deal with adversaries who are more adaptive and lethal, and to respond to unprecedented events," the Admiral says.

"The maritime domain is the last global commons and lacks needed governing structures. We live in a 'zero tolerance for failure' world. We must [therefore] adapt and evolve into a change-centric, learning organisation, agile and adaptive."

Domestically, the USCG has been subject to unprecedented public and Congressional scrutiny even as its budget has expanded.

The Californian furore over the *Cosco Busan*, an oil spill response that appears to have been handled competently on all aspects save for public relations, is one recent example. Graver matters have been afoot in Washington.

Under the chairmanship of Democratic Congressman Elijah Cummings of Maryland, the subcommittee on Coast Guard and Maritime Transportation in the House of Representatives last year probed the agency's administrative law system on allegations of a rigged system where judges were accused of siding with the USCG in mariner discipline matters.

The coast guard's Deepwater acquisition programme involving the way in which ships were acquired and converted was the subject of another stiff investigation.

The unkindest cut, perhaps, came when a plethora of industry experts invited for a subcommittee hearing in August suggested that the USCG had lost the plot in its core mission of safety in the security-obsessed world after 9/11, and that it might not be a bad idea to give the safety function to another agency altogether.

The ensuing months have established Adm Allen as a man who can not only roll with the punches, but also see in them an opportunity rather than a challenge.

Congressman Cummings, for all his sabre-rattling, has remained a steadfast advocate of the USCG in funding matters. Indeed, the fiscal 2009 budget details announced last contain details of a Presidential request to fund the USCG to the tune of \$9.3bn, a slight increase over the enacted figure for 2008.

At this stage, the 2009 figure is just a request and needs to be acted upon by Congress in the form of an appropriations Bill for the President to sign.

Nonetheless, the Presidential request contains critical clauses on the recapitalisation of the USCG's major cutter, small boat, maritime patrol aircraft and helicopter fleets, as well as hundreds of new marine safety positions to enhance inspection, investigation, credentialing and rulemaking activities.

However, challenges remain. Congressman Cummings is so enthused by his belief that the USCG deserves more money that he wants to introduce a statutory proposal that would prohibit future liquefied natural gas terminals in the US from being approved unless the coast guard sectors in which they are situated can be shown to "have all the assets they need".

Practical industry experts have expressed concerns that such a certification would be impractical and perhaps impossible, and might have the unintended effect of paralysing LNG growth altogether.

So considering all this, is Adm Allen worried that increased funding from the government might come with strings attached, or might keep the spotlight of scrutiny trained on the agency's every act?

"No, we are not afraid of strings or scrutiny," he says. "In fact, we must understand and accept that greater oversight is part of our changing environment, for which we must change ourselves."

His response to these challenges has been dynamic, and its long-term legacy might well turn out to be dramatic.

In one fell swoop, Admiral Allen's modernisation seeks to make the USCG more potent militarily, more congenial on civilian aspects, more loyal and effective for the government agencies that either oversee it or cross its path, and friendlier to the seafarer.

In his presentation, he stresses: "This is not downsizing, it is organisational wellness. There is no 'budget gun' to our head, and we are not compelled to do this. No mission is being eliminated, including marine safety. This is not the latest self-help fad or leadership idea."

The modernisation is not about individual performance and the USCG is proud of its "terrific, dedicated people", he continues. However, the agency needs to have "the right functions and structure to execute its missions in the current operating environment, and to shift resources where they are needed".

Adm Allen says change is also consistent with the USCG's transition to the US Department of Homeland Security (the Commandant previously reported to the Secretary of Transportation), which he says is "not a licence to maintain the status quo".

Before change can be initiated, however, the Adm Allen sees the need to be brutally honest on a few points.

"The world is changing, and we need to remain relevant," he says. "Our business processes are broken. We cannot let support systems such as administration, finance and logistics languish behind or detract from our operational success."

"We have known of these problems for years, but kept putting things off because of the 'tyranny of the present'. Now it is time to finish the reorganisation work started in the 1980s."



A USCG helicopter carries a survivor of Hurricane Katrina to safety. The performance of the coast guard was perhaps the only bright spot to come out of the 2005 New Orleans disaster.

Bloomberg

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Admiral Thad Allen

The transformation thus engendered envisages a thorough overhaul of the USCG's organisation chart. It seeks legislative changes to allow higher-ranked officials to oversee these functions, as well as to allow the agency to alter its officer promotion policy in order to make it a more attractive place for civilians to work.

Organisationally, the USCG headquarters in Washington is being streamlined, with principal responsibility only for national policy, inter-agency liaison and acquiring resources. Billets not associated with these core functions are being considered for reassignment into the field.

Headquarters will comprise two assistant commandants in charge of operations and mission support respectively, to better align these functions with

the revamped USCG strategy in the post-9/11 context.

In the field, the realignment seeks to put the focus back on operations and not mission support. The Atlantic and Pacific commands are being consolidated under a single operational commander in the field.

Mission support is not being ignored, either, and will have a separate commander in charge of acquisition, logistics, maintenance, and financial management. Another significant element of the modernisation is already in place. A “deployment operations group”, a concept that incorporates the sum total of wisdom deriving from Katrina and 9/11, was officially stood up in July 2007.

Founded on the principle of “harmonisation of operational doctrine”, this group is visualised as a

“fully interoperable tactical unit” that can seamlessly mesh with rescue or relief efforts with federal or local organisations, whether military or otherwise.

Senior USCG officials tell Lloyd's List the DOG is a significant success story, in that it highlights a key cornerstone of the ongoing modernisation.

Human resources development is another key element of the modernisation. A significant infusion of civilians is envisaged in the USCG's legacy function of marine safety and stewardship (see article below).

Instead of a scattershot national advertising campaign aimed at attracting random recruits, Adm Allen says the USCG is working with individual ports to attract civilian applicants to port-specific billets. He sees a “blended workforce” as the ultimate outcome when this programme is fully implemented.

Attracting recruits from the six state maritime academies in the US and the federal school is another USCG objective. Adm Allen rejects the notion that working for a predominantly military organisation would bar civilians from having a “career path” at the US Coast Guard.

“In addition to adding hundreds more civilian positions to the marine safety inspection program nationally, the coast guard is seeking Congressional authorisation to promote military officers within the program outside of normal promotion zones to fill

vacancies as may be required by the service,” the Admiral says.

Adm Allen is confident that the modernisation will be accomplished in stages under the guidance of a permanent, flag-led “strategic transformation team”, whether or not he is around as commandant to proclaim the completion of the process.

He says he is looking forward to working with Congress, both on budgetary matters and in seeking its participation and active endorsement of the modernisation plan.

Given the nature of the modernisation, the USCG does not anticipate any related redundancies, he stresses. However, when pressed for details, he admits the process might play out slightly differently.

Flag officers who are aware of the details of the modernisation “know exactly what he is talking about and are fully supportive”, Adm Allen says.

Likewise, the “very young people” who have grown up in the information technology age are also fully with him.

The so-called “middle level” personnel pose the interesting case study. “They need to understand the rationale behind the modernisation and how it is in the best interests of all of us,” Admiral Allen says. “If they cannot, or do not, we may need to sit down and have a discussion about it.”

Why there is no firewall between safety and security

SAFETY has never left the US Coast Guard's radar screens in the aftermath of September 11, 2001, and the modernisation programme would assign this core function even more resources and commitment, a senior official tells Lloyd's List.

Rear Admiral Brian Salerno, USCG assistant commandant for safety, security and stewardship, rebuts the perception that the high-profile security demands thrust upon the agency in the aftermath of 9/11 have short-changed the coast guard's so-called legacy function of safety, on which the agency's reputation of two centuries is primarily built.

“It is true that in a day-to-day context, the coast guard's work on marine safety receded from the public eye after the Second World War,” Adm Salerno says.

“But 9/11 did not create the security demand. In fact, the coast guard's involvement in this critical function dates back to the Espionage Act of 1917. We have been performing this role all along. It is only that in today's world, with additional laws that have been enacted since 9/11, this function is more in the forefront of perception.”

These increased demands on the USCG's resources do not amount to the agency's having walked away from its safety function, insists Adm Salerno.

He says there is no firewall between safety and security. The same inspector performs

onboard safety as well as security inspections, and thus needs to be trained and equally adept at both functions.

However, Adm Salerno acknowledges that simple organic growth in trade, involving more and bigger ships among other things, poses special challenges as the USCG tries to keep pace with its marine safety function.

The ongoing reorganisation recognises this reality. A key component is the plan to induct several hundred civilians into the cadre of marine inspectors over the coming years, ensuring continuity as well as lightening the burden on existing staff.

Adm Salerno says the rapid evolution of shipping both technologically and in terms of globalisation has increased the time it takes to train inspectors to a level of acceptable competence.

This competence acquires a tinge of indispensability when inspectors gain expertise in a certain kind of ship, say a product tanker, which may be commonplace at an individual US harbour.

The nature of a USCG job, however, means that several of these trained inspectors stay at the post for no more than two or three years.

“When they leave expertise as well as local



Salerno: 9/11 did not create the security demand.

knowledge are both gone,” Adm Salerno observes. The USCG therefore aims to create a cadre of civilian marine inspectors who will not be transferred. The goal for next year is to have a “blended” workforce in which up to 20% of the inspectors would be civilian, Adm Salerno says. Up to 300 new billets are visualised initially, according to a rough USCG estimate.

Adm Salerno does not visualise any cultural tension between the military personnel and civilian newcomers. Civilian participation is not unheard of in several mission areas, he points out. Besides, there is an element of “cross-pollination” as the newcomers bring their own expertise that can help in training newer personnel as some job turnover takes place.

Civilian inspectors are only a part of the USCG's new human resources development drive, Adm says. In keeping with a desire to invest in human capital and identify “career path progression”, opportunities would be made available for graduates of US state and federal maritime schools.

Hiring more personnel on the regulatory side is also on the cards. With states showing tendencies to pass their own laws — however unconstitu-

tional — on matters ranging from ballast water to emissions, officials believe having a stronger in-house team would help the USCG better serve the shipping industry's cause.

The quality of the USCG's service to the mariner, an area Adm Salerno says is always treated as of the utmost importance, has also been the focus of recent changes at the agency.

The biggest change in the licensing regime for US mariners in several decades saw the Coast Guard's National Maritime Centre relocate last month to Martinsburg, West Virginia. In tandem, operations at the 17 regional exam centres around the country are being scaled back.

When fully centralised, the licensing procedure for US mariners would be handled solely out of the NMC in Martinsburg. The RECs will continue as regional points of interface with mariners, but the consolidation of the actual documentation processes at the central location will eliminate the confusion caused by the differing standards apparently prevailing at the RECs, as well as a lot of documentary duplication.

USCG officials acknowledge that the “point of service” interface with mariners is an area in need of some serious improvement.

Generations of future mariners would be much better served through the NMC element, just as the shipping industry at large stands to reap the rewards of the emerging USCG for the 21st Century that will result from the pending modernisation.