

## **Chemships poised for the rebound**

**The oversupply of chemical tankers is much smaller than those pertaining in other sectors of the world tanker fleet. As a result, chemship owners are coping well with the current economic slowdown and are confident of future prospects**

While undertaken reluctantly, the decision by Odfjell and ChemLog at the beginning of this month to cancel their joint order for eight 39,500 dwt chemical tankers at the Szczecin yard in Poland should benefit the overall market for chemical tankers. The chemical tanker trades are emerging from the post-September 11 world economic slowdown better than most sectors of shipping, due to the relatively small orderbook and an inherently good balance between ship supply and demand. The removal of the Szczecin ships from the orderbook will help reduce the risk of chemical tanker oversupply and speed the return to healthier freight rates for the overall fleet.

### **Fleet expansion rethink**

Odfjell and ChemLog operate one of the three leading fleets of sophisticated deepsea chemical parcel tankers, the others being those of Stolt-Nielsen and Jo Tankers. ChemLog is the former Seachem, part of the Livanos Ceres empire, and one of the first steps taken by Odfjell and Seachem when they merged their chemical tanker operations in 1999 was to contract four ships each in Poland as part of a fleet upgrade and renewal plan.

The unfortunate end to this endeavour was brought about by the recent bankruptcy of the Szczecin yard. Although the Polish government has stepped in to underwrite the creation of a new Szczecin shipyard to build the ships which its failed predecessor had contracted, Odfjell and ChemLog felt obliged, for financial reasons, to cancel their orders.

Szczecin had commenced construction of three of the ships and the first of the trio had been launched and was 80 per cent complete. Both Odfjell and ChemLog have reported that the money invested to date - representing just under 15 per cent of the overall contract price - is covered by refund guarantees issued by an established international bank.

Where the two companies will now turn to fulfil their newbuilding requirements is a moot point. The number of shipyards worldwide able to construct deepsea parcel tankers, with their 40-plus stainless steel tanks and sophisticated cargo-handling capabilities, is quite limited. A number of Odfjell ships have been built at the Kleven Florø yard in Norway in the past, and this shipbuilder will no doubt be on the shortlist as the two companies reconsider their fleet expansion options.

### **Lesson already onboard**

Chemical tanker operators have emerged from the events of the past nine months relatively unscathed primarily because the Asian economic crisis of the late 1990s had already left them a chastened and wiser group. When the crisis broke in 1997, most shipowners had embarked on major newbuilding programmes that were predicated on the expected rapid growth of the Asian petrochemical market. Stolt, for example, was in the midst of a five-year ship construction programme that provided 24 new parcel carriers of various sizes at a total cost of \$1 billion.

It took the industry three painful years to assimilate the newbuilding tonnage into an oversupplied fleet and to push freight rates back towards breakeven levels. The improvement in commercial performance first became noticeable towards the end of 2000 and the momentum was carried through into summer 2001.

Despite this recovery in fortunes, chemship owners were not about to be sucked into the newbuilding trap again. Thus, when the World Trade Center in New York was attacked, there were relatively few chemical tankers on order. For ships of 3,500 dwt and above, the chemical tanker orderbook at the beginning of 2001 comprised 92 ships of 1.5 million dwt. By the end of 2001 the orderbook had been whittled down to 39 ships of 960,000 dwt, most of which are due for delivery this year and next. In contrast, with the healthy levels of new contracts being sustained over the first eight months of 2001, the oil tanker, bulk carrier and container ship orderbooks are now comparatively full, a fact reflected in the recent steep plunges in rate levels for these types of ships.

Even with the inevitable drop in spot fixtures following September 11, chemical tanker owners, in general, finished 2001 in better shape than when it started. Although the fleet's performance has remained subdued so far in 2002 due to the sluggish world economy, chemical ships are well positioned for recovery. On one or two of the main trade lanes there has already been a hint of better times to come. On the US Gulf-Rotterdam route, for example, 2,000-tonne parcels of easy chemicals fetched over \$40/tonne in June, some 25 per cent ahead of the \$32/tonne levels which pertained at the start of the year.

### **Stolt innovation**

The Stolt-Nielsen Transportation Group (SNTG), operator of the world's largest fleet of chemical parcel tankers, took delivery of Stolt Perseverance in December 2001. This was not only the last of its ten 37,500 dwt, Innovation-class deepsea parcel tankers to be completed but also the final vessel in the 24-ship newbuilding programme commenced in the mid-1990s. Over the same period eight less-sophisticated, chartered tankers were redelivered to their owners.

"We believe that the overall results from our chemical tanker operations in 2002 will be similar to those for 2001," states Richard Wingfield, managing director of tanker trading and operations in SNTG's Parcel Tanker Division. "However, trading conditions for 2003 and beyond will improve as a result of growing demand stemming from increased economic activity, a good balance between overall ship supply and demand and several measures implemented by our company."

In an effort to cut costs, Stolt reduced its office staff by 10 per cent in January 2002 and has entered into alliances with competitors on certain routes. In particular, the operator finalised combined service agreements with Jo Tankers for ships moving from the US Gulf to Asia and with Tokyo Marine on the Europe to Asia routes. The agreements aim to improve service levels for customers of the individual chemical tanker operators, by allocating cargoes to particular ships in the most efficient manner, while maintaining the commercial independence of the operators.

In addition, Stolt has reached agreement with Vopak and Essberger to add its 11 stainless steel coastal tankers to the existing 24-ship Vopak Essberger ChemPool fleet serving the European regional trades. Final approval for the agreement is awaited from the European Commission's Competition Directorate.

### **Total Odfjell logistics**

Odfjell, like Stolt, has adopted the philosophy of providing its customers with a complete portfolio of chemical logistics services from which to choose. Like Stolt, Odfjell augments its deepsea parcel tanker activities with an involvement in regional parcel tanker operations, bulk liquid storage terminals and intermodal tank containers, the latter being a joint venture with Hoyer of Hamburg.

Odfjell manages a total fleet of 90 chemical tankers in its deepsea and regional trades, of which 50 are owned by the Bergen-based company. "Due to the lower freight rate levels pertaining, our time charter income expressed in dollars per day for the first quarter of 2002 was 13 per cent lower than the same period in 2001 and 4 per cent below our time charter income for the fourth quarter 2001," explains Bjorn

Sjaastad, chief executive officer at Odfjell. "However, this result must be seen in the context of the events of September 11 and the fact that our first quarter 2001 performance was a good one."

Results from Odfjell's terminal activities so far in 2002 have been strong, with first quarter operating profits reaching \$5m, a similar level to that for first quarter 2001. The Baytank terminal in Houston showed a year-on-year improvement while results for the Botlek terminal in Rotterdam slipped marginally. The Odfjell share of two terminals in China contributed over 10 per cent of the profits from Odfjell's terminal activities.

### **Jo Tankers approach**

The development of the Jo Tankers fleet, the third of the top three parcel carrier fleets, has followed a different pattern to those of its two main rivals. In the mid-1990s the Jo fleet was a relatively young one and, as a result, the operator was not embarked on a major newbuild programme when the Asian economic crisis hit. Hence, Jo Tankers was more protected from the debilitating effects of new ship repayments than its rivals.

However, that fleet is now in need of replenishing. In September 2001 two new stainless steel ships joined the pool operated by Jo Tankers - De Poli's 16,000 dwt Jo Chiara D and Knutsen OAS's 22,000 dwt Maria Knutsen, while in June 2002 another De Poli ship and a sister to the first, Jo Mira D, was welcomed to the fold.

In January 2002 Jo signed time charter contracts, with purchase options, for two new stainless steel chemical tankers under construction at the Watanabe yard in Japan. One of the ships is 19,500 dwt in size while the second is 25,000 dwt. Since then Jo Tankers has ordered additional new ships from Japan's Kitanihon shipyard, comprising a 25,000 dwt stainless steel chemical parcel tanker and a similar ship of 30,000 dwt, plus an option.

The Kitanihon ships will incorporate 28 fully segregated cargo tanks and a range of environmental protection measures that will ensure the vessels comply with new and imminent legislation. These features include vapour emission control systems; additional, segregated diesel oil tanks for the low-sulphur diesel the ships must burn when operating within EU waters; and main and auxiliary engines with the latest technology available for conserving energy and reducing exhaust gas emissions.

### **Increased service levels**

"The Kitanihon vessels, together with the six other recently contracted newbuildings, will strengthen our fleet of medium-size chemical tankers in the 20- 30,000 dwt range," states Jo Tanker joint managing director Rick van Westenbrugge. "They will be primarily employed in the Atlantic Basin.

"Some of the new ships will replace existing, third party-owned tonnage in our fleet. However, the majority will augment the fleet and increase the service and flexibility levels provided to our customers."

With the delivery of Jo Mira D this summer, the Jo Tankers fleet stands at 40 sophisticated parcel tankers in the 5-40,000 dwt range and totalling 900,000 dwt. Jo Tankers is responsible for the commercial management of the fleet, and the majority of the ships are owned by Jo. The remainder are comprised of pooled and time-chartered vessels.

The experience of Jo Tankers to date in 2002 illustrates the extent to which the fortunes of the global chemical tanker players are tied to economic performance in the US, Europe and Asia. Although the longer term prognosis for the fleet is relatively good, there are still some niggling weaknesses inherent in the market that will need time to be winnowed out.

Rick van Westenbrugge states, "At the moment the Atlantic chemical parcel trades are holding up better than those in the Pacific. Also, in the large-volume, simple chemical segment there have been some changes in trade patterns that have led to

lesser tonne-miles. In overall terms there is less cargo available than in early 2001, which makes it more difficult to optimise the overall capacity of our fleet, especially as it is expanding at the moment."

"However, we have reasons to be optimistic," continues van Westenbrugge. "The overall overcapacity of the world chemical tanker fleet is being reduced towards levels of only 15 per cent and a number of major ports and terminals are waking up to the fact that they have to contribute to the more efficient planning of port operations for chemical carriers in order to improve ship turnaround times. With our well-adjusted fleet composition, we are in a good position to meet the future requirements of our customers."

### **Cautionary note**

With Odfjell and ChemLog now back in the newbuilding market following the cancellation of its Polish ships, pressure on shipowners to secure the relatively few shipyard slots for new ship deliveries from early 2004 onwards is increasing. This pressure has already prompted a mini-surge in new orders for chemical tankers so far this year. The Paris shipbroker Barry Rogliano Salles reports that orders for 23 new chemical tankers have been placed so far in 2002. The majority of these ships are over 10,000 dwt in size and the new contracts comprise a mix of coated and stainless steel ships.

Another factor to be taken into account when considering the fate of the chemship fleet is the demand for product tankers. The chemical tanker fleet ranges from sophisticated stainless steel parcel tankers at one of the spectrum to combined chemical/product tankers with coated cargo tanks and able to carry simple, commodity chemicals at the other.

The increased demand for new product tanker tonnage in the wake of the Erika sinking has given rise to a sizeable orderbook for product tankers, many of which are designed with the ability to carry simple chemicals. The slowdown in demand for refined product movements in the current climate of sluggish economic activity is pushing some of this tonnage into the simple chemicals sector and is responsible for some of the downward pressure on rates. The chemical tanker trades remain vulnerable to the vagaries of the product tanker sector and the impact of this swing tonnage.

### **Shortsea players**

The most finely balanced of the various chemical tanker fleets is the shortsea fleet serving the European regional trades. It is also, ship for ship, the most sophisticated chemical tanker fleet in the world. Charterers, sensitive to the negative impact that could arise from another accident like Erika, require the provision of double hull, stainless steel ships backed by a management organisation of verified quality and professionalism.

Typical of the European shortsea fleets is the 16-ship operation of United Chemical Tankers (UCT) of Hamburg. The good balance between ship supply and demand is underpinning a strong improvement in fleet performance so far in 2002 compared to 2001.

"There are two main reasons for this improvement," states Stefan Ciegelski, joint managing director of UCT. "Firstly, rates for our contracts of affreightment business have increased and we have consolidated our COA portfolio while contract volumes have remained steady. Secondly, spot cargoes have shown some improvement. Although the spot market is missing volume from time to time and is still erratic, it has an underlying strength and we are confident that the economic upturn will increase chemical traffic."

UCT serves the routes between North West Europe and the Mediterranean with ships in the 4-6,000 dwt size range. With the cost of a stainless steel newbuilding put at approximately \$20m and the European market emerging from a period of

particularly difficult trading conditions in the late 1990s, freight rates are not yet deemed strong enough to justify the construction of a new ship.

"Nevertheless, older tonnage will need to be replaced at some stage," continues Stefan Ciegelski. "As part of our ongoing review, we are looking closely at newbuildings for delivery in 2003 in order to replace our 1980s-built tonnage and, in order to realise economies of scale, the preferred size of new ship would be 8,000 dwt."

### **Pooling solution**

Merger and acquisition activity amongst their customers in the petrochemical industry continues to exert pressure on shipowners to pool their resources in order to provide the extended service packages capable of meeting the larger, more diverse transport requirements of charterers. Single, medium-sized tanker operators are no longer able to cover the full range of tenders being placed in the market.

Having agreed to participate in several alliance arrangements with its larger ships in the deepsea trades, Stolt-Nielsen is anxious to place the 11 ships in its Stolt-Nielsen Inter European Service (SNIES) into a more formal pooling arrangement. Operators of the existing Vopak Essberger ChemPool, whose 24 ships totalling 95,000 dwt already serve the European coastal trades, have agreed in principle to extend the pool to encompass the SNIES ships.

While the arrangement is still awaiting final clearance from the European Commission's antitrust authority, no problems are envisaged. The resultant 35-ship Vopak Essberger Stolt ChemPool will be managed from Hamburg and Dordrecht.

### **Future more perfect**

The challenge, as ever, for chemical tanker owners is to improve the financial performance of their operations to such an extent that the shipping industry is regarded by the financial world as a safe haven for investments. The cyclical nature of the market for tankers and the lack of support for the traditional role of asset play mean that this challenge remains as great as it has ever been.

However, the current chemical tanker market is characterised by stability and balance - in terms of both freight rates and ship supply and demand. The modest orderbook, which is indicative of a shipowner fraternity acting in harmony for the good of the overall industry, will ensure this fleet balance is maintained for at least another two or three years.

The fact that operating chemical tankers is now such a high stakes game will help perpetuate this spirit of harmony and smooth out some of the future peaks and troughs in the market cycle. This, in turn, should make these specialised ships an investment option worth considering.

**Chemical tanker freight rates on deepsea routes**  
**Source: Clarkson Research Studies**

