

Chemical tankers briefing

The anti-trust action currently being taken against the world's four leading chemical parcel tanker operators is likely to have profound long-term effects on the way the business is run. By Mike Corkhill

The business of moving chemicals by sea over the past 12 months has been overshadowed by accusations that the leading deep-sea parcel tanker operators colluded in the fixing of freight rates.

The EU Commission and the US Department of Justice are both investigating alleged breaches of relevant competition regulations by Stolt-Nielsen, Odfjell, Jo Tankers and Tokyo Marine.

Of the accused, Odfjell has admitted culpability in the US. In a plea bargain the company has agreed to pay a \$45.5 million fine while two of its top executives are serving short prison terms.

Stolt is clinging to a conditional amnesty granted by Washington for cooperation in the investigation, but a former executive has been criminally charged.

In addition, a number of chemical company charterers have taken legal action against the same ship operators, seeking damages.

Most notable amongst these is Dow Chemical, the largest user of ocean chemical transport.

Although all four companies have launched their own internal investigations and are cooperating fully with the authorities, the matter could take some time to resolve.

The shipowners are also strengthening their internal competition compliance programmes and providing competition law training to relevant personnel.

Business is continuing as near to normal as possible in the meantime, but until the issue is settled, there will inevitably be some level of uncertainty in the trades.

Profound effects

The effects of this anti-trust action for the chemical tanker trades will not be limited to the short term.

All the deep-sea parcel tanker operators are now distancing themselves from the individual regional and route-specific cooperative service agreements that they had begun to develop amongst themselves towards the end of the 1990s.

"Following a review of our business strategies, we realise that, with the commodity chemical business driven by the spot market, we shall not be so keen on large contract volumes in future," states Dan Odfjell, chairman of Odfjell Tankers, writing in the December 2003 issue of his company's magazine.

"Now, more than ever, we shall target that business that we can service with two or more of our modes - tankers, terminals, coastal tankers and tank containers.

"We shall not offer for just any contract. If we are not willing to lose some business, we shall never achieve a fair price, a price justifying the kind of expensive equipment and organisational structure that we have put in place, and maintain."

High entry barriers

The provision of a deep-sea chemical parcel carrier service is not for the faint-hearted.

The cost of a sophisticated 37,000 dwt stainless steel tanker, able to carry 40 or more separate speciality cargoes in a completely segregated manner, is approximately \$70 million, and a number of such vessels are needed to provide the necessary operational scale and global coverage.

The fleet needs to be backed by similarly sophisticated systems, management structure and human resources. Furthermore, customers will only turn to operators

with a proven track record for the movement of their high-value, sensitive and sometimes difficult and aggressive cargoes.

Although safety, quality and reliability represent the bottom line for charterers, they also want on-spec and on-time deliveries from the shipowners they choose.

Because so many different bulk liquid cargoes are carried on these ships to a wide range of destinations and end-users, maintaining a cost-efficient, global service poses a real challenge for shipowners in this sector.

As an example, the 59 tankers in the Odfjell Seachem deep-sea parcel tanker operation handled 15.8 million deadweight of cargo in 2002. The comprised 548 different products from amongst the wide range of organic and inorganic chemicals, vegetable oils, lube oil additives and speciality petroleum products carried by sea in these ships. It also entailed the loading of 4,881 cargo parcels and 3,586 port calls throughout the year.

Mother ships and feeders

Complementing the parcel tankers in the deep-sea speciality chemical trades are the growing number of chemical/product tankers, able to carry not only simple, commodity chemicals of the type being produced in growing volumes in the Middle East in their coated tanks but also refined petroleum products.

Most such ships are operated in dedicated fleets although the leading parcel tanker operators also charter in a few of these less-sophisticated chemical/product tankers in order to meet the full range of their customers' requirements.

The regional distribution of chemicals is served by fleets of coastal tankers, most of which are relatively sophisticated, scaled-down versions of parcel carriers, featuring stainless steel cargo tanks.

The coastal tankers serving Europe are relatively small, in the 3,500-5,000 dwt range, while those plying the waters of the Gulf of Mexico, the Caribbean and the east and west coasts of South America are marginally larger.

Of the various regional fleets, the primary focus in recent years has been in Asia where the expansion of the fleet of 5,000-12,000 dwt tankers to serve the rapidly growing intra-regional movement of chemicals is proceeding on a fast-track basis.

Consolidation

In general terms a higher degree of consolidation has been achieved in the deep-sea chemical tanker fleet than in the short sea.

While both the deep-sea and the short sea fleets in the various regions remain relatively fragmented, at least there has been a degree of rationalisation in the deep-sea parcel tanker sector, where Stolt, Odfjell, Jo Tankers and Tokyo Marine now account for 58 per cent of total tonnage.

As a result of the wide-ranging merger and acquisition activity that took place within the chemical producer community during the 1990s, the pressure for further rationalisation amongst the various chemical tanker fleets is growing.

However, the sensitivity of the issue as a result of the current anti-trust action means that shipowners are shying away from the less formal, cooperative service agreements amongst themselves and turning to the traditional means of consolidation, including pooling, joint ventures, mergers and takeovers, all sanctioned by the relevant competition authorities.

The European regional trades have been the primary focus of the most recent bout of chemical tanker fleet consolidation.

In October 2003 Vopak agreed to sell the 14 stainless steel chemical tankers it operated in the Vopak Essberger ChemPool fleet to pool partner John T Essberger GmbH & Co of Hamburg, part of the Rantzau Group.

Vopak announced that it was relinquishing the tankers, all in the 2,500-6,200 dwt size range, to concentrate on its core bulk liquid storage activities.

The new Essberger-only fleet comprises 26 ships operating in Europe and carrying approximately 5 million tonnes of cargo per annum on behalf of a range of chemical company shippers.

Earlier negotiations between Vopak Essberger ChemPool and Stolt, which operates its own European regional fleet, with a view to an even greater degree of consolidation, had broken down.

New pools

A month later Seatrans Ermefer Tankers (SET) of Bergen and the United Chemical Transport (UCT) pool of Hamburg agreed to form another European joint pool of chemical tankers.

"Launched on January 1, 2004, the new pool is trading in the core area of North West Europe and the Mediterranean and also includes SET and UCT business from Europe to South America and back," reports SET managing director Jan-H Johansen.

A further aim of the initiative is to streamline the operations side of the joint fleet to make planning more efficient and introduce efficiencies by combining cargoes to similar destinations, making voyages shorter in overall duration and saving time and money lost in calling at extra ports.

In the other major development in the region Odfjell and Ahrenkiel of Hamburg also launched a new inter-Europe coastal chemical tanker pool on January 1.

For Odfjell the venture not only marks a return to European coastal operations after a 20-year absence, but also complements the company's regional fleet operations in Asia and the Americas.

Ahrenkiel is also a participant in UCT and the company's commitment to the new venture with Odfjell is based on the contribution of its eight P-class tankers from the UCT pool.

Built by Viano do Castelo in Portugal in 1996-98, the vessels are each of 5,870 dwt with 20 stainless steel tanks. Odfjell is contributing the same number of similar-sized ships from its Odfjell Asia and Odfjell Americas fleets. These latter operations will be replenished with newbuilding and chartered tonnage.

Between them, the SET-UCT, Essberger and Ahrenkiel-Odfjell operations account for about 40 per cent of the European regional chemship market. Other operators active in the region include the Crystal Pool, Uitkilens-Chemtrans, Broström, Wonsild, Stolt-Nielsen and Naviera Quimica.

"Whether the other operators will consider entering enlarged pools remains to be seen," comments Mr Johansen of SET. "It is always a question of how big a pool you can administer and also how big the authorities will allow you to become.

"We would expect to see the number of participants in the Mediterranean-North European chemical trades reduce over the next few years. Certainly from our vantage point it does not make too much sense to carry on as we are today."

Market and prospects

The operations of the majority of chemical tanker operations are currently in the black, although results are generally sluggish.

This is because the volume of chemicals moved, and the fortunes of ship operators, tend to mirror the performance of the world economy.

The bad news is that the global economy is currently struggling to achieve some momentum as the push for a post-September 11 recovery gains ground.

The good news is that the chemical market expansion has consistently outperformed GDP growth, and the gap is steadily widening.

China, the powerhouse that is driving Asia, is also driving increasing volumes of chemical imports from the US Gulf and the Middle East and growing levels of chemical exports, including to customers throughout the Asian region.

Chemical exports from China in June 2003 were 30 per cent ahead of the level achieved in the same month a year earlier.

The volume of trade available to chemical tankers comprises approximately 150 million tonnes per annum (mta), comprising 75 mta of organic chemicals, 25 mta of inorganic chemicals, 35 mta of vegetable oils and 20 mta of other bulk liquids.

Orderbooks

Another reason for the current stability in the chemical tanker trades is the comparatively modest orderbook.

Shipowners were chastened by the Asian financial crisis of 1998, when 100 expensive stainless steel chemical tankers had been ordered in expectation of a new era of buoyant trade with the region.

Since then, newbuilding has proceeded at a much more sedate pace. At the start of 2003 the chemical tanker orderbook stood at 70 ships of 1.4 million dwt.

Nevertheless, the leading chemical tanker fleets are now of such a size that there is a need to maintain an almost continuous newbuilding programme, however modest, in order to replace older tonnage.

In contrast to the past, when new ships were built in Europe to own account, the Big Four parcel tanker operators are adopting new approaches to vessel ownership in order to minimise their financial exposure and inject a further degree of flexibility into their operations.

An increasingly popular approach is to order vessels in Japanese shipyards in conjunction with local owners.

These arrangements are based on time charters of five-plus years with purchase options. The low interest rates and other attractive repayment terms currently available to Japanese shipowners wishing to have new ships built in domestic yards are influencing factors.

Less sophisticated

The most recently completed newbuilding programmes in European yards involved relatively sophisticated ships in the 37,000 dwt size range with a high degree of cargo-handling flexibility.

As such, shipowners see no immediate need for further ships of such a size and built to such a standard.

The new Japanese ships are thus somewhat smaller and simpler in construction.

This suits the Japanese yards as they have yet to build a top-of-the-range chemical parcel tanker.

Nevertheless, the current round of Japanese newbuildings are still being constructed with stainless steel tanks throughout, even though there are relatively fewer cargo tanks per ship.

An example of the new orders being placed in Japan are the three 19,000 dwt chemical tankers to be built at the Usuki and Shin Kurushima yards for Japanese principals.

Odfjell will take the newbuildings on time charters of seven and eight years, while options to extend for another two or three years are part of the deal as is an option to purchase on two of the ships which will continue throughout the charter period.

The ships will be delivered in August 2004, October 2004 and December 2005, respectively. Two of the ships will have 22 cargo tanks and the third 36 cargo tanks, all made of stainless steel.