

POTS

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TRADE FAIR &
SEMINAR 2008

Changing Marketing Landscape - Challenges for Business Sustainability

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THE FREIGHT MARKET: CHALLENGES AND OUTLOOK FOR OILS AND FATS TRADE

HOR WENG YEW

MISC Berhad

SESSION 2

**POLICIES & REGULATIONS: ISSUES INFLUENCING
THE OILS & FATS DYNAMICS**

The Freight Market: Challenges and Outlook for Oils and Fats Trade

Hor Weng Yew
MISC Berhad

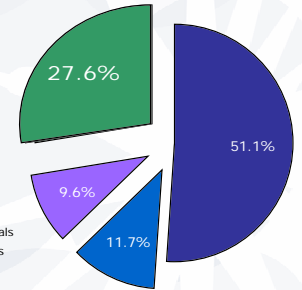
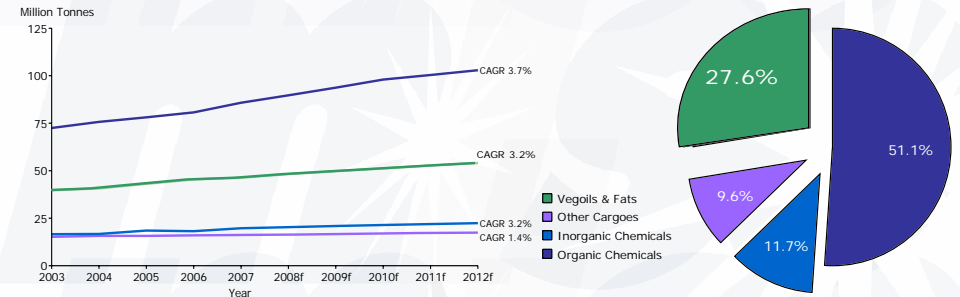
Email: wengyew.hor@miscbhd.com

Abstract

Shipping is a major mode of transport to move products in the oils and fats trade globally. This paper gives an overview of the freight market for chemical tankers. It discusses the competing types of products moved by the chemical tankers. Chemical tankers not only transport Vegetable Oils but they are also being used to transport Chemicals as well as Clean Petroleum Product (CPP). In addition, the history and an outlook of the seaborne trades handled by these tankers, the supply and demand for these tankers as well as the regulations that can impact this freight market will be covered. In the past, non-IMO vessels were allowed to carry palm oil. Now, only IMO II and specially adapted IMO III vessels can carry palm oil and there could be a possibility that the regulation may be tightened further, causing a flight to quality. The paper will also highlight the challenges facing the freight market, in particular higher costs of bunkers due to higher oil prices, higher operating costs, new supply of vessels entering the market, and higher costs of newbuildings. All these pose challenges and uncertainties to the freight market and can affect the oils and fats trade, especially the high oil prices. This paper also proposes that the volatility of bunker prices creates the need to relook at the sharing of risk and reward between the shipowners and the charterers.

The Freight Market: Challenges And Outlook For Oils & Fats Trade

Presented by:
Hor Weng Yew
Vice President
Chemical Business, MISC Berhad



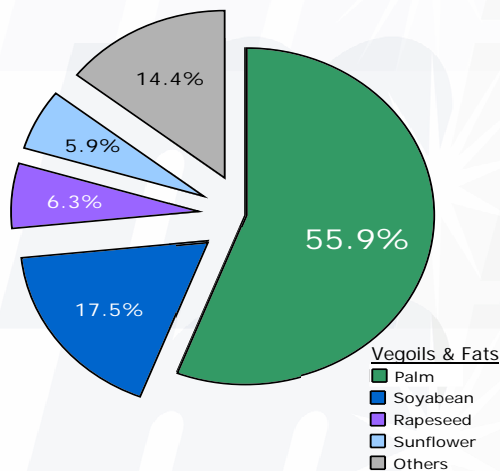
Source: Drewry

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- Seaborne veg oils & fats has been growing steadily at **CAGR of 3.2%**
- Growth of veg oils & fats is highly driven by the demand of edible/non-edible consumption...and bio-diesel to a lesser extent
- Veg oils & fats represent **27.6%** of total seaborne trade in 2007

Palm Oils

>50% of Veg oils & Fats Seaborne Trade..



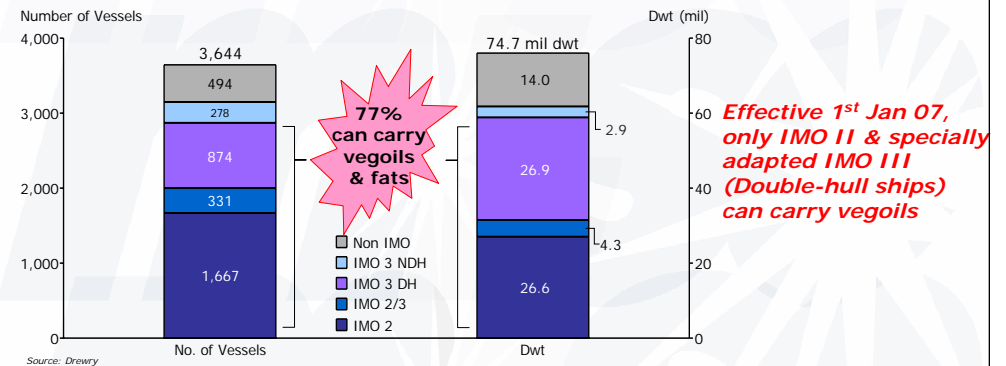
- Carriage of veg oils at sea governed by regulations - **IMO, FOSFA/NIOP** and governmental rules (e.g. EU List)
- Ensures safe handling, preservation of the integrity of the cargo (especially for human consumption) and avoid contamination incidents

- High degree of operational complexity:**
 - Tank coating
 - Heating requirement / adjacent tank
 - Last cargo requirement
 - Tank cleaning

Source: KTR Maritime

World Chemical Fleet

Not all are veg oils & fats capable.....

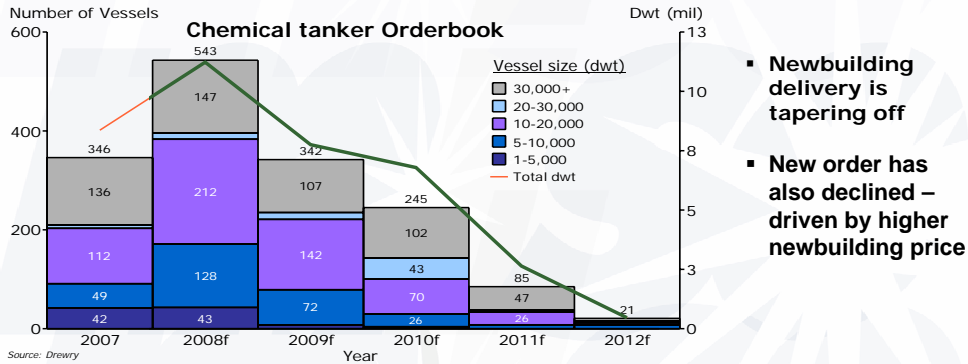


Source: Drewry

- World chemical tanker fleet - **3,644 vessels (74.7 million dwt)** as at June 2008
- 3,150 (60.7 million dwt) are IMO vessels
- 2,872 (57.8 million dwt) can carry veg oils & fats (77.4%)**

Effective 1st Jan 07, only IMO II & specially adapted IMO III (Double-hull ships) can carry veg oils

Chemical tanker newbuildings delivery – peak in 2008 but declining orderbook from 2009...

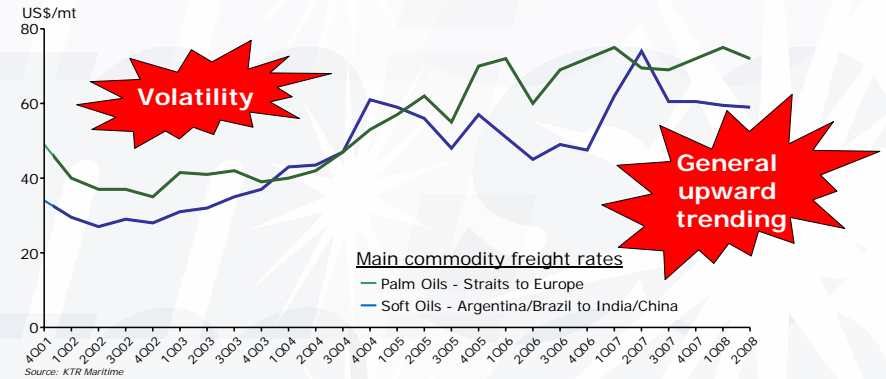


- Newbuilding delivery is tapering off
- New order has also declined – driven by higher newbuilding price

- High newbuilding deliveries in 2008 was expected to drive lower freight environment in short-term – but no significant effect year to-date...
- Declining newbuilding supply from 2009 and tightening regulatory requirement may actually drive freight rates up – compounded by “swing tonnage” factor
- Regional/smaller tankers – may also see supply constraint

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Freight Rates Volatility projected - upward trending may continue



Key factors impacting the freight rates:

Near Term

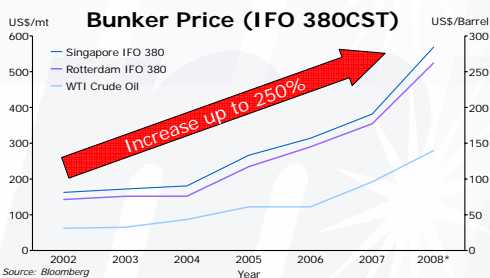
- ✓ Newbuilding deliveries
- ✓ “Swing vessels” to CPP trade
- ✓ Tightening regulations

Longer Term

- ✓ Growing demand for veg oils
- ✓ Escalating costs environment – ship cost, bunker cost, ship-operating cost

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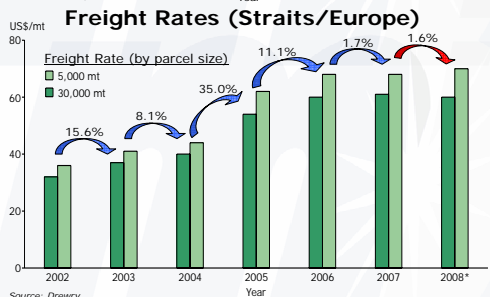
Challenges – Step escalation of bunker costs....and port costs



A. Impact of bunker cost escalation

- ✓ Additional bunker costs*
US\$10.60 per mt
- ✓ Increase in freight rate
US\$1.00 per mt
- ✓ “Indirect subsidy” by shipowner

US\$9.60 per mt



- *Methodology
- 40,000mt palm oil Straits to Rotterdam
 - IFO 380CST Bunker price 2007: \$326 pmt
 - IFO 380CST Bunker price 2008: \$700 pmt
 - Consumption: 33mt IFO/day at sea; also included some consumption of IFO/MDO in port, for heating and tank cleaning purposes

B. Impact of canal/port cost increase

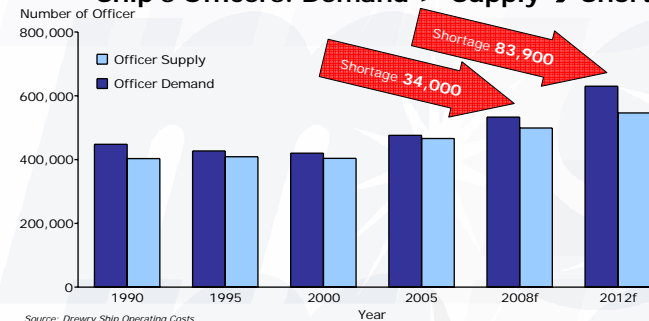
- ✓ 15% increase in Suez canal cost in 2008

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Challenges – Further compounded by operating cost increases.. esp manning and looming shortage of qualified crew



Ship's Officers: Demand > Supply → Shortage



- ✓ Officer demands exceed the supply of officer
- ✓ The imbalance gaps continue to enlarge as:
 - It takes 8-10 years to produce well-trained captains
 - But it only takes 2-3 years to build vessels

Source: Drewry Ship Operating Costs

- Shortage of trained and certified ship officers – a worrying trend
- As temporary fix, instead of spending money on training, \$\$ spent on poaching!
- Salary – double digit-cost increases

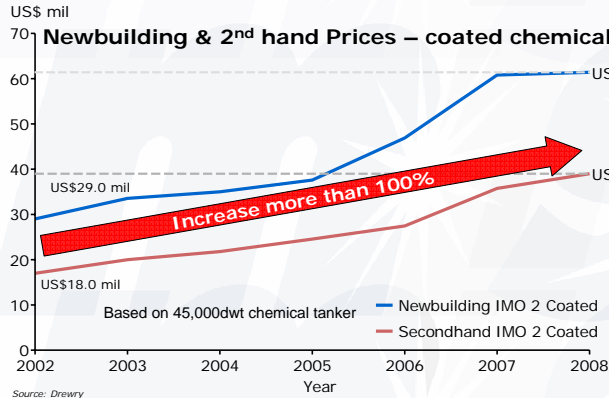
Others:

- 14% spike in repairs and maintenance costs

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Challenges..

Ship Prices - over 50% increase in last 2 years
...and over 100% increase in last 5 years!!



- ✓ Increase costs faced by shipyards: -
 - Steel
 - Labor
 - Machineries
- ✓ Currency fluctuation versus US\$
- ✓ Limited yards
- ✓ Preference to build drybulk carrier / VLCCs

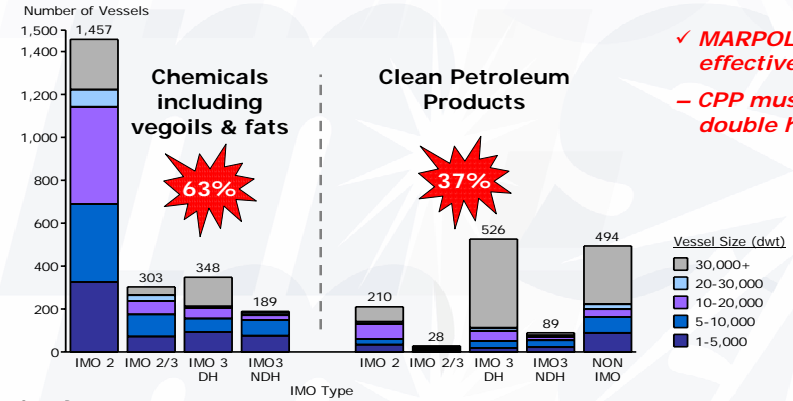
- Increase in newbuilding costs from about US\$40 million to US\$60 million over 2 years
- Same trend for secondhand vessel
- Tightening lending market – compounded capital costs for shipowners

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Challenges - "Swing tonnage" effect kicking in strongly



Vessel Employment by IMO type



- ✓ MARPOL Annex I effective 1st Jan 2010
- CPP must be carried in double hull ships

Strong CPP market pulling away tonnages from system..

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Challenges & Outlook...in summary



- Seaborne vegetable oil trades projected to continue to grow
- Flight to quality – veg oil need now to be shipped in IMO/DH ships
- Ship supply (IMO/DH ships) constrained by tightening regulations, swing tonnages to CPP trades and declining orderbook
- Acute cost pressures from astronomical bunker price increases
- Shipowners facing real shortage of qualified sea personnel as well as increasing ship operating costs

Freight market – volatile in near term ; upward trending in the medium term

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Challenges & Outlook...in summary



We believe..

- Changing industry dynamics necessitates cargo owners (charterers of ships) to select the right shipowners to move their cargoes
- There is a need to re-look at the sharing of risk-and-rewards in charter arrangement

Ship-owners and Cargo-owners work closely in *partnership* for *sustainable* long-term health of the industry

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MISC The Trusted Partner



Existing Vessels	Size (dwt)	No. of ships	Avg. Age
Anggerik Class	30,000	4	18.0
Melati Class	32,000	7	9.3
Semarak Class	16,900	2	17.5
Kantan Class	19,700	3	3
19K+ Charter In	19,110	1	10
19k+ Charter In	19,700	2	1
MR size	45,000	4	1
Total		23	8.6

New Buildings Program	Delivery	Size (dwt)	No. of ships	IMO Type
STX, Korea	2009/10	38,000	8	II
SLS, Korea	2009/10	45,000	8	II
Fukuoka, Japan	2010/11	19,900	4	II
Total			20	

- ✓ **Track record of over 30 years** in carriage of chemicals and vegetable oils
- ✓ **Experienced sea and shore staff** to ensure operational integrity, vessel safety and safe handling of multiple products
- ✓ **Operate a fleet of 23 IMO II/III chemical tankers** ranging from 16,900 to 45,000 dwt, with an average age of 8.6 years
- ✓ **Growth programme – 20 IMO II newbuildings** ranging 19,900 to 45,000 dwt due to delivery between 2009 - 2011
- ✓ Transports significant amount of **Malaysian palm oil export** annually
- ✓ **Expanding global footprint** and growing into new markets/segments
- ✓ Able to offer **innovative and flexible freighting solutions** to customers
- ✓ **Internal maritime academy "ALAM"** - important supply-source of well-qualified officers and crews

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Thank You

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