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UASC mega-ships to arrive by 2015

Lower per teu efficiency continues to drive large container ship ordering, *Peter Shaw-Smith* reports

Dubai-based United Arab Shipping Company (UASC) will take delivery of five 18,000teu box ships by 2015, becoming the fourth global container line to order the mammoth vessels.

UASC's announcement of the 17-ship order valued it at more than $2Bn including options. *IHS Fairplay* reports hint at the possibility of an order valued at $1.4Bn, for five 18,000teu ships and five of 14,000teu.

When asked, Jorn Hinge, president and CEO of UASC, told *IHS Fairplay*: "We are not stating the actual contract price per ship, but your assumption seems reasonable."

The options are for one vessel of 18,800teu and six of 14,500teu.

Hinge said he might sell some of the ships from the new order if prevailing market conditions become suitable.

The first 14,000teu ship will arrive in November 2014, the first 18,800teu ship is for delivery in April 2015, and the final ULCS comes in December 2015. The last 14,500teu vessel will arrive in August 2015, Hinge said.

He was tight-lipped about details of the order because he said financing, which would involve a blend of international, regional and local banks, had yet to be arranged. "We are not prepared to mention banks until the individual finance transactions are completed, but suffice it to say that local [institutions] include banks from Qatar, Saudi Arabia, Kuwait and UAE."

UASC's website says its fleet consists of 52 vessels, including nine A13-class vessels of 13,5000teu capacity, eight A7-class 6,921teu vessels, 10 A4-class vessels with capacity of 4,101teu; it also charters in 25 vessels with capacities from 1,000–4,400teu. "This is a dynamic figure," it notes, "as we charter ships in and out for feeder services."

UASC made headlines in 2008 with the big order for the nine 13,296teu box ships. At the time, Hinge said a company with cash in hand was obliged to use it. "That order clearly shows that unit costs were reduced. The 13,000teu vessels were very good at helping us gain efficiency," he said.

He sees competitive slot costs as the key to deploying efficient ships, citing factors influencing the order details as price, fuel efficiency, and delivery times. "We look at tonne-mile costs, and the quality of the ship. You have to adapt, otherwise you will die."

Four companies worldwide now have orders for vessels equivalent in size to Maersk's groundbreaking Triple-E class vessels (such as *Mærsk Mc-Kinney Møller*, 18,270teu). To date, China Shipping Container Lines and MSC are the only other two lines to follow in Maersk's footsteps by ordering vessels with capacities in excess of 18,000teu.

It was always likely that Hinge would go for Korean quality with the order, but he has noticed an uptick in shipbuilding movement in China of late, and resultant price pressures. "A lot of VLCC and bulk carrier orders have been placed with Chinese yards lately. This will have an impact on prices for all kind of ships in China.

"UASC also operates 25–30 [smaller] vessels but owns only 10 of them and charters in the rest. With the increased bunker cost these sizes of vessel are very uncompetitive in most trades. The only thing you can do to be efficient is to control costs."

On the alliance front, UASC is beefing up its Asia presence. "In May this year we started a trans-Pacific service with China Shipping [Container Lines]," said Hinge. "We now have three services in the Pacific, two of them where we deploy ships ourselves. We have some slot swaps with existing services with China Shipping. We have also merged some services with Yang Min [Marine Transport Corp.]"

He said UASC was a key customer of Gulftainer at Khorfakkan on the UAE's east coast. Gulftainer's total terminal throughput increased by 23.7% in 2012, and although it now operates at Jeddah, Jubail, Umm Qasr, and Recife, its operations are dominated by Khorfakkan. "In our system, Khorfakkan is the most efficient port we have anywhere," Hinge said.

Red Sea Gateway Terminal in Jeddah has received good recent business from UASC, but Saudi bureaucracy is a hindrance. "The port's strict cargo inspection policy sometimes means delays," he said. "There are different rules to work to. [This applies to] all container terminals in Saudi Arabia."

The UAE is in the vanguard of capacity additions, particularly at its mega-port of Jebel Ali, where 4M teu of capacity is expected to come online next year. "Years ago Jebel Ali was also subject to congestion. [UAE is] looking to stay ahead of the competition."

UASC was set up in July 1976 by six governments: Qatar is the largest shareholder, followed by Saudi Arabia, then Kuwait and Iraq have equal shareholdings, followed by the UAE, while Bahrain is the smallest equity holder.

Reflecting on the UASC strategy, Hans Ole Madsen, senior vice-president for Europe and Middle East at ITCSI, said: "Competition within the liner industry remains fierce. Economy of scale and reduced slot costs [are] essential for shipping lines to succeed.

"The recent step by UASC will enable [it] to enter alliances on an equal footing and obtain further slot cost savings. The fuel efficiency of these new vessels is an added benefit."

Peter Richards, managing director of Gulftainer, said: "The vision for the purchase of these ships cements Middle East companies as leaders within the industry as the region becomes more prominent in its role as a major logistic hub. At Gulftainer, we look forward to welcoming these vessels to our terminals."

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The case for being ready for LNG

UASC's decision to build ships capable of being retrofitted for LNG bunkers has made the industry sit up.

As ever, financial considerations are to the fore. "The cost of energy has changed the economics of shipping. In the 1990s, bunker costs were $150/tonne. Now they are $600," noted Jorn Hinge, president and CEO of UASC. "The cost of fuel is the largest single cost item to change the whole business."

The newbuildings will be constructed with all the requisite fittings but will await developments in the LNG bunker supply market, which Hinge says is not yet ready to provide the fuel on a regular basis. "UASC's order allows it to retrofit the new vessels for LNG bunkers. We hope to do this as soon as we can, however it will depend on the LNG infrastructure. Hopefully it will remain cheaper.

"The main thing we will not do is put the tank in. That would be dead capital. We don't need to do that yet. The idea will be that once the infrastructure is available, we will then … convert the ship."

Singapore and Rotterdam were not quite ready to supply LNG bunkers, he said. "I saw someone had an LNG bunker berth somewhere in north Europe."

One obvious consideration is that availability of bunkering infrastructure will be more certain on the main Asia-Europe trade route than elsewhere, influencing UASC's decision to be ready for LNG.

"In our opinion DNV is the classification society that has most experience with LNG. [It] will certify the final product. The detailed engineering for the LNG installation will be done by another party and I expect a separate press release to be issued in this regard,"

he said.

"I expect LNG fuel to be about 20–30% of the price of fuel oil. However the price of LNG varies a lot from location to location. Against that you have to weigh that it's a big investment to do this. LNG prices vary more than oil prices.

"There's no guarantee that prices will stay like

this forever," he warned.