Financial Crisis Triggers Disruption in International Shipping

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Shipowners Idle 20% of Bulk Vessels as Rates Collapse

By Alaric Nightingale

Nov. 7 (Bloomberg) — At least 20 percent of the vessels most commonly hired to haul coal and ore are sitting empty as steelmakers cut output and dwindling trade credit halts deliveries, Lorentzen & Stemoco A/S shipbroker Kjetil Sjuve said.

Fifty to 100 so-called capesizes, each bigger than The Trump Building in New York, have been unable to find cargoes or their owners won't accept rental rates that have plunged 98 percent in five months, Sjuve said by phone today. Normally about 250 such carriers compete for spot bookings, he said.

"There are simply no cargoes," Sjuve said from Oslo. "It's primarily the steel market but it's even more difficult due to financial markets and letters of credit in particular."

ArcelorMittal, the world's biggest steelmaker, on Nov. 5 said its global output will decline by more than 30 percent. Cia. Vale do Rio Doce, the world's biggest iron-ore producer, last month said it will cut production. Of the $13.6 trillion of goods traded worldwide, 90 percent rely on letters of credit or related forms of financing and guarantees such as trade credit insurance.

Letters of credit are centuries-old instruments that transfer payments internationally from buyer to seller once shipments have been delivered.

Capesizes that were attracting rates of $233,988 a day as recently as June are now available for $4,793, according to the Baltic Exchange in London. That's below the cost of paying for crew, insurance, maintenance and lubricants.

Capesizes are the second-largest commodity transporters, after very large ore carriers. The Baltic Dry Index, a measure of shipping costs across different ship sizes, has slumped 93 percent from a record in May.

Ships at Anchor

The number of empty capesizes in the spot market may climb to as many as 150 in the next two weeks, said Sjuve, who is a capesize broker. The precise number at anchor is "very difficult to pinpoint" because owners don't often announce it, he said.

There are 105 capesizes indicating their status as “at anchor,” according to data compiled by Bloomberg. The data doesn’t differentiate between ships that are hired and those that haven’t got cargoes. On June 30, there were 43.

Zodiac Maritime Agencies Ltd., the shipping line managed by Israel’s billionaire Ofer family, said last month it was considering idling 20 of its largest ships. Ukraine’s Industrial Carriers Inc. filed for bankruptcy protection last month and London-based Britannia Bulk Holdings Plc was placed into administration under U.K. insolvency laws.

Loan Accords

As many as 20 percent of shipping lines are at risk of breaching their loan accords because the decline in rents has caused a similar plunge in ship prices, Tufton Oceanic Ltd., the world’s largest shipping-hedge fund group, said last month.

The 12-member Bloomberg Dry Ships Index has plunged 76 percent from its peak in May, taking its combined market capitalization to $6.7 billion from $27.8 billion.

Global ship orders tumbled 90 percent last month, Richard Sadler, chief executive officer of Lloyd’s Register, said in an interview yesterday. The full-year order tally will likely fall more than the 15 percent previously predicted, he said.

The drop in rental rates “came fast and will be gone quickly,” China Cosco Holdings Co. Chairman Wei Jiafu said yesterday at a shipping conference in Dalian, China. “The unusual drop was because of investors’ panic amid the global financial tsunami.”

China Cosco Holdings is the world’s largest dry-bulk ships operator.