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Words: Rainbow Nelson

Made in *Brazil*

THE GOVERNMENT OF LUIS INACIO 'LULA' DA SILVA IS REAPING THE POLITICAL FRUITS OF ITS PERSISTENCE IN REVIVING BRAZIL'S SHIPBUILDING INDUSTRY AS TRANSPETRO RECEIVES THE FIRST BRAZILIAN-BUILT TANKERS FOR MORE THAN A DECADE



↑ Brazil president Luiz Inacio Lula da Silva

IT HAS BEEN a long-time coming but Brazil is becoming accustomed once more to the sight of long-haul ships being launched in Brazilian waters.

The symbolic floating of a fleet of new tankers, container vessels and offshore supply ships ahead of Brazilian presidential elections is no coincidence and represents the culmination of a bold policy by president Luiz Inacio Lula da Silva to revive what was once the world's second largest shipbuilding industry.

When presidential elections are held in October, Mr da Silva hopes his anointed successor, Dilma Rousseff, will inherit the political spoils of his decision in 2002 to raise the 'local content' for major Petrobras contracts for oil rigs, tankers and offshore supply vessels.

After eight years in charge of state-controlled energy giant Petrobras, the Brazilian shipbuilding industry has been transformed with 40,000 jobs created by more than \$2bn of investment in new shipyards and another \$5bn on the drawing board.

"Some say that in this globalised world, Brazil shouldn't produce ships, it should buy them from Korea, China because they are cheaper. But we defend the idea that it was right to buy here so we would not lose our technology," says Mr da Silva.

"We have many shipyards. We have shipyards in Rio de Janeiro, Pernambuco, Rio Grande, Rio Grande do Sul, we are building a shipyard in Bahia and we are going to build shipyards wherever they are needed because with this Brazil gains a lot."

With an annual bill of \$10bn for its maritime transport needs, Brazil's largest company, Petrobras alone boasts an annual charter bill of \$1.2bn. The construction of 49-vessels, at a cost of \$4.7bn estimates Transpetro president, Sergio Machado, will save the company \$500m a year.

In the future Mr da Silva hopes new yards will be exporting vessels to the rest of the world reducing even further the country's negative balance of payments in the maritime sector.

"We are constructing a powerful structure to have a powerful shipbuilding industry in our country. We want to be exporters of drillships, platforms and vessels," he says.

Transpetro has plans to launch four new tankers this year, the product of a protracted six-year campaign to build vessels in domestic yards.

In May, Petrobras' shipping and logistics subsidiary, Transpetro, celebrated the launch of the first of its 49-tanker newbuilding program in the newly built Atlantico Sul Shipyard in Suape, Pernambuco, in the north-east of Brazil. It was the first vessel Brazilian-built vessel to enter the company's fleet since the completion of Livramento, a product carrier that took 10 years to build was finished in 1997. A second, the product carrier Celso Furtado followed shortly after delivered by a second yard, Maua in June.

As much as the construction of Livramento represented the painful demise of an industry that fell to as little as 2,000 employees in 2000, Joao Candido and Celso Furtado represent its resurgence.

The suezmax tanker, Joao Candido took 29 months and construction took place alongside the construction of a state-of-the-art yard shipyard facility with a capacity to process 160,000 tonnes of steel a year and the training of 5,000 employees. ↘

PEDRO BRITO

Secretary of Ports, Brazil



The shipbuilding bases that we are inaugurating in this country have to be prepared to compete with the entire world

→ “We are building a road for the shipbuilding industry,” Mr Machado said at the recent launch of the Celso Furtado. “It was not easy. First we had to convince people that it was viable. We went looking for partners we had to convince them that it was possible, to look ahead, like Atlantico Sul is looking ahead, like other yards are looking ahead, it was not easy. We went abroad and people told us that it wasn’t possible to build ships in Brazil. People didn’t think that it was possible and there it is [the Celso Furtado]”.

Taking its name from a former economist who promoted the economic development of the north-east of the country, an area rapidly becoming Brazil’s new shipbuilding heartland, the second product carrier carries with it a lot of hope for Brazil’s politicians.

“We are proud that Celso Furtado’s dreams, his ideas can be transformed into reality, into steel and that steel can change the lives of people,” says Mr Machado.

South Korean shipbuilder, Samsung Heavy Industries, the technological partner and owner of a 10% stake in Atlantico Sul, now dreams of producing 20 such ships a year at the shipyard within five years. Two more launch ceremonies are programmed before the end of Mr da Silva’s tenure, to further underline his government’s achievements. A second product carrier will be completed by the Rio de Janeiro-based yard, Maua, and a second suezmax in Suape is scheduled for the August. All told, ten suezmaxes are due to be delivered from Suape in the next two years and both phases of Transpetro’s 49-tanker newbuilding program are due to be complete by 2014.

Transpetro has placed orders at five different yards, 22 of them at Atlantico Sul, eight with the Synergy Group’s yards Maua and Eisa shipyards, as well as orders for eight gas carriers at another yard still to be constructed in the north-east of the country. Three bunker vessels are being built at Superpesa and five product carriers at Rio Nave, both in Rio de Janeiro.

“Today we are respected in the world,” says Mr Machado. “Today we have the fourth largest tanker orderbook in the world.”



↑ Brazil president Luiz Inacio Lula da Silva – seen during a visit to oversee the final stage of the construction of new oil platforms for the state-run oil company Petrobras at Brasfels’ shipyard in Angra dos Reis, Brazil. Pictured left is Petrobras’ president Sergio Gabrielli. (Photo: AP/Patricia Santos)

SERGIO MACHADO

Transpetro president



People told us that it wasn't possible to build ships in Brazil... today we have the fourth largest tanker orderbook in the world

While Transpetro’s tanker needs and demand for oil platforms from parent, Petrobras, have dominated capacity at Brazil’s principal yards there are other vessels being built that point to future diversification.

At Eisa’s facility in Rio de Janeiro, five container vessels are being completed for coastal shipping specialist, Log-In. The first, Log-In Jacaranda was launched in May and will enter service in early 2011. The yard will deliver four more by the end of 2013.

“This is the first container vessel built in Brazil in over 15 years, thus showing that shipbuilding for local container cabotage has been resumed and orders for large vessels are feasible in the country,” says Log-In’s managing director, Mauro Dias.

It is also building two panamax bulk carriers at the Eisa facility at a cost of \$165m. The first is due to be finished at the end of 2011 and a second in the third quarter of 2012

In the long-term, Mr da Silva’s maritime expert, Pedro Brito, special secretary for ports, is optimistic that investments made today will be durable in the long-term.

“The shipbuilding bases that we are inaugurating in this country have to be prepared to compete with the entire world,” he says. **LL**

TRANSPETRO’S NEWBUILDING ORDERS

QUANTITY	ORDER	SHIPYARD	VALUE (US\$M)	DEADWEIGHT	DATE
10	SUEZMAXES	ATLANTICO SUL, SUAPE	\$1,200.00	160,000	31/01/2007
4	PRODUCT CARRIERS	MAUA, RIO DE JANEIRO	\$277.00	48,000	30/11/2007
5	AFRAMAXES	ATLANTICO SUL, SUAPE	\$693.00	110,000	07/11/2008
4	PANAMAXES	EISA, RIO DE JANEIRO	\$468.00	73,000	04/12/2008
3	SUEZMAXES (DP)	ATLANTICO SUL, SUAPE	\$746.50	160,000	10/09/2009
4	AFRAMAXES (DP)	ATLANTICO SUL, SUAPE	\$477.00	110,000	10/09/2009
3	BUNKER TANKERS	SUPERPESA, RIO DE JANEIRO	\$46.50		10/09/2009
2	GAS CARRIERS	PROMAR CEARA*		4,000 cu m	18/04/2010
4	GAS CARRIERS	PROMAR CEARA*		7,000 cu m	18/04/2010
2	GAS CARRIERS	PROMAR CEARA*	\$536.00	12,000 cu m	18/04/2010
5	PRODUCT CARRIERS	RIO NAVE SHIPYARD, RIO DE JANEIRO	\$268.50	30,000	27/04/2010
46			\$4,712.50		

* Location still to be determined

Source: Petrobras

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Words: Rainbow Nelson

Colombia

cashing in on coal bonanza

LOW FREIGHT RATES AND SLACK DEMAND IN EUROPE HAS PROVIDED COAL PRODUCERS IN COLOMBIA, THE WORLD'S FOURTH LARGEST EXPORTER, WITH AN UNPRECEDENTED OPPORTUNITY TO DEVELOP LONG-TERM RELATIONSHIPS IN KEY EMERGING ASIAN MARKETS



↑ The Cerrejon Zona Norte in Colombia ↑ (inset) Trucks loaded with coal at the Cerrejon Zona Norte in Colombia

UNPRECEDENTED levels of Colombian thermal coal moving to energy plants in India and China is expected to continue for the rest of 2010 and beyond.

India agreed its first deal in March, when the country's largest importer, Adani Enterprises joined Chinese energy giants in shipping thermal coal to the Far East on the spot market for the first time.

Adani's 110,000 dwt shipment from Cerrejon has been followed by an order for two capesize vessels worth \$120m that hint at the need for higher coal imports for the world's fourth largest producer of the commodity. Agarwal Coal Corp has also shipped Colombian coal to India in the last three months.

According to a survey by ICAP Shipping, India's coal imports could climb by one-third to 80m tonnes this year.

With demand in Europe down 5%-7%, Colombia's largest producer of thermal coal Cerrejon has been pushing the switch to the Pacific market after watching the price differential between traditional markets in the Atlantic trade and the Pacific trade grow.

With dry-bulk freight rates still below the peaks of 2008, Colombia, which exports more than 70m tonnes of coal a year, has been able to compete with Asia's

traditional suppliers Indonesia, Australia and South Africa. Colombian coal cost about \$92 a tonne on a delivered basis compared with \$110 for supplies from South Africa. As the world's fifth largest exporter of thermal coal, South Africa, switched almost 40% of annual exports of 60m tonnes to Asia in 2009.

Owned by Anglo-American, Xstrata and BHP Billiton, Cerrejon hopes to ship 32m tonnes of coal this year. As much as 10% could be taken up by volumes to Asia analysts forecast. Cerrejon president, Leon Teicher, however is more cautious on the fledgling trade's potential.

"It is interesting. We see Asia growing, China and India but it's not only them. We see Europe depressed which is at least 50%-60% of our volume so things are changing. The Atlantic and the Pacific markets are connecting in some way but is it a long-term theme? We don't know yet [how much we will ship to Asia]. We are working on it," he said.

The Colombian switch from the Atlantic offers a promising new trade flow for dry bulk owners looking for tonnage miles to soak up record vessel deliveries in the next three years. ▾

LEON TEICHER
Cerrejon president

It is interesting. We see Asia growing. China and India, of course, but it's not only them



↑ Coal terminal at the Puerto Bolivar in Colombia

→ A unique combination of deflated energy markets in Europe, soaring demand from China and India and a drop of as much as 31% in the Baltic Dry Index since a peak in November last year have made the trade possible, according to Federich Benech, coal trader at the Switzerland-based trading house, Trafigura.

“The coincidence of moribund Atlantic demand, Asian strength, and accommodative freight rates has opened the window for Colombian shipments into the Pacific in the first quarter of 2010,” he says. For how long the special conditions remain, however, is difficult to forecast with accuracy, he says.

“Colombian flow into Asia from here depends on the sustainability of a historically unprecedented coincidence,” he says.

With European importers sitting on record stockpiles they are also looking to accentuate the shift by switching from shipping on a cost, insurance, freight basis to freight on board to open up the possibility of moving unwanted volumes to the Pacific.

For much of 2009 under long-term agreements with Colombian producers, European importers were left with little option but to receive surplus coal shipments, creating stockpiles in key countries like the UK that are “7m to 10m tonnes higher than they should be at this time of the year,” says David Price, director of Global Steam Coal Advisory Service.

Demand from the UK, the largest consumer of coal in Europe with 31m tonnes of demand last year could drop by between 9m and 12m tonnes in 2010 as a result, he says.

“Importers have been caught so badly that we have got to the point where companies like EON are talking about moving away from CIF towards FOB so they could have some control of where the cargo went if it was going to be delivered,” says Mr Price.

Brazilian mining giant, Vale says that it has seen some of its coal customers in the US and Europe sell Colombian coal onto the Pacific market as they seek to reduce their exposure and limit stockpiles.

“We haven’t sold anything directly ourselves in Asia as our port is our limiting factor,” said Michael Sothmann, Vale’s coal account manager for Europe. “Some of our customers have exported to Asia which was interesting but we haven’t.”

As much as 10% of Colombian coal, moved to Asia in the first quarter of this year, twice the relatively low historical levels. Last year, Colombian coal production reached 72.6m tonnes, with 97% shipped abroad.

Traders forecast that the traffic will persist for most of this year if freight rates remain at current levels.

“This year has been a lively year,” says Mr Benech. “Freight has delivered a lot if you have rates of \$30,000 per day in 2010 with these type of freight prices you should be able to move Colombian coal around the world,” he says.

Most shipments have been struck on the spot market but producers are trying to convert the unique conditions into long-term contracts to help underpin future expansion plans.

Forecasters have estimated that volumes could reach between 7m and 12m tonnes, based on liftings in the first three months of the year. Mr Teicher was reluctant to estimate how much would move to Asia in 2010. “It’s very hard to say because it’s a new market for us,” he says. “What we have sold has been on the spot market some of it is pulverized coal injection (PCI – used in pig iron production). Whether we can turn that into larger volumes and into long-term relationships remains to be seen,” he says. “There is potential for longer term relationships for good solid volumes.”

With 7.4bn tonnes of reserves, Colombia’s principal coal producers hope to lift annual production from 74m tonnes a year to 120m tonnes in the next five years.

The country’s largest producers Cerrejon, Drummond, Glencore, MPX and Vale all have plans to more than double production.

Port developers and producers are proposing to add up to 114m tonnes of capacity to Colombia’s export capabilities with the construction of new export facilities on the Caribbean and Pacific coasts.

Analysts are convinced that Colombia’s new Asia market is here to stay and will help drive the country’s plans: “I expect Colombian coal exports to India and China to continue indefinitely,” says Jeffrey Landsberg, Commodore Research & Consultancy. “We continue to expect robust thermal coal demand in both India and China through the summer and afterwards. In addition to these two countries simply needing more thermal coal, it also is becoming increasingly important to diversify their sources in order to put pressure on exporters (not allowing a single exporter to dictate price) and also to be better prepared for a supply shock due to weather, strike, etc,” he says. **LL**

FEDERICH BENECH

Coal trader, Trafigura

This year has been lively. Freight has delivered a lot if you have rates of \$30,000 per day in 2010. At these prices you should be able to move Colombian coal around the world



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Heavy lift

sector relishing South American energy and mining bonanza

SOUTH AMERICA'S MINING SECTOR HAS NOT FELT THE CHILL OF THE ECONOMIC CRISIS, PROJECTS ARE RACING FORWARD AND THE PACE SUGGESTS A GROWTH IN THE HEAVY LIFT SECTOR WILL INTENSIFY

THE RESILIENCE of the mining, energy generation and offshore oil sectors in the leading economies of South America have heightened the prospects for heavy lift operators viewing the region with increasingly favourable eyes.

"In general South America has not been affected in the same intensity as other regions by the global financial and economic crisis," says Niels Stolberg, president of Beluga Shipping.

"Brazil for instance has a very high domestic demand for steel, which helped them to overcome the crisis in this particular sector. The same happened to the energy industry," he says.

On the east coast of South America, the Brazilian economy has emerged particularly strongly from the crisis with growth of more than 9% in the first three months of this year, while on the west coast of South America confidence has returned to key markets including Peru with important mining projects reviving heavy lift volumes.

Two of Peru's largest copper mine developments, Quellaveco and Anglo American's Michiquillay are each expected to generate up to 150,000 tonnes of cargo each.

"Peru is a very different story to the rest of the continent because of the huge variety of minerals in the country," says Arndt Drogemueller, business development director of BDP projects in Latin America.

"Peru as a country is one of the top 10 Gold producing countries in the world. Gold prices over \$1 per ounce make almost every gold resource a potential project, although it might be located in a very remote area with difficult access," he says.

A stable legal framework resulted in economic growth rates of 9.8% in 2009, 8.9% in 2008 and 7.7% in 2007, figures that underline the country's importance as a source of minerals for the world.

Heavylift specialists have taken note of Brazil and Peru's resurgence and with countries like Colombia also attracting strong foreign investment to expand and create new commodity pipelines in the coal mining and oil sectors, shipowners are moving more tonnage to the region.

Beluga has invested heavily in new vessels dedicated to trade lanes between the US, Europe and Latin America. Its new P2 series of vessels are serving Brazil and Argentina as the company seeks to gain a better foothold on some of the key energy projects in the world's eighth largest economy, Brazil.

Capable of handling units of between 800 tonnes-1,400 tonnes, the ten 20,100 dwt vessels are some of the largest in the trade.

Danish heavylift specialist Combi-Lift is also optimistic about the future deployment of part of its fleet of four new Combi-Dock semi-submersible vessels, built with projects in Latin America in mind.

Brazil in particular has attracted the company's attention with \$114bn investment in offshore investment and the boost to the Brazilian shipbuilding sector planned in the next four years by state-controlled energy giant, Petrobras.

"If the Brazilian government gives the greenlight to the pre-salt oil field exploration we hope to have one or two ships on period contracts for this country," says Christoph Beeken, managing director of Combi-Lift's representative in Brazil, Brasil Chartering & Shipping.

"One of these ships is operating in the Gulf of Mexico. It is just a matter of time before Petrobras says we also want one," he said. "These ships are perfect for the offshore sector," he adds.

The last of its four Combi Dock I, II, III and IV, semi-submersible heavy-lift vessels was delivered in the first quarter of this year. One has already been deployed in the Gulf of Mexico on a long-term charter for state-owned oil company Pemex. The flexibility of the vessels, says Peter Poulsen, Combi-Lift sales and marketing manager makes them very attractive for the Latin American energy industry, which is moving into deeper waters.

The ships have two cranes with a capacity of 350 tonnes each and a third with a 200 tonnes lift capacity and were built to accommodate a broad variety of loading systems.

Other international operators like TBS Shipping have teamed up with local players to take a larger slice of what it feels will be a boom in cabotage business in Brazil's heavy-lift sector.

CHRISTOPH BEEKEN

MD, Brasil Chartering and Shipping

If the Brazilian government gives the greenlight to the pre-salt oil field exploration we hope to have one or two ships on period contracts for this country



↑ San Antonio: conduit of South American mineral riches

← On the high road to heavy lift



↑ Built with Latin America in mind

It formed a joint-venture with coastal shipping specialist, Log-In at the end of last year.

Projects like the \$8.4bn COMPERJ petrochemical complex in Rio de Janeiro or three huge hydroelectric projects in the Amazon that between them will generate more than 18,000 MW of power and will cost almost \$20bn are underpinning shipowner interest.

These lucrative projects in particular will require the delivery of units of up to 1,000 tonnes from Europe or Asia and are set to tie-up considerable tonnage and expertise in the next five years.

Heavylift forwarders expect the COMPERJ complex will require some innovative solutions to the restrictions of moving the largest units by road from the ports of Itaguaí and Angra dos Reis to the site more than 100 km inland.

“They are looking at some very interesting solutions to the logistics problems there including re-activating a river to be able to ship some of the very largest units upstream on barges,” says Pedro Arruda, project sales at German project cargo forwarder Deugro. Alternative road access will also have to be constructed for the arrival of the largest equipment to the site.

A need for specialist equipment has allowed specialist project cargo operators to avoid the deterioration in rates resulting from stiff competition from more traditional bulk and container vessel operators seeking to move more project cargoes during last year’s downturn.

The niche market for the largest project cargoes has adapted slower to the drastic economic changes felt in 2009, accordingly says Mr Stolberg.

“The heavier the cargo the more stable the market,” he says. “In ‘ordinary’ heavy lift shipping characterised by cargo weighing 200 tonnes or less (general cargo and bulk), the rates suffered a breakdown, by about 50%. While we are also suffering from a declining volume of orders in the lower cargo segment (200 tonnes and below), the super heavy lift segment with cargoes

between 500 - 1,400 tonnes stays in a very stable position. Hence, we are able to compensate losses in other sectors.”

Winning a lucrative logistics contract for one of the three hydroelectric projects being planned for the Amazon is the goal of many of the largest project cargo forwarders.

The largest of the three, the \$10.8bn Belo Monte dam project, which generating 11,300 MW of electricity is set to become the third largest hydroelectric generator in the world, was awarded an environmental license at the start of February and is moving ahead slowly after a consortium was selected in April.

All three will face the challenges of accessing relatively remote areas with little infrastructure.

“The logistics is extremely difficult because of the transshipment of the heavylift pieces in Manaus and Porto Velho and the port infrastructure limitations,” says Dominik Keller, managing director of O Lisboa freight forwarders.

Both Jirau and Santo Antonio are due to be completed by 2014 and shipping contracts are already being awarded by the likes of Alstom, VA Tech Hydro Brasil and Voith Siemens Hydro, all providing turbines and other equipment in both projects.

More than 90 turbines alone will be required at Jirau and Santo Antonio, which combined will generate 6,600 MW.

German heavy-lift specialist, Bertling Global Project Logistics, has been selected as the preferred logistics partner for GDF Suez, the majority owner of the Jirau project.

GDF Suez and its construction partner Camargo Correa estimates that the construction will require 29,000 transport moves in the next four years including the shipment of 46 turbines from China and the construction of a cement plant in Porto Velho for Votorantim as part of the R\$10bn (\$5.6b) project. **LL**

PEDRO ARRUDA

Deugro

They are looking at some very interesting solutions to the logistics problems there including re-activating a river to be able to ship some of the very largest units upstream on barges

DP World opens West coast South America up to gearless future

OPENING OF DP WORLD CALLAO HAS OPENED UP THE PROSPECT OF A FIERCE BATTLE FOR HUB STATUS ON THE WEST COAST OF SOUTH AMERICA



1 Nedlloyd Juliana calling at DP World's Callao facility

THE OPENING of DP World's Callao terminal Muelle Sur in April has changed the game for liner shipping executives structuring their networks on the Pacific coast of South America.

Callao, the gateway to the stellar economy of Latin America in the last five years, has been arguably the principal bottleneck for shipping lines looking to introduce non-gearless vessels on the west coast of South America for the last five years.

The completion of the first phase of DP World's \$617m investment program in Callao – with six post-panamax cranes and 18 RTGs is set to open up new options for shipping lines keen to find new routes that can absorb medium-sized tonnage.

Mediterranean Shipping Co, Hamburg Sud and Maersk Line are leading the charge with the introduction of post-panamax tonnage following the opening of DP Callao in April.

MSC currently deploys the largest vessels, with the 6,200 teu MSC Botswana breaking records for the trade lane on its first call in June.

"With the shortage of vessel capacity in Callao, we are already witnessing re-tonnaging process on several services calling the port. Former standard: a geared

unit of maximum 3,500 teu capacity is giving way to gearless vessels of 4,000 – 6,000 teu," says Maciek Kwiatkowski, general manager of DP World Callao.

"The water depth at state operated berth remains at 10.5 m, berth pocket depth of 16 m at Muelle Sur and access channel at minus 14 m, which was dredged by DP World Callao. This along with our new container handling capacity is driving the re-tonnaging efforts of the lines," he says.

Callao is lining up alongside other ports along the Pacific coastline of the Americas for the title of sub-regional transshipment hub.

Manzanillo and Lazaro Cardenas in Mexico, Balboa in Panama and Buenaventura, Colombia have all managed to develop important transshipment business by making a convincing case for cargo consolidation for other less efficient ports in the region.

"Callao is a natural location for a transshipment hub on the West coast of South America, particularly for North Chile, Ecuador and other Peruvian ports. Increased container handling capacity and deeper allowable draft in the port, which came to Callao courtesy of DP World terminal at Muelle Sur, will make it even more attractive as the regional hub location," says Kwiatkowski. ▽

MACIEK KWIATKOWSKI
General manager, DP World Callao

Callao is lining up alongside other ports along the Pacific coastline of the Americas for the title of subregional transshipment hub

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→ Maersk Line a pioneer of transhipment on the west coast of South America has confirmed itself as DP World Callao's first major customer. Its decision to call at DP World's facilities in Callao mirrors its early move to secure capacity at Balboa which converted Hutchison Port Holdings' operation into the region's largest transhipment terminal handling more than 2m teu a year.

As the star performer of Latin America, Peru bucked a regional trend of negative economic growth of -1.8%, growing by 0.8% last year and with 1.2m teu a year moving across the quays in Callao, the port's captive cargo makes the port an attractive point for transhipment, says Hamburg Sud's west coast regional operations, logistics and finance director, Tim Stout.

"Monte-class (5,500TEU) is our ambition on the west coast and while in Buenaventura, Guayaquil it is always going to be difficult to deploy these ships maybe Callao is not that far away that we can have a ship like that calling Peru and Chile," he says.

DP World is prepared to bet even bigger on Callao as the future for the west coast of South America. It has plans to invest \$1.3bn to develop the publicly-operated berths to the north of Muelle Sur and would take its total investment to almost \$2bn.

Peru's privatisation body, Proinversion, sent out requests for proposal to independent analysts in January to assess the merits of DP World's proposal after it failed to get other rival offers from the sector.

DP World's grand designs for Callao are an effort to create another Dubai in the heart of Latin America, a key point for cargo consolidation but few other countries are prepared to see their gateways relegated to feeder operations.

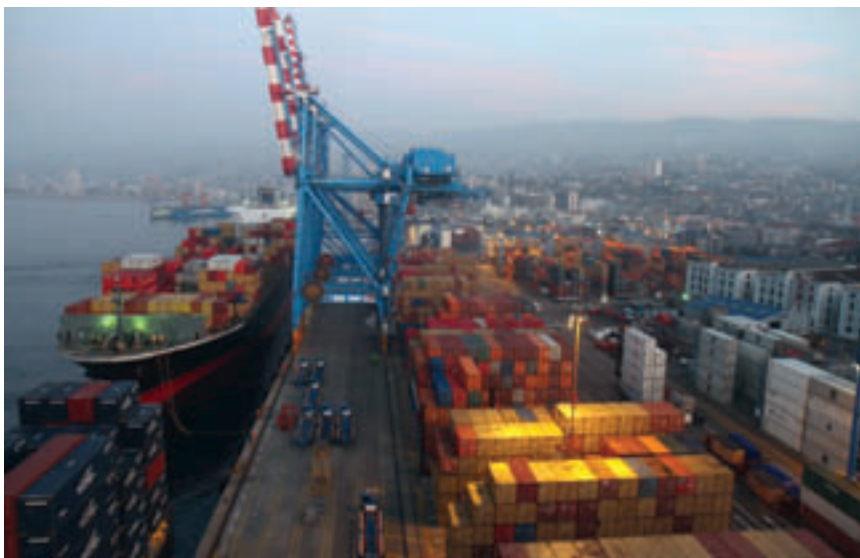
Alberto Borquez, general manager of San Antonio International Terminal does not support the prospect of Callao becoming a regional hub consolidating cargoes from Chile, Ecuador and Colombia for ships calling only in Mexico, Panama and Peru.

"Chile already has very efficient ports with more gantry cranes in San Antonio and Valparaiso than Peru. Why would lines consolidate their cargoes in Callao which still has to prove its efficiency?" he asks.

Chilean terminals, San Antonio International Terminal and Terminal Pacifico del Sur Valparaiso have 11 gantries between them. With six post-panamax cranes available, the ports already have the infrastructure in place to handle larger vessels and have received Hamburg Sud's 5,500TEU Monte class vessels and MSC's Botswana-class vessels without problems.

Hernán Salazar, MSC Chile's operations director says: "The reason to invest in ships of these dimensions and incorporate them on these routes is based on the economies of scale they generate and can now be supported by the existing port infrastructure."

San Antonio has become an important gateway in itself for Maersk Line's service to Europe, Asia and



the US and the company has built a specialist reefer distribution network around the port.

Callao's capacity leap is expected to revive historic tensions between the two fierce neighbours, but Mario Arbulu, president of Peru's publicly-owned port operator, Enapu, believes Callao's rival lies further north in Balboa, not Chile.

"We need to enter into healthy competition to be able to position Callao as a sub-regional hub as we know that the regional hub is in Panama and this is our first objective," he says.

There is added competition in the shape of Buenaventura, Colombia's only major port on the Pacific coast. TCBuen – a new development by Terminales de Contenedores de Barcelona with local partners will add a new Greenfield facility with two gantries to the five already operating in the port's main terminal, Sociedad Portuaria Regional de Buenaventura (SPRBun).

With a capacity of 200,000 teu in its first phase, TCBuen, is aiming to win two or three small customers before embarking on further phases, which it hopes will take its development to 1.2m teu.

"Buenaventura port was always blamed for its inefficiency but what we have achieved with years of work is to make the government understand that Buenaventura is only really one point in the logistics chain," says Gabriel Corrales, TCBuen's general manager.

He is confident that the government now realises that the port's efficiency depends on the draught of the navigation channel and the quality of road networks. Government investment to dredge to 12.5 m and a double land highway to Buenaventura's hinterland, Cali, Bogotá and Medellín will make the port even more attractive to bigger ships, he argues.

TCBuen will be operational by the end of 2010 adding further capacity to the west coast and opening up important competition for the port's biggest clients, like MSC, which uses SPRBun as an important point to consolidate cargoes from the west coast of South America. **LL**

↑ MSC Botswana calls at TPS Valparaiso. Gearless 6,200 teu vessels are now a reality in ports on the west coast of South America

MARIO ARBULU
President of Enapu

We need to enter into healthy competition to be able to position Callao as a sub-regional hub as we know that the regional hub is in Panama and this is our first objective

Words: Rainbow Nelson

Competition hots up in Latin box sector



NEW WINNERS AND LOSERS HAVE EMERGED AMONG THE REGION'S PORTS FROM LAST YEAR'S DOWNTURN

TOP 20 LATIN AMERICAN PORTS 2009

RANKING 2009	RANKING 2008	COUNTRY	PORT	% CHANGE	2009	2008
1	1	PANAMA	PANAMA	-8.93	4,222,500	4,636,497
2	2	BRAZIL	SANTOS	-15.76	2,255,862	2,677,839
3	3	JAMAICA	KINGSTON	-9.81	1,728,042	1,915,951
4	6	PUERTO RICO	SAN JUAN	-0.66	1,673,745	1,684,883
5	4	ARGENTINA	BUENOS AIRES	-20.70	1,412,462	1,781,100
6	5	BAHAMAS	BAHAMAS FREEPORT	-22.08	1,323,000	1,698,000
7	9	COLUMBIA	CARTAGENA	16.70	1,237,873	1,060,714
8	7	MEXICO	MANZANILLO	-21.24	1,110,356	1,409,782
9	8	PERU	CALLAO	-9.43	1,089,838	1,203,315
10	12	DOMINICAN REPUBLIC	CAUCEDO	12.76	965,530	856,279
11	11	ECUADOR	GUAYAQUIL	1.05	884,100	874,955
12	14	VENEZUELA	PUERTO CABELLO	-2.40	790,000	809,454
13	13	COSTA RICA	PUERTO LIMON-MOIN	-10.43	748,029	835,144
14	18	CHILE	SAN ANTONIO	5.99	729,033	687,864
15	10	CHILE	VALPARAISO	-28.45	677,432	946,847
16	15	COLOMBIA	BUENAVENTURA	-12.91	647,323	743,295
17	21	BRAZIL	PARANAGUA	5.85	630,597	595,729
18	20	BRAZIL	RIO GRANDE DO SUL	4.66	629,586	601,580
19	17	BRAZIL	ITAJAI + NAVEGANTES	14.71	591,536	693,534
20	19	URUGUAY	MONTEVIDEO	-12.86	588,410	675,273
TOTAL				-9.30	23,935,254	675,273

Source: Petrobras

A TUMULTUOUS year in the principal container trades into Latin America and the Caribbean has shaken up the region's container port rankings.

Winners and losers emerged from last year's sharp downturn with only the top three, the ports at either end of the Panama Canal, Santos, Brazil and Kingston, Jamaica maintaining their positions one to three at the top of the table.

Below only Ecuador's Guayaquil held its position as the 11th largest container gateway, whilst the other 16 all swapped places.

Arguably the biggest winner was Cartagena, where the double-digit growth of the Sociedad Portuaria Regional de Cartagena, has put the port on track to break into the top five ports in the region next year.

Cartagena overtook Peru and Mexico's most important container ports Callao and Manzanillo in 2009, benefiting from the decision by lines to concentrate their services closer to the Panama Canal.

Another winner was DP World's Caucedo, which like Cartagena profited from greater transshipment to less efficient ports in the region such as Puerto Cabello. Notably Caucedo leapt two places skipping over Puerto Cabello and Guayaquil into the top 10 for the first time with growth of 12.8%.

Other Caribbean transshipment hubs have suffered as liner networks have been concentrated closer to the Panama Canal, which is undergoing a \$5.3bn expansion program that will double its capacity.

The biggest winner was Cartagena, where the double-digit growth of the Sociedad Portuaria Regional de Cartagena, has put the port on track to break into the top five ports in the region next year

Hutchison Port Holdings and Mediterranean Shipping Co's joint venture Bahamas Freeport noted a 22% decline in volumes, while Kingston saw its volumes shrink by almost 10%, its second consecutive year of negative growth.

In Brazil port activity in the south-east of the country is becoming fiercer than ever following the opening of Portonave's operation in Navegantes, important investments at Paranagua and Rio Grande and

new facilities being developed in Imbituba and Itapoa.

The fallout from the destruction of APM Terminals' Tecongi operation in Itajai in late 2008 was fully noted in last year's figures as Brazil's second largest container gateway slipped below rivals Rio Grande and new entrant Paranagua.

Terminal de Contenedores de Barcelona's TCP terminal in Paranagua leapfrogged rivals Itajai/Navegantes and Rio Grande in 2009 pushing Mexico's Veracruz out of the top 20 in the process.

Buenos Aires suffered one of the sharpest declines, after volumes shrank 20.7% in lines with a reduction in Argentine imports and the ongoing erosion of its position as the principal point for cargo consolidation in the region's third largest economy.

On the west coast competition between Chile's principal terminals' SAAM and SSA Carrix' San Antonio International and the Ultramar-controlled TPS Valparaiso also turned volume trends on their head.

Valparaiso fell five places from tenth to fifteenth following the defection of key customers to San Antonio, which overtook its fierce rival after rising four places in the rankings to 14th.

While Valparaiso strengthened its grip on like MSC and Hamburg Sud others like NYK Line and Evergreen concentrated their cargoes in San Antonio boosting volumes in the latter by 6% and cutting 28.5% from Valparaiso's annual throughput figures. **LL**

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Words: Rajesh Joshi

A 'game-changer' that will spare none



↑ The fires will keep on burning

DEEPWATER HORIZON HAS OVERTAKEN ALL OTHER ISSUES IN THE US, AND WOULD DOMINATE THE MARITIME AGENDA FOR MONTHS

DENNIS BRYANT

OPA 90 veteran



The Deepwater Horizon fire is long since history, but the legislative smoke it has spawned is likely to fog the industry's vision for months more

CONGRESS has returned from its July 4 recess.

As other parts of the world start envisioning days off for the summer, the business of *Deepwater Horizon* politics now is expected to pick up speed in the US.

Final details on new US laws might not emerge for months, or years, more. Regardless, the implications for shipping are going to be far-reaching, and expensive.

At the end of June, there were at least 30 Bills pending in the US House of Representatives and Senate, introduced by eager politicians after the oil spill.

They feature a bewildering array of proposals. These range from raising limits of oil spill liability under the Oil Pollution Act of 1990 for offshore installations, to eliminating them for this category.

Some variations would eliminate all liability limits for all sorts of entities, including merchant vessels.

One proposal would make liability unlimited even for non-pecuniary claims, such as death or injury, or loss of cargo.

Maritime regulatory consultant Dennis Bryant, a retired US Coast Guard captain turned maritime lawyer who ended his USCG career in the 1990s by supervising headquarters staff that implemented the Oil Pollution Act of 1990, provided Lloyd's List with a working list of all Bills (see box). Despite his best efforts to monitor Bills on a daily basis, Mr Bryant warned that his list was subject to addition.

Blank Rome partner and regulatory specialist Jonathan Waldron said implications for shipping would remain hazy for a while.

However, Mr Waldron expects new laws this year. He said: "Some sort of post-*Deepwater Horizon* statute should be enacted this year. Congress is under pressure to do something. It cannot let 2010 go without doing something."

Studying the 30-plus draft Bills for clues on what this new regulatory landscape is a waste of time right now, experts told Lloyd's List.

The law Congress may pass could be a mishmash of all Bills, or an entirely new beast born in the weeks ahead, which ends up being enacted as an appendix to a routine legislation, such as the US Coast Guard Authorisation Act.

On this backdrop, Lloyd's List has identified six big-picture issues likely to become relevant for shipping in the post-*Deepwater Horizon* world:

Implications for underwriters, notably protection and indemnity clubs. This, in turn, affects shipowners in terms of the cost of insurance, and whether sufficient insurance as demanded by any new law might even be available.

The level of trust US regulators would have in the shipping industry in future "to do the right thing" without more direct supervision.

Potentially negative implications in terms of liability and insurance for non-tank vessels, such as bulk carriers and containerships.

A sinister precedent of third-party escrow funds to handle oil spill claims for shipowners in future whose vessels spill oil into US waters.

The impact on the offshore support industry, which could shed jobs and force smaller companies out of business.

A possible "overflow" effect, where the US legal machinery and the US Coast Guard in particular is so jammed up with *Deepwater Horizon* rule-making that other critical areas, ballast water in particular, are ignored at the shipping industry's cost.

The analysis might be a worst-case scenario. However, with the leaking well not expected to be plugged until August according to some estimates, the worst could well lie ahead of us.

In any event, keeping an eye on all the issues is essential. Because, as Mr Waldron said: "Reasonableness does not necessarily prevail at times like these, so the industry has to be extremely concerned, if not actively try to educate US politicians." **LL**



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Words: Dennis L. Bryant

HOUSE/CONGRESS	
NAME OF THE BILL/MAIN SPONSOR	PROVISIONS
HOUSE BILL INTRODUCED RE OIL SPILL LIABILITY <i>Representative Holt (D-NJ)</i>	Introduced the Big Oil Bailout Prevention Act of 2010 (H.R. 5214) to amend the Oil Pollution Act of 1990 to require oil polluters to pay the full cost of oil spills, and for other purposes. This is a companion bill to one introduced the previous day in the Senate. (May 5, 2010)
CONGRESS BILLS INTRODUCED TO TEMPORARILY SUSPEND CERTAIN OCS ACTIVITIES <i>Senator Nelson (D-FL) and Representative Meek (D-FL)</i>	Introduced companion bills (S. 3308 and H.R. 5222) to suspend certain activities in the outer Continental Shelf until the date on which the joint investigation into the Deepwater Horizon incident in the Gulf of Mexico has been completed, and for other purposes. Representative Meek issued a media release stating that the bill, if enacted into law, would stop the drilling of new test wells offshore until the investigation is completed. (May 5, 2010)
HOUSE BILL INTRODUCED FOR COMMISSION TO INVESTIGATE DEEPWATER HORIZON CASUALTY <i>Representative Lois Capps (D-CA)</i>	Introduced the BP Deepwater Horizon Disaster Inquiry Commission Act of 2010 (H.R. 5241) to establish an independent, nonpartisan commission to investigate the causes and impact of, and evaluate and improve the response to, the explosion, fire, and loss of life on and sinking of the Mobile Drilling Unit Deepwater Horizon and the resulting uncontrolled release of crude oil into the Gulf of Mexico, and to ensure that a similar disaster is not repeated. (May 6, 2010)
HOUSE BILL INTRODUCED TO REPEAL LIMITATION OF LIABILITY FOR AN OFFSHORE OIL FACILITY <i>Representative Grijalva (D-AZ)</i>	Introduced a bill (H.R. 5355) to amend the Oil Pollution Act of 1990 to repeal the limitation of liability of a responsible party for a discharge or substantial threat of a discharge of oil from an offshore oil facility. (May 20, 2010)
HOUSE BILL INTRODUCED TO INCREASE LIABILITY FOR ECONOMIC DAMAGES <i>Representative Blunt (R-MO)</i>	Introduced the Oil Spill Response and Assistance Act (H.R. 5356) to amend the Oil Pollution Act of 1990 to increase the cap on liability for economic damages resulting from an oil spill, and for other purposes. (May 20, 2010)
HOUSE BILL INTRODUCED TO GIVE SUBPOENA POWER TO NATIONAL COMMISSION <i>Representative Capps (D-CA)</i>	Introduced a bill (H.R. 5481) to give subpoena power to the National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling. (June 8, 2010)
HOUSE BILL INTRODUCED TO GIVE SUBPOENA POWER TO NATIONAL COMMISSION <i>Representative Capps (D-CA)</i>	Introduced a bill (H.R. 5481) to give subpoena power to the National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling. (May 8, 2010)
HOUSE BILL INTRODUCED TO AUTHORIZE ADVANCES FROM THE OSLTF <i>Representative Mica (R-FL)</i>	Introduced a bill (H.R. 5499) to amend the Oil Pollution Act of 1990 to authorize advances from Oil Spill Liability Trust Fund for the Deepwater Horizon oil spill. (June 10, 2010) <i>Note: This bill has been overtaken by the Senate bill adopted earlier.</i>
HOUSE BILL INTRODUCED TO REVISE MARITIME LIABILITY LAWS <i>Representative Conyers (D-MI)</i>	Introduced the Securing Protections for the Injured from Limitations of Liability Act (H.R. 5503) to revise laws regarding liability in certain civil actions arising from maritime incidents, and for other purposes. This bill would allow recovery of nonpecuniary loss under both the Death on the High Seas Act (DOHSA) and the Jones Act. It would also repeal most provisions of the Limitation of Liability Act. A press release was issued explaining the legislation. (June 10, 2010)
HOUSE BILL INTRODUCED TO REQUIRE ROYALTIES ON DISCHARGED OIL <i>Representative Pingree (D-ME)</i>	Introduced the Spilled Oil Royalty Collection Act (H.R. 5513) to amend the Outer Continental Shelf Lands Act to require payment of royalty on all oil and gas saved, removed, sold, or discharged under a lease under that Act, and for other purposes. (June 10, 2010)

<p>HOUSE</p> <p>BILL INTRODUCED TO TERMINATE DRILLING MORATORIUM</p> <p><i>Representative Cassidy (R-LA)</i></p>	<p>Introduced the Gulf Coast Jobs Preservation Act (H.R. 5519) to terminate the moratorium on deepwater drilling and to require the Secretary of the Interior to ensure the safety of deepwater drilling operations. (June 14, 2010)</p>
<p>HOUSE</p> <p>BILL INTRODUCED RE OIL SPILL RESPONSE AND DAMAGE RECOVERY</p> <p><i>Representative Oberstar (D-MN)</i></p>	<p>Introduced the Oil Spill Accountability and Environmental Protection Act of 2010 (H.R. 5629) to ensure full recovery from responsible parties of damages for physical and economic injuries, adverse effects on the environment, and clean up of oil spill pollution, to improve the safety of vessels and pipelines supporting offshore oil drilling, to ensure that there are adequate response plans to prevent environmental damage for oil spills, and for other purposes. (June 29, 2010)</p>

SENATE/CONGRESS



NAME OF BILL/MAIN SPONSOR	PROVISIONS
<p>SENATE</p> <p>BILLS INTRODUCED RE OIL SPILL LIABILITY</p> <p><i>Senator Menendez (D-NJ)</i></p>	<p>Introduced two bills relating to oil spill liability. The Big Oil Bailout Prevention Liability Act of 2010 (S. 3305) would raise the limit of liability for oil spills from offshore facilities for costs other than removal costs from \$75 million to \$10 billion. It would also be retroactive to April 15, 2010. The Big Oil Bailout Prevention Trust Fund Act of 2010 (S. 3306) would eliminate the provision that currently prevents expenditure by the Oil Spill Liability Trust Fund (OSLTF) of more than \$1 billion per incident. It would also allow the OSLTF to borrow from the General Treasury all monies as may be necessary to carry out the purpose of the Trust Fund. Additionally, it would authorize the promulgation of regulations that allow advance payments to be made from the Fund to states and political subdivisions for actions taken to prepare for and mitigate substantial threats from the discharge of oil. (May 4, 2010)</p>
<p>CONGRESS</p> <p>BILLS INTRODUCED TO TEMPORARILY SUSPEND CERTAIN OCS ACTIVITIES</p> <p><i>Senator Nelson (D-FL) and Representative Meek (D-FL)</i></p>	<p>Introduced companion bills (S. 3308 and H.R. 5222) to suspend certain activities in the outer Continental Shelf until the date on which the joint investigation into the Deepwater Horizon incident in the Gulf of Mexico has been completed, and for other purposes. Representative Meek issued a media release stating that the bill, if enacted into law, would stop the drilling of new test wells offshore until the investigation is completed. (May 5, 2010)</p>
<p>SENATE</p> <p>BILL INTRODUCED TO MODIFY OSLTF TAX RATE</p> <p><i>Senator Murkowski (R-AK)</i></p>	<p>Introduced the Oil Spill Liability Trust Fund Improvement Act of 2010 (S. 3309) to amend the Internal Revenue Code of 1986 to modify the rate of tax for the Oil Spill Liability Trust Fund. (May 5, 2010). If enacted into law, the bill would increase the rate of tax for the Trust Fund from 5 to 9 cents per barrel, but would reduce the tax rate to zero when the unobligated balance of the Trust Fund exceeds \$10 billion.</p>
<p>SENATE</p> <p>BILL INTRODUCED FOR COMMISSION TO INVESTIGATE DEEPWATER HORIZON CASUALTY</p> <p><i>Senator Whitehouse (D-RI)</i></p>	<p>Introduced the BP Deepwater Horizon Disaster Inquiry Commission Act of 2010 (S. 3344) to establish an independent, nonpartisan commission to investigate the causes and impact of, and evaluate and improve the response to, the explosion, fire, and loss of life on and sinking of the Mobile Drilling Unit Deepwater Horizon and the resulting uncontrolled release of crude oil into the Gulf of Mexico, and to ensure that a similar disaster is not repeated. (May 11, 2010)</p>
<p>SENATE</p> <p>BILL INTRODUCED TO REMOVE CAP ON PUNITIVE DAMAGES</p> <p><i>Senator Whitehouse (D-RI)</i></p>	<p>Introduced the Big Oil Polluter Pays Act (S. 3345) to amend title 46, United States Code, to remove the cap on punitive damages established by the Supreme Court in Exxon Shipping Company v. Baker. (May 11, 2010)</p>
<p>SENATE</p> <p>BILL INTRODUCED TO INCREASE OCSLA LIMITS ON LIABILITY</p> <p><i>Senator Whitehouse (D-RI)</i></p>	<p>Introduced the Outer Continental Shelf Lands Act Amendments Act of 2010 (S. 3346) to increase the limits on liability under the Outer Continental Shelf Lands Act (OCSLA). (May 11, 2010) Senator Whitehouse issued a news release explaining the purpose of the bills.</p>
<p>SENATE</p> <p>BILL INTRODUCED TO INCREASE OPA 90 LIABILITY CAP</p> <p><i>Senator Vitter (R-LA)</i></p>	<p>Introduced the Oil Spill Response and Assistance Act (S. 3375) to amend the Oil Pollution Act of 1990 to increase the cap on liability for economic damages resulting from an oil spill, and for other purposes. (May 13, 2010)</p>

<p>SENATE</p> <p>BILL INTRODUCED TO CREATE ECONOMIC INJURY CLAIMS SYSTEM</p> <p><i>Senator Vitter (R-LA)</i></p>	<p>Introduced the Acceptance of Liability and Expedited Claims at Mississippi Canyon 252 Act (S. 3410) to create a fair and efficient system to resolve claims of victims for economic injury caused by the Deepwater Horizon incident, and to direct the Secretary of the Interior to renegotiate the terms of the lease known as "Mississippi Canyon 252" with respect to claims relating to the Deepwater Horizon explosion and oil spill that exceed existing applicable economic liability limitations. Senator Vitter issued a news release discussing the bill. (May 25, 2010)</p>
<p>SENATE</p> <p>BILL INTRODUCED RE OIL SPILL ECONOMIC DAMAGES</p> <p><i>Senator Vitter (R-LA)</i></p>	<p>Introduced the Acceptance of Offer of Liability and Expedited Claims at Mississippi Canyon 252 Act (S. 3461) to create a fair and efficient system to resolve claims of victims for economic injury caused by the Deepwater Horizon incident, and to direct the Secretary of the Interior to renegotiate the terms of the lease known as "Mississippi Canyon 252" with respect to claims relating to the Deepwater Horizon explosion and oil spill that exceed existing applicable economic liability limitations. (June 7, 2010)</p>
<p>SENATE</p> <p>BILL INTRODUCED TO GIVE SUBPOENA POWER TO NATIONAL COMMISSION</p> <p><i>Senator Shaheen (D-NH)</i></p>	<p>Introduced a bill (S. 3462) to provide subpoena power to the National Commission on the British Petroleum Oil Spill in the Gulf of Mexico, and for other purposes. (June 8, 2010)</p>
<p>SENATE</p> <p>BILL INTRODUCED TO REQUIRE RESTITUTION FOR FWPCA VIOLATIONS</p> <p><i>Senator Leahy (D-VT)</i></p>	<p>Introduced the Environmental Crimes Enforcement Act of 2010 (S. 3466) to require restitution for victims of criminal violations of the Federal Water Pollution Control Act (FWPCA), and for other purposes. If enacted into law, this bill would, among other things, amend the Federal Sentencing Guidelines to better reflect the seriousness of violations of the FWPCA. (June 9, 2010)</p>
<p>SENATE</p> <p>BILL INTRODUCED TO REMOVE OIL SPILL LIMITS OF LIABILITY FOR OFFSHORE FACILITIES</p> <p><i>Senator Menendez (D-NJ)</i></p>	<p>Introduced the Big Oil Bailout Prevention Unlimited Liability Act of 2010 (S. 3472) to amend the Oil Pollution Act of 1990 to require oil polluters to pay the full costs of oil spills, and for other purposes. If enacted into law, this bill would require responsible parties for oil spills from offshore facilities to pay for all covered damages, in addition to all response costs. (June 9, 2010)</p>
<p>SENATE</p> <p>BILL INTRODUCED AND PASSED RE OSLTF ADVANCE PAYMENTS</p> <p><i>Senator Reid (D-NV)</i></p>	<p>Introduced a bill (S. 3473) to amend the Oil Pollution Act of 1990 to authorize advances from Oil Spill Liability Trust Fund for the Deepwater Horizon oil spill. The bill was immediately considered by the Senate and passed. It was then considered and adopted by the House of Representatives. It now awaits signature by President Obama. (June 9, 2010)</p>
<p>SENATE</p> <p>BILL INTRODUCED TO REPEAL CERTAIN LIMITATIONS OF LIABILITY</p> <p><i>Senator Schumer (D-NY)</i></p>	<p>Introduced the Remuneration for Ecological and Societal Tolls Occasioned by Reckless Errors Act (RESTORE Act) (S. 3478) to amend title 46, United States Code, to repeal certain limitations of liability and for other purposes. This bill would repeal most provisions of the Limitation of Liability Act. (June 10, 2010)</p>

THE WHITE HOUSE/CONGRESS



NAME OF LEGISLATIVE PACKAGE	PROVISIONS
<p>WHITE HOUSE</p> <p>OIL SPILL LEGISLATIVE PACKAGE</p>	<p>The White House issued a Fact Sheet stating that the Obama Administration is forwarding to Congress a legislative package regarding the Gulf of Mexico oil spill. The package would, among other things, make additional monies available to the Coast Guard for oil spill response actions; enhance the oversight of the offshore oil and gas industry; and raise liability caps. (May 12, 2010)</p> <p><i>Note: The actual legislative package is not yet available, so many details are uncertain. Congress will have to consider this package along with the various bills that have already been introduced in reaction to the oil spill.</i></p>
<p>CONGRESS</p> <p>LEGISLATIVE PACKAGE FOR RESPONSE TO GULF OIL SPILL</p>	<p>The White House posted its Legislative Package that has been transmitted to Congress for consideration in response to the oil spill in the Gulf of Mexico. It proposes increases in the limits of liability for industry segments identified in OPA 90, not just for offshore facilities. If enacted into law, it would also increase the maximum amount that the Oil Spill Liability Trust Fund (OSLTF) could expend on any one spill from \$1 billion to \$1.5 billion. (May 12, 2010)</p>

P&I industry fears apocalypse

SHIPS CURRENTLY CARRY A MAXIMUM \$1BN IN INSURANCE, AND OFFSHORE INSTALLATIONS \$1.5BN. WILL AMERICAN POLITICIANS MAKE THESE SECTORS IMPOSSIBLE TO INSURE?

JONATHAN BENNER of Reed Smith said that if some of the motions circulating in Congress become law, “there is a danger that shipping will become completely uninsurable, at least for purposes of trading to the United States”.

Mr Benner, who has represented the International Group of P&I Clubs on US issues for a number of years, said the size and scope of the *Deepwater Horizon* incident has put the “entire Oil Pollution Act 1990 structure for dealing with clean-up and liability at risk”.

There are ominous signs that the raising of liability limits, or their abolition altogether, would extend beyond offshore installations, and become applicable to vessels.

OPA 90 sets out liability limits for tank vessels, non-tank vessels such as bulkers or containerships, offshore facilities such as fixed rigs, and “mobile offshore drilling units” such as *Deepwater Horizon*.

Experts believe OPA 90 already has an adequate liability regime for shipping. The law has established indisputable responsibility on the spiller, and set limits on financial liability that the world has come to accept as reasonable.

Limits for vessels are set according to gross tonnage. For this category, there currently is no differentiation between third-party claims, such as demands from hotel owners or fishermen, and oil spill clean-up costs.

Once the P&I club has paid out the maximum amount according to law, the shipowner is not liable for anything more, unless the vessel’s behaviour falls under certain exceptions, involving factors such as wilful misconduct or gross negligence.

Vessels already have seen liability limits raised twice since 2006. The first increase was according to an amendment to the law passed that year. The second increase, in 2009, acted on a “cost of living adjustment” provision included in the 2006 amendment.

For offshore facilities, on the other hand, OPA 90 liability limits have not changed since the law was enacted.

The existing limit for offshore facilities is \$75m for third-party claims. Interestingly, OPA 90 already has in place unlimited liability on the cost of oil spill clean-ups for offshore installations.

BP has said it would not hide behind the \$75m limit on third-party claims, and established a \$20bn fund. In

addition, BP, even under current law, is obliged to spend as much as it takes towards the physical clean-up.

A glaring Congressional oversight when it comes to proposing liability caps of \$10bn on offshore installations, or making them unlimited, is that under current practice, no insurer writes total coverage of more than \$1.5bn on such assets.

While major oil companies might have the wherewithal to self-insure, smaller offshore operators and vessel owners generally do not.

Another damaging prospect is that, thanks to one Bill that proposes doing away with the 1851 US statute on limitation of liability, all previous protections afforded to shipowners against unlimited claims might disappear.

In other words, in addition to facing unlimited liability on spill clean-ups and towards third parties, shipowners could have unlimited liability towards cases of death, injury, mental torture, psychological abuse, or simply loss of cargo.

Under current law, foreign-flag ships cannot enter US waters unless they provide a Certificate of Financial Responsibility, an OPA-required pre-condition that is an additional layer of protection for claimants beyond P&I coverage. Some experts, such as Overseas Shipholding Group boss Morten Arntzen, fear COFRs could now be “rationed”.

In addition, each ship coming to the US carries \$525m-\$550m in insurance. Some well-heeled owners opt for extra protection, and take out policies for up to \$1bn.

This coverage, while not exactly cheap, has worked in practice. Mr Benner said there have been hundreds of oil spills in the US covered by OPA 90 since the law was passed. A mere handful saw the total cost exceed the liability limit as set out by the law, and these usually involved small vessels.

If post-*Deepwater Horizon* laws subject ships to unlimited liability, or even raise the limits to an unreasonable level, no insurer would be willing to insure a ship likely to visit the US. Even if this insurance cover were available, no owner could afford it.

Mr Benner said: “Congress needs to learn – and fast – that no major country can function without ships. If some of the proposals are passed into law, the number of foreign ships that can afford US calls can be counted not on the fingers of one hand, but on the fingers of one finger.” **LL**

JONATHAN BENNER
Reed Smith



There is a danger that shipping will become completely uninsurable

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Words: Rajesh Joshi

Shipping and regulators: a mirror crack'd

WILL THE TENUOUS BOND OF TRUST THAT WAS DEVELOPING BETWEEN OWNERS AND US LAW ENFORCEMENT SURVIVE DEEPWATER HORIZON?

JONATHAN WALDRON

Blank Rome



Former USCG man hopes trust between the agency and global shipping would not be frayed

OPINION is divided on whether shipping now will be viewed with more suspicion by US regulators, the US Coast Guard in particular, because of *Deepwater Horizon*.

Deepwater Horizon was a ship. It moved from place to place, drilling wells. In the aftermath of its sinking, entities such as classification society ABS, flag state Marshall Islands and the country where it was built, South Korea, came under the eye of mainstream US media – albeit not as harshly as BP did.

Some experts fear this mass venom could undermine the bonds of trust that seemed to be gradually building up between the USCG and global shipping in recent years.

Although cases such as the *Cosco Busan* accident in 2007 gave the impression that the shipping industry remained in the barrel, the reality is somewhat different.

The last major shipping oil spill that exceeded liability limits set under the Oil Pollution Act of 1990, the *Athos I* incident in the Delaware River in November 2004, was almost a textbook example of the USCG, the shipowner, and the protection and indemnity club working together as a team, as envisioned by the spirit of OPA 90.

The example of the US Minerals Management Service, which last month was understood to be in the process of being wound up, illustrates some experts' concerns.

"The MMS appeared to have become really casual about oil and gas regulatory oversight, and the USCG certainly would not want to see itself in a similar situation in any future oil spills caused by ships," said consultant Dennis Bryant, a former USCG officer.

This leads to a fear, shared by several other sources, that the USCG in future might not "take the industry at its word" when it comes to adherence to US requirements on oil spills and response preparedness.

Blank Rome partner Jonathan Waldron, also a former USCG officer, agreed with part of the argument, but remained hopeful things would not get that bad. He said: "The USCG has a lot of credibility, much more than MMS ever did. Now that MMS appears to be on the verge of disappearing, the USCG might get additional responsibility, particularly on inspections and compliance on offshore installations.

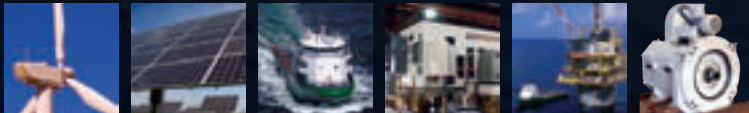
"There has been a clear difference between MMS and the USCG when it comes to regulatory oversight. The USCG always had a different level of understanding with the shipping industry. Let us just hope that the previous level of trust between industry and the USCG remains intact, no matter what new laws are passed." **LL**

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Non-tank vessels could face the brunt



↑ Will future spills involving non-tank vessels such as *Cosco Busan* prove even more burdensome?

THE US COAST GUARD WAS TARDY IN ESTABLISHING A PROPER RESPONSE PLAN REGIME FOR NON-TANK VESSELS. WILL THIS CATEGORY – BULKERS AND BOXSHIPS INCLUDED – NOW PAY AN UNINTENDED PRICE?

JONATHAN WALDRON

Blank Rome

With the USCG expected to assume the MMS' responsibility on oversight of vessel contingency plans, something has to give ... and soon

NON-TANK VESSELS face the theoretical risk of unlimited liability in future US oil spills, regardless of any new Congressional action, because of a peculiarity in existing requirements on Vessel Response Plans in the Oil Pollution Act of 1990.

This, in turn, now is likely to hasten the US regulatory process that would establish a more concrete VRP regime for non-tank vessels.

Pragmatic voices discount fears of unlimited liability for non-tank vessels, on grounds that the relevant rule for this category of vessels is on its way to being introduced by the US Coast Guard.

Nonetheless, *Deepwater Horizon* was a non-tank vessel. It did have a VRP, but one that was not as extensive as it might have been if a proper OPA 90 mechanism were in place.

OPA 90, as originally enacted after the *Exxon Valdez* incident in 1989, mandated only that all tank vessels have VRPs, which outline steps to be taken in case of an oil spill.

This requirement was tightened at the end of 2008, when the USCG published a regulation requiring tank vessels to have a more detailed salvage and marine firefighting regime. This comprehensive VRP regime for tank vessels is set to take effect in February next year.

To reach this stage, the US Coast Guard went through the step of publishing a rule in the US Federal Register, which had a public comment period.

In contrast, for non-tank vessels, there is no corresponding USCG requirement for an OPA 90-compliant VRP.

The US Congress amended OPA 90 in 2004 to rectify this issue, requiring the USCG to go through a similar rule-making process to establish a non-tank VRP regime. However, the USCG in 2006 merely published a Navigation and Vessel Inspection Circular for non-tank vessels.

A NVIC is a recommendation, and is not enforceable. A proposed regulation was published in August 2009, but is yet to be finalised.

Since there is no USCG regulation that requires non-tank VRPs, the USCG may not know if a particular non-tank vessel did or did not have such a response plan until after an oil spill. If a non-tank vessel involved in a spill did not have a VRP, it probably would not be able to assert the limitation on liability provided under OPA 90.

Before *Deepwater Horizon*, the US Minerals Management Service was responsible for ensuring that offshore installations had adequate response plans. As subsequent testimonies have thrown bare, certain offshore installations, including the Macondo well, presented the MMS with “cookie-cutter” response plans.

Some of these documents provided for the impact on walrus, a species absent from US Gulf waters. The MMS apparently did not take the time to read such plans before approving them.

The USCG now might replace MMS as the agency tasked with overseeing contingency plans on offshore facilities.

All mobile drilling units in the US Gulf already are non-tank vessels under OPA 90. As such, experts expect *Deepwater Horizon* to focus the USCG's attention on the apparent VRP loophole, and quick action to establish a more formal requirement for this category.

Blank Rome partner Jonathan Waldron said that the proposed USCG rule in this regard is currently being vetted by the US Office of Management and Budget, and is scheduled for publication towards the end of the year.

Separately, sources told Lloyd's List the USCG has been enforcing the non-tank VRP requirement since August 2008, and penalising owners not in compliance. This enforcement could now become stricter, even before a formal rule arrives. **LL**

Words: Rajesh Joshi

BP'S \$20bn precedent could spawn bureaucratic nightmare

WILL THIRD-PARTY OVERSIGHT OF OIL SPILL RESPONSE FUNDS BECOME THE NORM?

BP'S DECISION to agree to third-party oversight of the \$20bn fund that the oil major has committed to *Deepwater Horizon* restitution has opened a can of worms for the shipping industry.

Noted industry experts said the development could set an irrevocable precedent, where a shipowner involved in a future oil spill would automatically have to follow suit.

Reed Smith partner Jonathan Benner said: "The BP escrow account solves a non-problem. There was no evidence that BP's claims handling was defective, or anything other than objective. In future oil spills caused by ships, will the US government insist on third-party escrow funds, as a rule?"

If a claimant filed with BP and was not satisfied, the claimant could proceed against the Oil Spill Liability Trust Fund [the mechanism established by OPA 90 to cover claims for uncompensated costs and damages].

If a claimant files against the escrow account and is not satisfied, it is unclear whether the claimant can then also go against the Fund. If so, this could amount to redundancy, and mean there could be two separate claims processes.

Experts at the end of June were hoping for clarity from the Obama administration on this potential nightmare scenario. **LL**

Resolve to help

LOCAL FIRM COMMITS SIGNIFICANT ASSETS TO SPILL CLEAN-UP

BP has enlisted the support of several sub-contractors with hundreds of vessels, as it strives to contain the oil spewing to the ocean's surface from the Macondo well.

The primary focus is on attempting to prevent oil from reaching beaches and ecologically sensitive wetlands.

Florida-based marine salvage and firefighting company Resolve Marine Group has committed significant assets to BP. Resolve has more than 50 tugboats and crane barges on the scene, and had provided more than 100,000 ft of boom as of end-June.

Resolve's efforts have included skimming, laying boom, transporting collected crude oil to BP facilities, and decontaminating vessels employed in the spill areas prior to their return to protected ports and harbours.

Resolve, in the process, has become a minor celebrity in US media, with accounts and photos of the company's skimming activities appearing prominently in several print outlets, and Resolve chief executive Joseph Farrell Jr appearing on television programmes to explain the finer points of the response effort.

For an industry starved of any publicity, this must count as an ironic benefit. **LL**



→ (images to right) The tugboat Resolve Pioneer laying boom and engaged in skimming

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Words: Rajesh Joshi

Shipping

short-changed again

**THE LATEST US FIXATION
WITH SHORTSEA
SHIPPING FACES STIFF
FINANCIAL REALITIES**

SHORTSEA shipping, known officially in these parts as America's Marine Highways, is back on the US agenda.

The Maritime Administration has announced an initiative that would help designate individual inland waterways, rivers and coastal routes as "corridors" where marine traffic would be encouraged with the use of federal grant money.

However, sceptics remain unconvinced that the latest government policy on shortsea shipping amounts to much more than lip service.

The idea has been around for at least a decade, and seems to crop up around once every four years, whenever a new president or a new maritime administrator takes office.

David Matsuda, who at the end of June was confirmed as US Maritime Administrator, said of the latest initiative: "There are many places in our country where expanded use of marine transportation just makes sense. It has so much potential to help our nation: reduced gridlock and greenhouse gases, and more jobs for skilled mariners and shipbuilders."

US secretary of transportation Ray LaHood added: "For too long, we have overlooked the economic and environmental benefits that our waterways and domestic seaports offer as a means of moving freight in this country. Moving goods on the water has many advantages. It reduces air pollution. It can help reduce gridlock by getting trucks off our busy surface corridors."

The latest edition of America's Marine Highways, published recently as a final rule in the US Federal Register, acts on an edict in the US Energy Independence and Security Act of 2007, which requires the government to "establish a short-sea transportation programme and designate projects to mitigate surface congestion".

The final rule empowers MarAd and regional transport officials to give "preferential treatment" to approved shortsea corridors while doling out federal subsidies.

There are not enough Jones Act containerships or inland barges to carry the boxes that come off trucks. These new ships must be built in the US, as required by the Jones Act, and would cost three times as much as similar tonnage built at Asian shipyards.

However, even these realities are incidental when it comes to the latest excitement over shortsea shipping. Even if such tonnage were readily available to take trucks off the roads, the government's initiative, as it stands, has very little cash with which to reward deserving applicants.

MarAd announced grandly that it would dip into appropriations from the Transportation Investment Generating Economic Recovery programme, or Tiger Grants, which were mandated by the American Recovery and Reinvestment Act of 2009, as the federal stimulus package was called.

The reality is humbler. Tiger Grants were appropriated \$1.5bn in 2009, to be disbursed at the US Department of Transportation's discretion. Some 1,400 applications were received from across the transport spectrum, and only 51 actual awards announced, many of which gave the recipient much fewer dollars than were asked for.

The 2010 version of Tiger Grants has been appropriated a mere \$600m, for which pre-applications are due on July 16, and final applications on August 23. Again, aspirants for shortsea largesse would go up against rival applicants from across the transport and infrastructure space, such as railroads, truckers, and builders of bridges.

Even if the entire \$600m in 2010 Tiger Grants were made available to America's Marine Highways, this money would buy only half-a-dozen small containerships at prevailing US yard prices.

At the very least, Congress would need to find a lot more cash if it is serious about shortsea shipping. **LL**

DAVID MATSUDA

US Maritime Administrator



*Praises environmental
benefits of shipping,
but does he have
the money?*

Adding ballast to an already heavy ship

**REGIONAL
REGULATIONS ON
BALLAST WATER
THREATEN TO “RUN
AMOK”, WARN
EXPERTS**



↑ How much longer can the ballast water issue remain unresolved?

SHIPOWNERS doing business into the United States can ignore ballast water developments stateside at their own peril.

The vacuum at the federal level when it comes to instituting a national ballast water standard has already allowed a handful of states, California and New York in particular, to use the Vessel General Permit regime introduced by the Environmental Protection Agency in December 2008 to introduce stricter state-level requirements.

The two states have instituted ballast water purity standards that would ultimately be 1,000 times stricter than those in the International Maritime Organisation's yet to be ratified treaty, which is generally seen as the threshold the US government would adopt.

The next iteration of the VGP will occur in December 2013. Meanwhile, *Deepwater Horizon* has pushed ballast water, which never was a priority anyway, even further down the agenda in Washington.

Chamber of Shipping of America director of maritime affairs Kathy Metcalf said: "The ballast water situation is bad now, but it could get worse. What we now have is a federal proposed standard, and more stringent

standards by individual states. Even more states could run amok in December 2013. What is needed is one strong national ballast water standard, not a bunch of different ones."

The comment came on the backdrop of no further movement on the federal regulatory front since the US Coast Guard unveiled a proposed ballast water rule in August 2009.

Initially, the USCG rule would adopt IMO requirements. The second phase, currently envisioned as taking effect in 2016, would ramp up ballast water purity standards to 1,000 times the IMO standard.

For its part, the IMO at the end of June had secured the endorsement of 25 countries representing 25% of the world's tonnage, as against the 30 countries representing 35% of the tonnage required to being its treaty into force.

Another issue is the availability of technology. According to experts, onboard treatment systems are more developed than they were five years ago, but only a few have been type-certified to IMO standards.

This further highlights the problematic situation in California, which has a state-level regime requiring purity of 1,000 times the IMO standard, but has not yet implemented it, apparently because technology to achieve these standards is not freely available.

New York, for its part, has pushed through purity requirements similar to those in California. The first phase requires standards 100 times the IMO threshold from 2012, unless ships applied in writing for an exemption before June 30.

Companies operating tens of thousands of vessels are understood to have sent the New York State Department of Environmental Conservation applications to this effect, but at press time, it was unclear if these waivers would be granted.

Ms Metcalf said: "This uncertainty is another proof that the ballast water situation in the US is horrible, and is not expected to improve any time in the near future. The USCG's proposed rule combined with various state requirements create a vast sea of uncertainty as to what will be required, with the possibility of varying requirements and the absence of technology able to meet the requirements.

"This places vessel owners in an impossible quandary." **LL**

KATHY METCALF

Chamber of Shipping of America

The ballast water situation is bad now, but it could get worse. What we now have is a federal proposed standard, and more stringent standards by individual states. Even more states could run amok in December 2013

Jones Act

repeal could shift horizon

**JOHN MCCAIN'S
BILL COULD PROVE
DISASTROUS FOR US
LINER SECTOR**

THE liner shipping industry in the US stands to be most affected by Senator John McCain's Bill to repeal the Jones Act.

The liner sector contains players such as Horizon Lines, Matson Navigation, Crowley Maritime, Sea Star and Trailer Bridge, which transport containers between the US mainland and Alaska, Hawaii, Puerto Rico and Guam.

This sector is already reeling under an antitrust case involving alleged price-fixing launched in April 2008, chiefly centred on the Puerto Rico trade lane. This continuing probe collectively has cost the companies tens of millions of dollars in legal costs, and sent a handful of executives to jail.

Dozens of pending class action lawsuits brought by disgruntled shippers accompany this federal investigation.

There is a bigger underlying reality beyond these plaintiffs' complaint that alleged collusion has forced them to pay higher prices: the price to transport a container from Los Angeles to Hawaii has historically been three times what it costs to bring one from China to Los Angeles.

This differential has remained in place because of the 90-year-old Jones Act, which restricts coastwise transport of merchandise to ships built, crewed, owned, and operated by US-citizen entities.

The antitrust probe, when it became public two years ago, had already caught the eye of some observers as a potential watershed that could result in the most dramatic overhaul of the Jones Act in its lifetime.

Now Mr McCain, one of the most astute politicians in the US and President Barack Obama's rival in the 2008 presidential election, has lobbed a smoking hand-grenade into the Obama camp.

His Bill to abolish the Jones Act is based on the premise that the Obama administration has used the Jones Act to refuse foreign ships entry into the *Deepwater Horizon* response effort. However, as political moves go, it is perfectly timed.

The Republican Party is in the ascendancy in Hawaii and Alaska, the two states most affected by the Jones Act. Alaska governor Sarah Palin, Mr McCain's running mate in 2008, has called for the law to be scrapped.

In launching such a legislative effort himself, Mr McCain has pointed out that the typical American

family living in either of these states pays \$1,900 to \$4,300 more each year because of higher shipping costs caused by the Jones Act.

Rob Quartel, former director of the Federal Maritime Commission and the executive who headed the Jones Act Reform Coalition in the 1990s, told Lloyd's List: "Political conditions in Alaska and Hawaii are much better today than 10 years ago for a repeal or reform of the Jones Act, because there are fewer politicians willing to defend the law."

Mr Quartel is now chief executive of software solutions company NTEL-X, which has minimal links with the maritime world.

Any potential abolition of the Jones Act would affect the US-flag liner sector the most, Mr Quartel added. This would particularly be the case if there were excess international-flag containerships laid up and looking for cargoes at that time, as is the case right now.

Mr Quartel said the impact of the law even today is minimal on the three other sectors on which it has a direct bearing – US shipbuilding, US seafaring, and US-flag wet bulk transport involving tank-barges and coastwise tankers.

"US shipyards hardly build any merchant ships. US seafarers have dwindled from more than 40,000 half a century ago to a mere handful today. When it comes to the tank-barge industry, the US does not need the Jones Act at all, because the nation is very efficient at this type of shipbuilding, in fact is the best barge builder in the world," Mr Quartel said.

"It would be very interesting to see how the Democrats counter Mr McCain's proposed Bill, and what arguments they now put forth in defence of the Jones Act. If the law were indeed to disappear, it would also have a big impact on the liner companies.

"It would bring prices down dramatically for shippers and consumers in the main Jones Act trade lanes. Almost immediately, the liner companies would need to seek other activities to replace a large proportion of their revenues, especially as they would still be stuck with excessive sunk vessel and operating costs from the Jones Act." **LL**

ROB QUARTEL

former FMC Commissioner



**Fewer politicians
today are willing to
support the Jones Act**

Importers turn exporters



↑ The *Murwab* loaded with Qatari liquified natural gas docked at Sabine Pass in Louisiana, marking the Persian Gulf country's biggest delivery to the U.S. and its first since June 2008. (Source: *Nakilat* via *Bloomberg*)

A COMPLETE ABOUT-TURN IN LNG COULD STILL MEAN GOOD NEWS FOR SHIPOWNERS

STEPHEN THOMPSON
Poten & Partners analyst

These changes might have forced companies to take the view that there is more than one way to skin a cat. If imports become less attractive, perhaps it makes sense to invest in export infrastructure

CHENIERE'S announcement last month that it might build the first liquefied natural gas export facility in the 48 mainland US states illustrates the total turnaround in the LNG sector in the last decade.

Ten years ago, shipowners were jostling to build new ships, on the assumption that LNG would be the answer to America's projected energy needs. The emergence of Qatar as a major LNG producer and exporter gave further momentum to the largest expansion in the seaborne transport industry's history.

Prospects of a US-centric LNG boom, however, proved a mirage. The economic downturn coincided with heavy ordering at shipyards. Meanwhile, in the last five years domestic supplies of natural gas in the US showed spectacular growth.

This has caused Cheniere to re-think its strategy. The company's 2.6bn cu ft a day terminal in Sabine Pass, Louisiana is already the biggest US LNG import facility. Now Cheniere wants to add liquefaction services to make it "bi-directional".

This would allow Cheniere to convert natural gas sourced from local US markets into liquid form, and start exporting it. The cost of Cheniere's proposed expansion, or funding sources, remained unclear at press time.

Cheniere's re-export facility mirrors a project at Houston-based Apache's 51%-owned Kitimat LNG in British Columbia, which has formally shifted its business model from imports to exports.

Kitimat's proposed liquefaction and re-export terminal would tap gas from fields in Northwest Canada, which sells at a discount to local benchmarks because of distance from main markets.

Cheniere's re-export plant is based on a similar concept, but driven by a different reality: unconventional gas supplies in the US derived from sources such as coal bed methane and shale have skyrocketed. Domestic gas production in the US reached the highest level in 30 years in March.

Poten & Partners analyst Stephen Thompson said: "These changes might have forced companies to take the view that there is more than one way to skin a cat. If imports become less attractive, perhaps it makes sense to invest in export infrastructure."

However, Poten & Partners still believes LNG imports into the US would continue to grow over the long term.

Latest statistics provide some cheer in this context. US imports of LNG imports grew from 7.4m tonnes in 2008 to 9.4m tonnes last year, and are projected to increase to 11m-12m tonnes this year.

There currently are 10 active LNG import terminals in the US, and two new ones under construction. One of the two, ExxonMobil's 2bn cu ft a day Golden Pass facility in Sabine, Texas, is scheduled to start operations next month, after a two-year delay caused by Hurricane Ike damage in 2008.

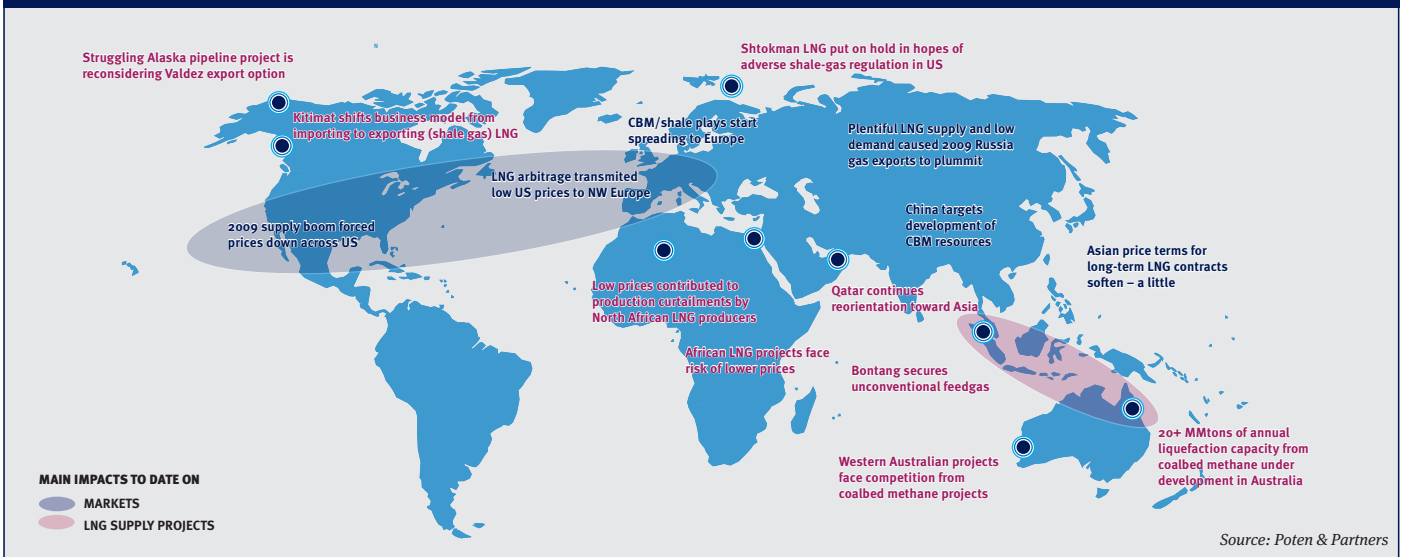
ExxonMobil clearly sides with the school of thought that believes LNG imports into the US are also a good bet. Company spokeswoman Margaret Ross told Lloyd's List that Golden Pass would be ready to start receiving LNG ships before the year-end.

Cheniere, too, has been receiving LNG shipments at its Louisiana facility, and has in fact been re-exporting imported LNG cargoes from the site.

Regardless of whether export markets provide growth or imports propel business, Mr Thompson said LNG shipowners are likely to benefit.

This is soothing news in the context of massive ordering in the last decade, and the spectre of idle or laid-up LNG tonnage. However, with the pace of new orders having slowed down considerably – according to Poten & Partners, there currently are 349 LNG carriers and 32 on order – any unexpected boost either from US imports or US exports is likely to have a correspondingly bigger effect on owners' fortunes. **LL**

ANATOMY OF A REVOLUTION



NORTH AMERICAN LNG TERMINALS



NORTH AMERICAN LNG TERMINALS



Tough times to continue for barge sector

NEWBUILDINGS AND SLUMPING DEMAND EXPECTED TO DIM PROSPECTS

AMERICA'S tugboat, towboat and barge industry, a critical lifeline that transports 800m tonnes of raw materials and finished goods every year in the domestic trades, is expected to continue to feel the pinch of the recession "at least for the next few quarters".

American Waterways Operators president and chief executive Thomas Allegretti said that although volumes in the coastal tank-barge and inland barge sectors have rebounded somewhat off last year's lows, rates and fleet utilisation remain weak.

"Recovery in the marine transport market is dependent on the economy as a whole. Based on current conditions, it might not happen any time soon," Mr Allegretti said.

AWO represents a shipping sector that transports 20% of America's coal, 60% of the nation's grain exports, and most of New England's heating oil and gasoline. Some 4,000 tugboats and towboats and more than 27,000 barges accomplish this feat by traversing more than 25,000 miles of waterways, along the coast and on America's rivers.

AWO estimates that this industry contributes \$5bn a year to the US economy, in addition to supporting a cleaner environment by taking cargoes off roads.

The coastwise membership of AWO comprises transporters of wet bulk commodities. This sector features companies such as K-Sea Transportation, Reinauer, Crowley, Bouchard, Moran and Penn, and is generally less fragmented than the inland counterpart.

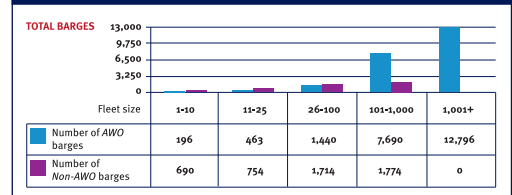
Thanks in part to the phase-out of single-hulled vessels mandated by the Oil Pollution Act of 1990, this sector in the past five years has undergone huge re-investment, with dozens of modern barges and tugboats ordered.

Mr Allegretti said the wave of vessel deliveries has necessitated new professional skills in the seagoing labour force, which has in turn accelerated the development of new and more rigorous training programmes. However, the delivery of new vessels ordered at the peak of the market during a recession has contributed to the depressed rate environment.

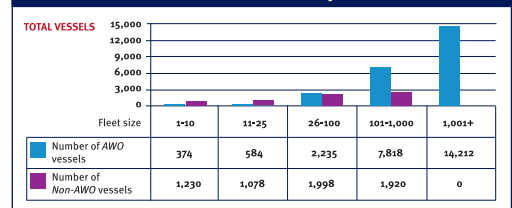
"Over-tonnaging is often in the eye of the beholder. It is always someone else's newbuilding that has caused the industry's over-supply, never your own," he said.

The coastal barge sector in the last two years has seen a trend towards more spot trades. However,

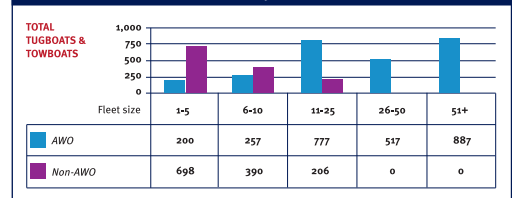
BARGES by fleet size



VESSELS IN THE TOWING INDUSTRY by fleet size



TUGBOATS AND TOWBOATS by fleet size



Mr Allegretti said several of the newbuildings were constructed on the back of timecharter coverage, which helped the owners mitigate market exposure.

"Still, we will only know if there is over-capacity on coastal barges when the market recovers," he added.

Over-supply of vessels is also a concern in the inland segment, Mr Allegretti said. However, ordering had slowed down before the recession intensified, and some big owners opted not to exercise options.

He described the economic prognosis for the inland barge segment as "not dissimilar" to that of the coastwise sector.

"The inland dry cargo barge segment is actually a perfect example of the 'free market' defined in economics textbooks," Mr Allegretti said.

Overall, he said rates in the inland market have remained "stubbornly low". Fleet utilisation remains around 80% for some companies, from the near-100% levels three years ago.

Although a recovery in its markets would be very dependent on the US economy as a whole, AWO said the operations of its members are a key link in the "long-term economic soundness of US industry". **LL**

THOMAS ALLEGRETTI
American Waterways Operators



concerned at the over-
supply of vessels.

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