



**GLOBAL COALITION
FOR EFFICIENT LOGISTICS**

**THE SHIPPING INDUSTRY AND THE GLOBAL ECONOMY
JUNE 2009**

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THE OBJECTIVES OF THIS DOCUMENT ARE TO PROVIDE AN OVERVIEW OF THE SHIPPING INDUSTRY AND THE GLOBAL ECONOMY, WHICH WILL BE TOP PRIORITY FOR THE SHIPPING INDUSTRY IN THE YEAR TO COME.

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SUMMARY & ANALYSIS

SUMMARY

THE GLOBAL ECONOMIC CRISIS HAS NOT BYPASSED THE SHIPPING INDUSTRY. INDEED, THE INDUSTRY HAS BEEN HIT HARD BY A PERFECT STORM OF DRAMATICALLY DECLINING GLOBAL EXPORTS AND A CONFLUENCE OF EFFORTS BEGUN YEARS AGO TO ENLARGE THE INDUSTRY'S FLEET AND CAPACITY.

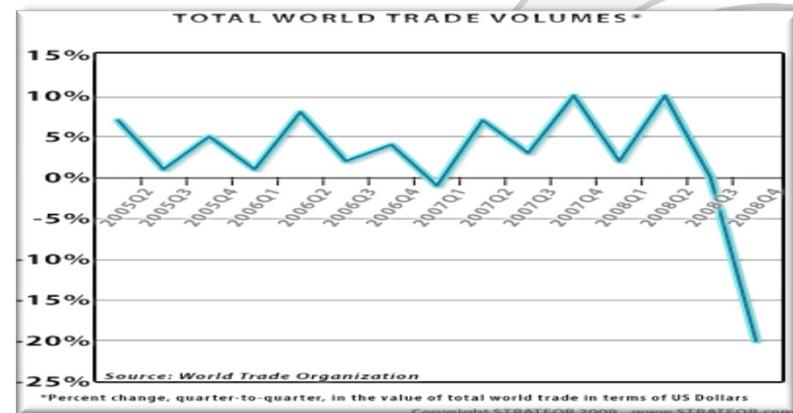


ANALYSIS

THE GLOBAL SHIPPING INDUSTRY IS IN TROUBLE. SO MUCH TROUBLE, IN FACT, THAT THE DOMINANT THEME WITHIN THE INDUSTRY THESE DAYS HAS LITTLE TO DO WITH PIRACY OFF THE

COAST OF SOMALIA. INSTEAD, THE INDUSTRY — WHICH CARRIES MOST OF THE WORLD'S TRADE — IS FACING A MUCH MORE FUNDAMENTAL CRISIS: AS WORLD TRADE VOLUMES PLUMMET, ITS FLEET AND ITS CAPACITY ARE CONTINUING TO GROW.

WORLD TRADE VALUES IN THE LAST QUARTER OF 2008 DROPPED 45 PERCENT COMPARED TO THE LAST QUARTER OF 2007, AND ACCORDING TO THE INTERNATIONAL MARITIME ORGANIZATION (A SPECIALIZED AGENCY OF THE UNITED NATIONS), 90 PERCENT OF GLOBAL TRADE IS CARRIED BY SEA. THE WORLD TRADE ORGANIZATION IS NOW PREDICTING A 9 PERCENT DECREASE IN WORLD EXPORTS BY VOLUME IN 2009, THE LARGEST CONTRACTION SINCE WORLD WAR II.

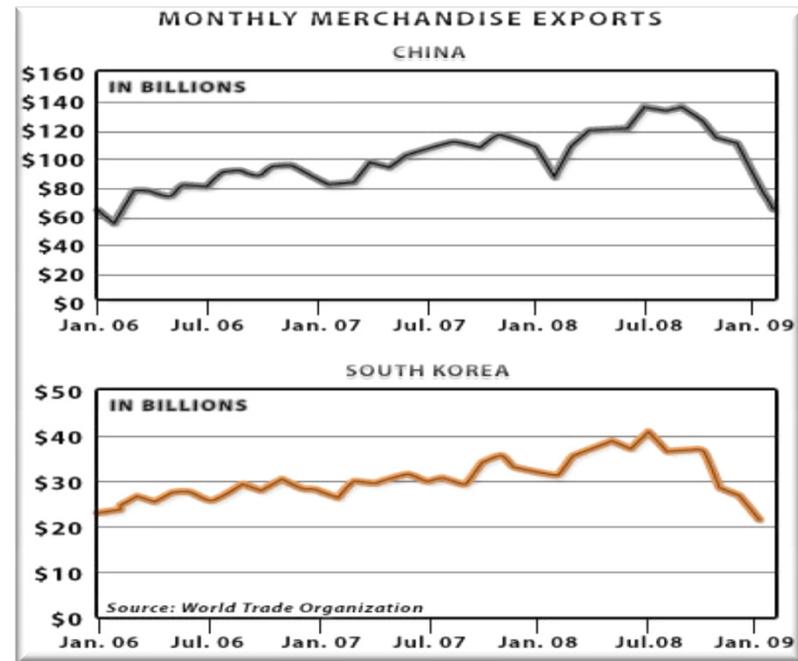




IMPORT & EXPORT

AVERAGE EARNINGS ON PACIFIC, FAR EAST AND ATLANTIC ROUTES BOTTOMED OUT AT THE END OF 2008, AFTER AN INCREASINGLY STEEP DECLINE DATING BACK TO THE SUMMER.

THIS FALL CORRESPONDS WITH A WORLDWIDE DECLINE IN MERCHANDISE EXPORTS OVER THE SAME PERIOD. THIS TREND HAS BEEN MOST NOTABLE IN EXPORT-ORIENTED ECONOMIES THAT EXPORT PRIMARILY BY SEA, LIKE CHINA AND SOUTH KOREA. UNSURPRISINGLY, THE VOLUME OF RETAIL CONTAINER TRAFFIC AT MAJOR U.S. PORTS, THE LARGEST IMPORT MARKET IN THE WORLD, FELL BY 7.9 PERCENT LAST YEAR. THE NATIONAL RETAIL FEDERATION AND IHS GLOBAL INSIGHT HAVE FORECAST A DECLINE OF ANOTHER 11.8 PERCENT IN THE FIRST HALF OF THIS YEAR, AND A DECLINE OF MORE THAN 15 PERCENT IN BOTH JANUARY AND FEBRUARY IN FACT ALREADY HAS BEEN OBSERVED.





DRY CARGO

DRY BULK SHIPPER EARNINGS (E.G., MINERAL ORES, COAL AND GRAINS) BEGAN TO FALL STEEPLY IN THE LATTER HALF OF 2008. SO, TOO, HAS THE BALTIC DRY INDEX (BDI), AN INDEX PUBLISHED DAILY BY LONDON'S BALTIC EXCHANGE THAT REPRESENTS THE AVERAGE COST TO TRANSPORT DRY BULK CARGO ANYWHERE IN THE WORLD BY SHIP. SINCE DRY BULK CARGOS ARE TYPICALLY INDUSTRIAL INPUTS, THE BDI IS ALSO CONSIDERED A LEADING INDICATOR OF GLOBAL ECONOMIC ACTIVITY. BOTH SHIPPING PROFITS AND THE BDI HAVE TUMBLED TO THEIR LOWEST LEVELS IN AT LEAST FIVE YEARS, WITH THE SEPTEMBER AND OCTOBER 2008 DROPS IN BDI THE STEEPEST DECLINES SINCE AT LEAST 1985.

THE VALUES OF THE CARGO SHIPS THEMSELVES ARE ALSO FALLING. ACCORDING TO COZIES SHIPPING GROUP, USED DRY BULK SHIP PRICES HAVE DECLINED BY 70 PERCENT TO 90 PERCENT SINCE LAST SUMMER, DEPENDING ON THE SIZE AND AGE OF THE VESSEL, THOUGH THERE HAS BEEN A VERY MINOR RECOVERY LATE IN THE FIRST QUARTER OF 2009. FEW SHIPPERS ARE LOOKING TO EXPAND THEIR FLEET IN THESE TIGHT ECONOMIC TIMES.

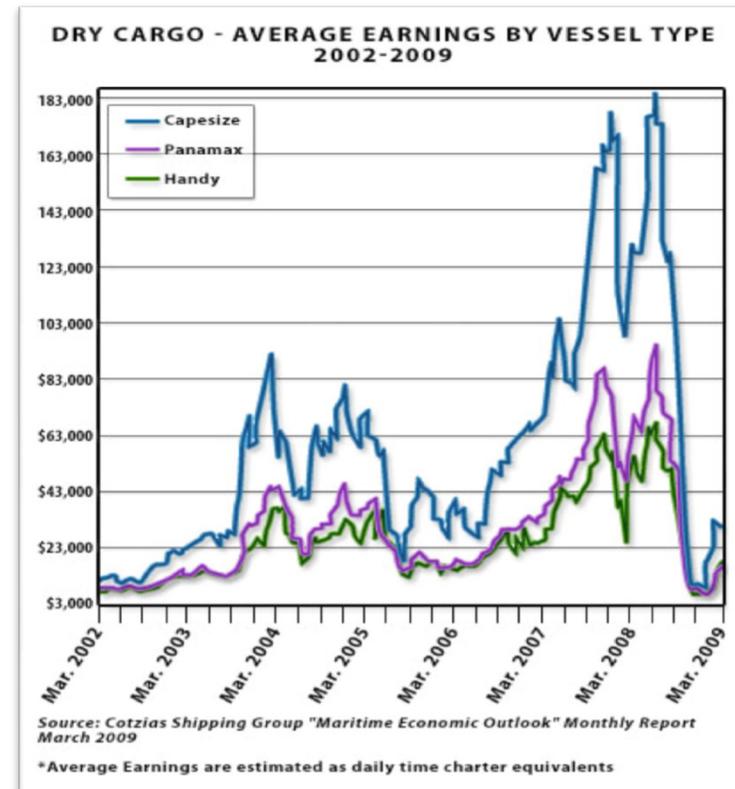
THE VALUE OF DRY CARGO SHIPS BEGAN TO FALL PRECIPITOUSLY IN LATE 2008, WITH THE LARGEST DROP IN THE VALUE OF THE LARGEST "CAPSIZE" SHIPS, WHICH HAVE AN ENORMOUS CAPACITY.

THE VALUE OF THE SHIPS, ALONG WITH THE VALUE OF THE CARGO AND THE ANTICIPATED PROFIT MADE FROM THE CARGO, ARE KEY METRICS (ALONG WITH RISK) IN DETERMINING INSURANCE PREMIUMS. SO WHILE THIS IS ONE EXPENSE THAT HAS NOT NECESSARILY RISEN, IT HAS ALSO CAUSED A SIMILARLY FUNDAMENTAL BUSINESS PROBLEM FOR INSURERS OF MARITIME COMMERCE.





BUT MOST IMPORTANT, AND MOST TROUBLING FOR THE INDUSTRY AS A WHOLE, THE OVERALL DECREASE IN TRADE VOLUMES COINCIDES WITH A FAIRLY STEEP RISE IN CAPACITY. DELIVERIES OF NEW OIL TANKERS HAVE LONG BEEN PREDICTED TO PEAK IN 2009, WITH THOSE DELIVERIES TO REMAIN SIGNIFICANTLY HIGHER THAN THE PREVIOUS THREE YEARS THROUGH 2011. (AND THIS IS FACTORING IN SOME DELAYS IN THE SHIPYARDS.) THIS SPIKE HAS BEEN BUILT INTO THE SYSTEM FOR SOME TIME DUE TO THE LOOMING 2010 DEADLINE FOR PHASING OUT SINGLE-HULLED TANKERS. AT THIS LATE STAGE IN CONSTRUCTION, MANY OF THESE ORDERS WILL BE DIFFICULT TO DEFER OR DELAY. LIKEWISE, SCRAPPING AND DEMOLITION IS ALREADY ACCELERATING, AS SINGLE-HULLED SHIPS ARE HAULED OUT OF SERVICE. BUT THE CUMULATIVE EFFECT — ESPECIALLY WITH THE BOOM IN OIL PRICES IN RECENT YEARS — IS A GROWTH IN OVERALL FLEET TONNAGE AND CAPACITY.





IN TERMS OF FLEET SIZE, THE GROWTH IN OIL TANKERS ASIDE FROM THE SMALLEST CLASS OF SHIPS IS EXPECTED TO BE BETWEEN 10 PERCENT TO 14 PERCENT, DEPENDING ON THE TYPE OF VESSEL, ACCORDING TO CLARKSON RESEARCH SERVICES.

SIMILARLY, IN 2008 THE BULK CARRIER FLEET GREW BY MORE THAN 230 VESSELS OVERALL TO A FLEET STRENGTH OF MORE THAN 6,900. A GROWTH RATE AS HIGH AS 18 PERCENT IS FORECAST IN 2009 FOR DELIVERIES OF THE LARGEST CAPSIZE SHIPS, THOUGH THESE ARE TOO LARGE TO TRANSIT THE SUEZ CANAL. THE GROWTH RATE FOR THE REST OF THE FLEET, DEPENDING ON TYPE, STANDS AT BETWEEN 2 PERCENT AND 16 PERCENT. SIMILARLY, IN 2008 THE CONTAINER SECTOR'S CAPACITY EXPANDED BY 2,100 MILLION TEU (TWENTY-FOOT EQUIVALENT UNIT — ESSENTIALLY A 20-FOOT SHIPPING CONTAINER, THE UNIT COMMONLY USED IN INTERMODAL TRANSPORT) TO 12,866 MILLION TEU. 2009 GROWTH IN THE LARGEST POST-PANAMAX PORTION OF THE CONTAINER FLEET IS ESTIMATED TO REACH 22 PERCENT, WITH GROWTH OF BETWEEN 4 PERCENT AND 16 PERCENT FOR THE REST OF THE CONTAINER FLEET.

GLOBAL SHIPPING INDUSTRY - PROJECTED FLEET GROWTH 2009

TANKERS:

Very Large Crude Carriers - 11 percent
Suezmax - 14 percent
Aframax - 10 percent
Panamax and Handy - 11 percent each

DRY BULK CARGO:

Capesize - 18 percent
Panamax - 6 percent
Handy - 16 percent
Handysize - 2 percent

CONTAINER:

Post-Panamax - 22 percent
Panamax - 16 percent
Sub-Panamax - 4 percent
Handy - 7 percent

Source: Clarkson Research Services



THIS EXPANSION COMES AMID A DRAMATIC RISE IN THE NUMBER OF VESSELS SCRAPPED EACH MONTH, WHICH HAS JUMPED FROM AN AVERAGE OF LESS THAN 17 PER MONTH (FROM EARLY 2005 THROUGH LATE 2008) TO NEARLY 60 PER MONTH IN NOVEMBER AND DECEMBER 2008, AND ABOVE 90 VESSELS PER MONTH FOR EACH OF THE FIRST THREE MONTHS IN 2009. DEMOLITION ACTIVITIES ARE EXPECTED TO CONTINUE ACCELERATING INTO 2010. IN SHORT, CAPACITY FAR OUTSTRIPS DEMAND, EVEN WITH INCREASED RATES OF DECOMMISSIONING AND SCRAPPING — DRASTICALLY PUSHING DOWN THE COST (AND PROFITS) OF SHIPPING.

SOME OF THESE SHIPS, ESPECIALLY OIL TANKERS, ARE SITTING IDLE WITH FULL LOADS WAITING FOR THE MARKET TO IMPROVE. THE INDUSTRY HAD SEEN STRONG GROWTH FOR FIVE YEARS RUNNING, BUT THE CRASH IN LATE 2008 IS A STAGGERING BLOW. AS IT WAITS FOR THE WORLD ECONOMY TO RECOVER, THESE BUSINESS REALITIES WILL CONTINUE TO BE THE TOP PRIORITY FOR THE SHIPPING INDUSTRY IN THE YEAR TO COME.

