Shippers must prepare for possible uptrend in oil prices

ALTHOUGH crude oil price is stabilising, shipping players must be prepared to face any future uptrend in global oil prices.

Crude oil price stood at US$118 per barrel on Tuesday after reaching its all time high of US$147.27 on July 11.

According to Aseambankers (M) Bhd senior analyst of equity markets Liaw Thong Jung, the middle term outlook for the next 18 months for crude oil price seem to be rosy.

"Basically, due to global inflation that is making its headway and slower demand from the US and Europe, the oil supply currently covers demand.

"This correction of oil price is further fuelled by slower world's gross domestic product growth. Oil stock build-up is also still healthy," he said in his presentation entitled *Current Assesment and Outlook On World Oil Market* at the Maritime Institute of Malaysia's seminar on high oil price and its impact on the shipping industry last week.

Currently, global oil production is about 86 millions barrels per day (bpd) while consumption is estimated at 85.5 millions bpd. This translates into a deficit of 500,000 bpd.

Reserves-to-production ratio is at 40.5 times or 41 years.

Liaw estimated that oil price would hover around US$110 to US$120 per barrel until year-end.

"Next year, the oil price is estimated to float between US$100 and US$120 per barrel," he said.

However, Liaw was sceptical that crude oil price would stay at the current healthy level after next year.

"Year-on-year demand growth of 3.5% based on swelling population and transportation needs is inevitable. There will also be the issue of supply limitations as "easy oils" are reaching the finishing line. Finding oil in harsher deepwater environment also involves extra cost," he said.

On alternative energy, Liaw said, there was nothing in the pipeline yet that suggested a large-scale replacement of fossil fuel.

In view of all these factors, Liaw cautioned ship owners to be prepared, as a sudden hike in oil price would further aggravate the situation that was hampering the maritime industry.

"The present hike in oil price has resulted in longer lead times for the supply of equipment to sharp demand of raw materials as well as escalation in cost," he said.

Malaysian Shipowners Association representative Zahar Mohd Hashim Zainuddin said the effect of high oil price would translate into expensive bunker cost for shipping players.

"Bunker fuel price has exceeded US$700 per tonne, a US$250 per tonne increase since January.

Overall, bunker fuel price has risen 87% from the beginning of last year," he said, adding that the increase in bunker fuel eroded shipping companies' profitability.

Fuel cost represents between 50% and 60% of the total ship operating cost depending on the type of ships and services.

Citing an example of a container vessel of 7,750 twenty-foot equivalent units capacity in the Trans-Pacific trade, Zahar Mohd Hashim said, it consumed 217 tonnes of bunker fuel that translated into US$3.4mil in its 28 days voyage.

"A year ago, the fuel cost of the same ship was US$2.7mil less or 87% less than the current cost," he said, adding that the bunker adjustment factor was not enough to cover the high operating cost.

"Shipping companies are now utilising a range of operational modifications to be cost-efficient.

"These include redeploying ships among major global trade lanes to optimise utilisation, consolidating services through multi-carrier alliances, consolidating routes to serve more locations with fewer ships, slowing sailing speeds to conserve fuel, monitoring of hull and propeller conditions to reduce resistance," he said. – ***By Sharidan M. Ali***

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Shipowners: Higher transport costs will bring sea change

By Presenna Nambiar
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CHANGES in global trade and production patterns are expected as companies and countries try to adapt to higher transport costs, says Malaysia Shipowner's Association (Masa).

The escalating price of oil as well as other factors have doubled shipping costs in the last year, driving up freight rates.

Masa offshore representative Zahar Mohd Hashim Zainuddin said the phenomenon could make companies relocate production facilities or relook growth strategies to cope.

"Even oil producing countries which have been importing refined oil, could make policy decisions to start their own refinery to save on transport costs," he said during a presentation at a one day seminar by the Maritime Institute of Malaysia last week.

He said shipping lines working on reducing costs could also make operational adjustments to deal with the problem by redeploying ships on global trade lanes to optimise utilisation.

Shipping lines have been hard pressed to battle rising costs as they not only face rising oil prices but also new rules that add to the cost of operations.

Costly initiatives to address ship emissions of carbon dioxide due to growing pressure from environmentalists have added to the woes of shipping lines.

"If the price of oil isn't bad enough, the shortage of seafaring staff has also contributed to ballooning costs, as the immediate response is to accelerate wage levels," Zahar said.

Manpower costs are higher in Asia than in Europe due to the high number of crew manning its ships.

The cost of manpower makes up about 40-60 per cent of operating costs.

Compounding the situation is rising steel prices which has contributed to high repair and maintenance costs.

"Current tight credit conditions will also mean high financing costs for owners embarking on a growth strategy," Zahar said.

He said it is imperative that rising transport costs are contained without compromising on the service levels.

Some of the initiatives taken by shipping lines include making operational adjustments such as consolidating services through multi-carrier alliances.

This is on top of consolidating routes to serve more locations with fewer ships and slowing sailing speeds to conserve fuel where possible within schedule.

Hull and propeller conditions are also monitored and improved to reduce resistance and improve efficiency.