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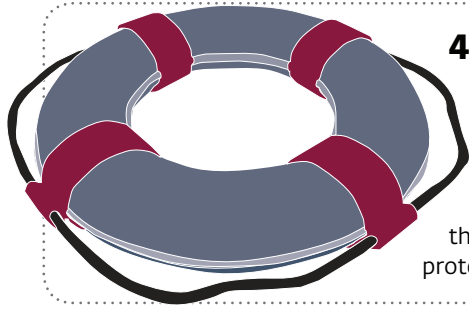
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Virtual reality

Sergio Machado and the revival of Brazilian shipping

INSIDE THIS ISSUE ▶ **STORY OF THE WEEK:** CMA CGM's credit lifeline ▶ **MARKETS:** The outlook for 2010 ▶ **COMMERCE:** Smit targets Oz gas ▶ **REGULATION:** IMO keeps the pressure on after COP15 ▶ **TECHNOLOGY:** Importance of hull surface and coatings ▶ **LOGISTICS:** India plays catch-up



4-5 Story of the week: France throws CMA CGM a line

The plight of the debt-laden French flag carrier has led to a reassessment of the country's maritime sector. Barnaby Eales asks which of the company's assets are strategic and must be protected – and which can be let go

15 Trade & commerce: Smit targets Oz gas

Australia's many LNG developments offer lucrative prospects for escort duties. Dale Crisp assesses the contenders, following Smit's win of a five-year exclusive towage licence at Gladstone



22 Logistics: India plays logistics catch-up

Indian ports continue to expand, providing opportunities for logistics players to step in and boost the associated infrastructure. In order to stay competitive, logistics companies are investing in supply chain capabilities

7 Markets: Joint ventures make sense for China

Joint ventures have become more common in all raw materials sectors, especially oil and those required for steel production, as China seeks to secure supplies for its rapidly expanding economy. Michael Jones reports
[Photo: Southern Cross Maritime]



32 Decision-makers: Realising a Brazilian revival

Sergio Machado's ambitious plans for the Transpetro tanker fleet and Brazil's shipbuilding industry hinged on non-existent 'virtual' yards and strict control of costs. *Fairplay* looks at how his plans have shaped up

3 Look Out

Senior CMA CGM management is responsible. Brazil should back Machado

4-5 Story of the week

Saving CMA CGM has become a cause célèbre for the French shipping industry

7-13 Markets

Canadian timber steers west. S&P bulk recovery. Greece dominates ordering. Steel pipe and plate. Market numbers

15-19 Trade & commerce

US ECA regulations. Brazil exporters refocus. Svanefelt gas field. Asciano back from the brink. Dealing with debt

20 Regulation

Climate change work continues at IMO. Costing emissions regulation

21 Technology

Understanding the impact of hull surface and coatings on performance loss

22-23 Logistics & supply chain

Simplifying specialised gas deliveries. Software support for complex global freight tenders

25 Letters & reviews

The paradoxes of piracy. Cruise shipping from tuxedos to tattoos

27-31 People & places

Amver hails owners' commitment. Seafarer health. MOL's path to growth. Port of Kemi. Cape Town opportunities

34-35 Movers & shakers

36 Shipping in numbers



Is your vessel using R-22?

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Richard Clayton
Fairplay Editor

look out

A Saadé ending

Senior management is responsible for the dire state that CMA CGM finds itself in

Failure to invest in shipping maintenance comes back to haunt the ship operations team when rough weather comes. Likewise, failure to undertake risk management strategies has a similar impact in the corporate sphere when finances are under strain. And it's this lack of risk management that has brought French container shipping group CMA CGM to a nadir in its history – the granting of a \$500M credit lifeline which equates to a state-backed bailout.

In years past, the company's growth has seen little limitation, few were invited to scrutinise its finances, and fewer still had any say in its corporate strategy. CMA CGM is a globally-significant player that has been run as a feeder operator. The

flaws in that model did not become apparent in the bull run that ended in 2008, but necessitated government intervention at the end of 2009. The outcome has been the replacement of Jacques Saadé with Philippe Soulié. Saadé becomes president but loses executive responsibility.

Meanwhile, in Japan, 'K' Line board members have shifted president and CEO Hiroyuki Maekawa over to the position of chairman, recalling Kenichi Kuroya from Singapore to the chief executive's role. The course ahead for the Japanese major demands a steady hand and a clear vision. Over at MOL, president Akimitsu Ashida's new year address calls on employees to make the upturn happen, rather than waiting for better times to arrive.

These companies have been blasted by the same economic wind, but while the Japanese were able to change course, the French were not prepared. Ashida continues to be seen as a safe pair of hands, Maekawa needed to be replaced, but Saadé's control over the company he headed for so long has been stripped away.

The lesson to be learned is that companies need to assess their senior management teams according to the economic context. Saadé can have no complaints about his treatment: his was a fair-weather business model unable to withstand troubled economic times. 'K' Line directors clearly feel Maekawa is not the leader for the next five years, but MOL is standing by Ashida. For now. ■

Why Brazilians should back Machado

This week's decision-maker is Sergio Machado, the one-time Brazilian senator who is now transforming both the ship operating division of Petrobras and the country's shipbuilding sector. Machado chose not to place newbuilding orders with domestic yards, and must have been

sorely tempted to go to China or South Korea.

Instead he saw 'virtual shipyards' where none existed, and began the newbuilding process by taking control of steel procurement. The shipbuilders of Rio de Janeiro could not believe president Lula was willing to side with

the visionary, but Machado was determined to press on.

Lula's support is crucial – and he is out at the end of the year. The question is, will Machado's vision have gained enough support to keep the fleet renewal policy on the road? Brazilian shipping must hope that it will because the

Atlantico Sul shipbuilding complex is a major economic driver for the depressed northeast. The country is, without doubt, an economic powerhouse, but there remains concern about Brazil's credibility as a maritime powerhouse. It's now time to show maritime maturity. ■

SERGIO MACHADO

Realising a **Brazilian** revival

Sergio Machado's ambitious plans for the Transpetro tanker fleet and Brazil's shipbuilding industry hinged on non-existent 'virtual' yards. *Fairplay* looks at how his plans have shaped up

Brazil's president Lula hand-picked Sergio Machado in June 2003 for the position of president of Transpetro, the transport and logistics arm of oil giant Petrobras. This role included several challenges, including the \$4Bn-plus renewal of the tanker fleet and the modernisation of the country's shipbuilding.

To help him, Lula gave him a multi-billion-dollar budget and imposed few restrictions. Nevertheless, the objective was staggering: renewal and strengthening of the fleet so that state-controlled Petrobras – and thereby Brazil – could save billions of dollars in freight costs every year.

In 2004 Petrobras was spending \$8Bn in carrying oil to export markets; latest figures suggest this has grown to \$12.5Bn a year through long-term charters of more than 100 vessels to cater for its tanker and offshore needs.

Machado took a tough stance from the beginning. "We faced quite a task at the beginning of the process," he reflected in his Rio de Janeiro office last year. "So many obstacles and critics, but we persevered."



SERGIO MACHADO

One of his most relentless opponents was Wagner Victer, who was responsible for energy and shipbuilding for the state of Rio de Janeiro. Victer mocked Machado for backing the Atlantico Sul consortium in the first round of tenders for the \$2.3Bn Promef 1 initiative (phase one of the Transpetro fleet renewal programme). So far contracts have been signed for 41 out of 49 vessels for Promefs 1 and 2.

Victer was less than impressed. "It is highly immoral... to be allowing a 'virtual shipyard' with no yard, no welders, no cranes or designers to bid for this contract," he told *Fairplay* at the time.

The court opposition failed to gain momentum. Atlantico Sul won the tender to build 10 Suezmax tankers for \$1.2Bn, and immediately started building a \$1Bn shipyard in Suape. That facility, the largest and most modern yard in the southern hemisphere, is currently sitting on orders of about \$3Bn. "It's no longer a virtual yard," Machado commented recently. "It is clearly a reality and a very successful reality at that." Transpetro might even choose another virtual yard for the tender to build eight gas carriers: Promar Ceara consortium has put in the lowest offer for the tankers, although there is a site but no yard. Sources in Rio de Janeiro believe the consortium is the strong favourite to win against established builders Eisa and Maua.

Brazilian shipbuilding has struggled to win orders for larger ships over the past two decades, focusing instead on offshore vessels, but the industry has always been dominated by Rio de Janeiro. Rio state governors Rosinha and Anthony Garotinho were bitterly opposed to Machado's push out into the regions, and tried to protect the state's control over shipbuilding by backing Victer's belligerence. Against the

In the spotlight

Sergio Machado

Born in Fortaleza, in the state of Ceará, Machado graduated in business administration from Fundação Getúlio Vargas, Rio de Janeiro.

1982: President of the Industrial Center of Ceará

1987-1990: Secretary to the state government of Ceará

1991-1995: Federal deputy

1995-2002: Senator, and leader of his former party, PSDB (1995-2001)

2002: Joined PMDB

2003: President of Transpetro

odds, Machado appears to have triumphed. "I never had a problem with virtual yards," Machado told *Fairplay*. "If we tried to stop new companies from emerging, the world of commerce would stop spinning."

However, he warned against looking at the past through the eyes of the present, or judging yesterday's decisions from today's values. "New players must take on the challenges of the future. It is in this context that the emergence of Atlantico Sul must be seen. We certainly feel vindicated with the way things have panned out."

After years of costly mistakes – some made in Rio's yards and some made in trusting new Brazilian shipowners who took subsidised soft loans from the Brazilian National Development Bank and then misused them – Machado, aided by Lula, wanted to restore pride to Brazilian shipping and shipbuilding.

Machado initially hit some formidable "immovable forces". Besides Victer, Mach-

ado was opposed by steel manufacturers, including Companhia Siderurgica Nacional, Gerdau and Usiminas, for alleged "hypocrisy". They claimed he was legally bound to use 65% of Brazilian components/products in building the Promef vessels but instead he was importing huge quantities of steel because it was cheaper.

Machado was rattled by Victer, the Garotinhos and the Brazilian steel companies, but he is driven by the need to accomplish his goals by the end of 2010, when Lula steps down. The aim now is to complete Promef 2 (launched in mid-2009 for another 26 vessels at about \$2Bn), and prepare the way for Promef 3 before the presidential elections in October.

Machado brings to the state-controlled enterprise the business acumen of the capitalist. He is also passionate about cost control. "I said from the very beginning of Promef, back in 2004, that I did not want Transpetro to pay over the odds for these vessels and I am sticking to my promise."

He has led fact-finding missions to shipbuilders in Korea, China and Japan to see how Brazil could improve and, controversially, he has taken full responsibility for the purchase of the steel by yards that win Transpetro contracts.

"Steel makes up about 30% of the total costs so I have to keep those costs down, and if that means importing then that's what we'll do. We prefer to buy in Brazil but if it's too expensive we will look elsewhere." Machado has already bought steel in Ukraine, China and South Korea.

One of his colleagues at Transpetro said steel prices had been the main problem for the newbuilding programme. "When prices are competitive here, we buy in Brazil but if not we look elsewhere. We have now bought from eight different countries and about 33% of the steel purchased so far has come from overseas."

Machado's strategic thinking is characterised by close attention to detail. He sends teams of researchers and managers to the Atlantico Sul complex to make sure the yard is meeting Transpetro's stringent specifications. The yard's executive director, Angelo Bellelis, described Machado as one of the key pillars in the facility's development. "He's always pushing us to move forward," he said. F

'If we tried to stop new companies from emerging, the world of commerce would stop spinning'