

Who cares about Demurrage?
Who is paying for the shipping delays?

Natship 09
Sydney

Tony Pegum
5 June 2009

Braemar Shipping Services Plc



Shipbroking
Dry Cargo
Tankers / LNG / FPSO
Sale and Purchase
New Building
Demolition



Technical
Port construction
Naval Architecture
Vessel & condition
surveys
Ship construction
supervision



Environmental
Pollution control
Incident response



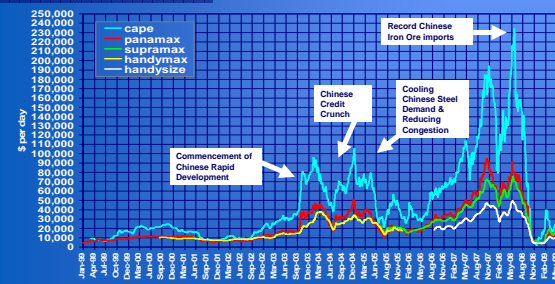
Logistics
Port Agency
Customs clearance
Containers

The Australian Shipbrokers' Mission

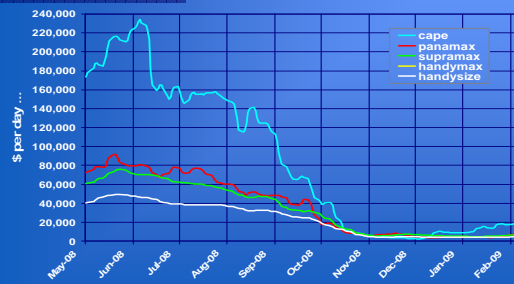
- We encourage and support Australian cargo interests and exporters (and importers) who seek to control their shipping requirements beyond the wharf.
- But why should Australian resource companies control their shipping requirements ?

Unprecedented Freight Values

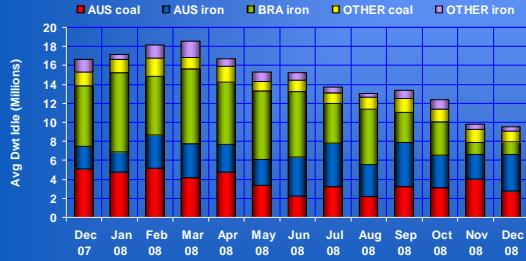
Record Spot Rates *An historical perspective*



So what happened in 2008



Capesize Port Loading Delays



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Port Congestion *The intangible demand*

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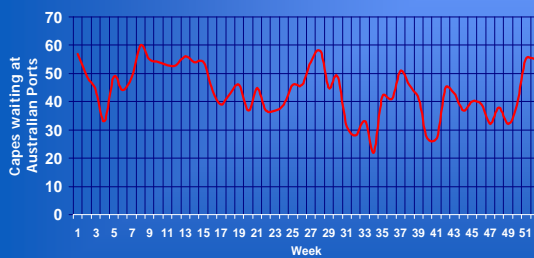
Congestion Headlines

- An average of 44 capes were waiting to load at Australian ports at anyone time throughout 2008 & 2009.
- The average waiting time is 7-10 days.
- Since the beginning of 2008, had we applied *notional market values to the delays for capesize bulkers alone*, it would be an equivalent amount in excess of A\$2 billion. The figure may be subjective but whatever it is, it HAS been wiped off our balance of payments.
- Poor transport and port infrastructure, plus our unpredictable weather, are to blame.

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Cape Congestion Australia 2008



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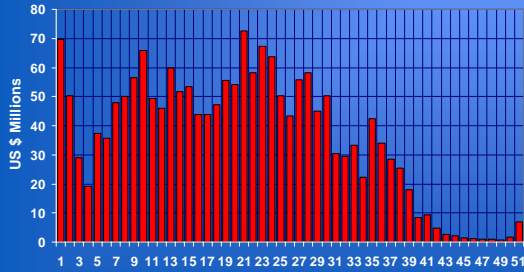
Demurrage

- The Penalty paid by shippers to shipowners for the additional time used to load a vessel
- Shippers are penalised for the delays in our ports
- Demurrage payments go to the Ship owners
- The vast majority of Ship owners are based outside of Australia.
- The vast majority of vessels carrying export bulk commodities are foreign controlled.
- Demurrage recognises inefficiency
- Demurrage is a net loss to Australia's BOP!

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Australia's Notional Weekly Demurrage Bill 2008



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Notional Australian Capesize Demurrage 2008

- The average waiting time for all Australian ports in 2008 was 7 days
- Based on weekly cape time charter rates for an Australian Round Voyage (basis of notional demurrage rate), we estimate that the loss to Australia's BOP from capesize bulk carriers alone in 2008 was approx.:

■ A \$ 1.84 billion

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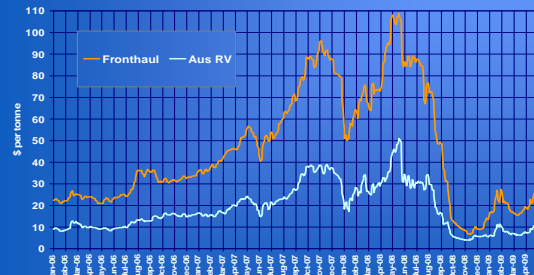
So, is a weak freight market good news for Australia?

NOT NECESSARILY SO !

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Cape Voyage Rates - iron ore Brazil/China v Aust./China

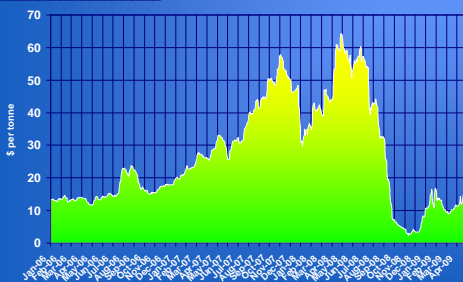


Source: Baltic Exchange

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Cape Freight Rate Differentials Australia's Freight Advantage over Brazil



Source: Baltic Exchange

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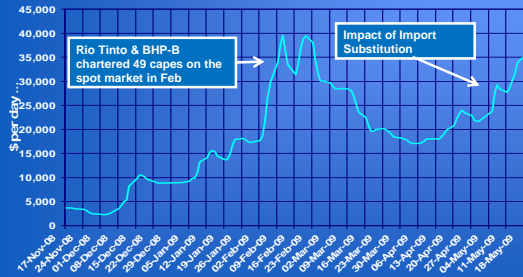


And how is 2009 shaping up?

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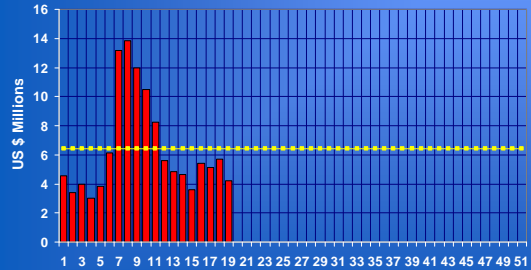
Recent improvement in the Market



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Australia's Notional Weekly Demurrage Bill 2009



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Notional Australian Capesize Demurrage For 2009

- By week 19 of this year, the notional demurrage bill had reached US \$122 million, or A \$181.1 million.
 - Based on the weekly cape demurrage cost of A \$9.53 million, the notional, annualised bill for 2009 is around:
- A \$ 500 million

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The Strategic Value of Controlling Freight

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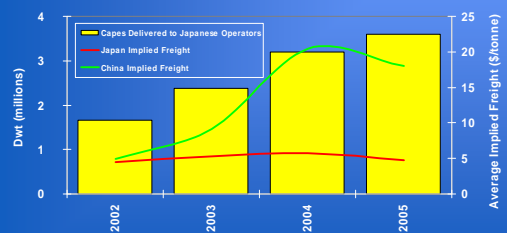
Why do Australia's customers want to buy FOB?

- Exercise control
- Keep their commercial options open
- Take advantage of freight variations
- Maintain flexibility
- Access freight opportunities

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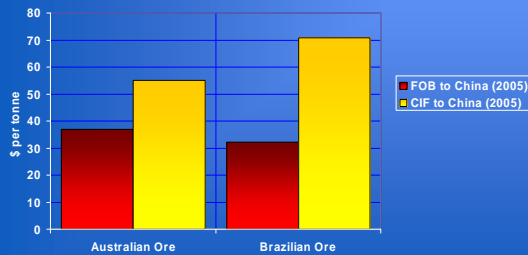
Japan's "In-house" Freight Strategy



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Australia's Freight Advantage



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When FOB contracts go wrong

- Commercial imperatives may override the seemingly watertight provisions of a FOB contract
- This may force a shipper into accepting modifications to the contract
 - E.g. a sub-standard vessel
 - or
 - A deferred shipment
- This is most likely due to a poor freight procurement strategy on the part of the buyer

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When FOB contracts go wrong – Case Study (1)

- 12 April
 - seller asks customer for an update on vessel nomination for a 15-25 April laycan
 - reminder of 14 day rule
- 12 April
 - customer says nomination coming and will not forget 14 day rule
- 13 April
 - seller requests nomination
 - Seller advises queue is 27 ships (9 – 12 days delay) at Newcastle
 - even if customer nominates now seller expects that due to congestion it will not load within the required delivery period under the contract (ie – by end April).
- 13 April
 - customer gives excuses for not finding a vessel, then nominates with vague details

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When FOB contracts go wrong – Case Study (2)

- 13 April
 - Rightship unapproved vessel
 - seller refuses vessel and asks for another
- 13 April
 - customer says re-visiting Rightship approval.
- 13 April
 - customer told to nominate another vessel & warned of 14 day nomination rule
 - customer reminded by seller that seller agreed to this cargo on basis it would be lifted by end of April due to stock limits
 - May too fully committed
 - no other coal to meet requirements
 - suggest defer to Sept/Oct
- 14 April
 - buyer gets Rightship approval
- 14 April
 - buyer confirms ETA 24 April

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When FOB contracts go wrong – Case Study (3)

- 14 April
 - vessel accepted by Rightship
 - customer advised 14 day rule applies that the port will consider this vessel has an ETA 4 days later than nominated meaning that buyer liable for demurrage
- 15 April
 - apologies from customer, as lost the nominated vessel to the market
 - lost the ship in the market (probably never had)
 - asking for laycan extension to 15th May
 - tells seller that buyer must supply to power station before June or contract is dead
- 18 April
 - customer told no May stems available.
 - only sept or oct available
 - seller may do a May panamax, then balance later to make up for the missed cape.
- 21 April
 - a twenty year old panamax and a twenty year old cape nominated with no accompanying information nominated for 1-15 May.

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Case Study - Implications

- High risk of sub-standard vessels entering Australian waters
- Higher risk of marine pollution and accidents
- Higher risk of detention:
 - Causing port disruption*
 - Resulting in logistical chain issues*
 - Increasing system inefficiencies*
 - Detrimental cash flow to mining company*
- Higher risk of losing sale
- Loss of control
- Reducing management & corporate productivity
- FOB sales are not Australia's best interest!

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CFR Advantages

- Cash Flow & Production Control
- Vessel Quality Control
- Delivered Price Control
- Influence FOB Returns
- Enhances Participation in the Distribution Chain (value adding)

A final thought

Australian shippers taking control of their freight, combined with infrastructure improvements, will increase our productivity and should lead to a positive influence on our Balance of Payments.

And ready ourselves for the next boom!

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