



## Maersk Running a Tighter Ship & Slow Steaming Issues 28 September 2009

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Following various meetings on the sidelines of Singapore F1 Weekend we liked a few of observations coming in with regard to Maersk and cite here a few, as well as related comments:

- 1) **Maersk management appears to have resolved internal friction issues:** We noted the relatively better looking \$/TEU losses from 1H09 at Maersk ... (which potentially also allowed to get a placement done...). Post the P&ON acquisition setbacks and rounds of cuts, current management appears more tightly knit ...
- 2) **Maersk is in market for ship charters:** Maersk appears to be out scouting for smaller container vessel tonnage charters with indicated appetite for about 50 ships. This could be part of a drive to renew the smaller vessel portion of the fleet at more attractive current charter rates ...
- 3) **On slow-steaming, Maersk has rolled out very specific charter contracts:** It appears Maersk was ahead of the curve on tactics on slow steaming, and other liners are generally following. Shipowners who charter in to Maersk are presented with specific contracts. Generally, owners can keep the savings they make from using less lube oil at slower speeds (recall slower steaming bulk ships typically require less lubricant costs as % of vessel operation costs compared to containers...). Maersk appears to write into contracts that it will repay owners for operating damages to vessels from slow steaming. Specific items which are damaged due to slow steaming are reimbursed. But it is unclear if certain types of structural damage are fully covered
- 4) **Slow steaming “upgrades”:** Some owners refer to slow-steaming kits which can be installed. Others say they take measures such as stocking additional replacement equipment on board. Generally we know newer engine designs are better able to handle slower speeds with less damage. But the issue is of banks and owners having over-ordered tonnage not only which is redundant but which also represents improper designs to fit circumstances...One thing is certain, in the words of one observer: “Billions of dollars spent for ships designed to steam at 22+ knots will not be suitable for [proper] trading on delivery [without upgrades, modifications... or on originally requested specs]”
- 5) **Slow steaming / idling hull damage:** Setting aside issues of what happens to a laid-up modern container ship loaded with all the latest electronics, some vessels not only slow steam but also participate in selected extended stop-overs. One owner noted when they brought the ship out of water recently it was loaded with barnacles that required extra labor and cleaning to remove. We had noted this added cost previously but generally the barnacle problem is more identified with ships idled for an extended period, not a ship that is trading but that is also being asked to loiter a little bit extra as well
- 6) **Cascading effects and containerized Darwinism:** Not only is there a larger issue of larger container vessels displacing smaller vessels as a function of containerization and economic Darwinism over time and through cycles, but cycles can get painfully shorter when technological improvements are combined with the current downturn. We detect an air of concern over forward needs for certain types of post-panamax container vessels...Could it be we will soon see increased scrapping of recent 5000-5500TEU vessels?

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