Gulf Shipper

April 21, 2006 Friday

SPECIAL REPORT: BREAKBULK;
Less PL-480, more wood: Port of Lake Charles diversifies breakbulk cargo

BYLINE: JANET NODAR

SECTION: Trade Lane Focus; Pg. web

LENGTH: 4740 words

The Liberty Sun recently loaded a record-breaking 54,000 tons of rice   nearly 1 million bags   at the Port of Lake Charles. The rice, destined for the Philippines, came from Louisiana millers and was USDA PL-480 cargo, or Food for Peace. Lake Charles has long been an important PL-480 port. But, as Bob Dylan might say: "The times, they are a-changing."

"We watch the PL-480 budget cycle," said Adam McBride, port director. "Funding levels have declined by more than 50 percent over the last three years." The port, traditionally dependent on PL-480 Title I cargoes for a significant portion of its income, decided to diversify. It appears to have succeeded, thanks to commercial bagged cargoes, forest products and income from energy and entertainment tenants.

The numbers tell the breakbulk story. In 2000, total bagged goods and breakbulk volume at the Port of Lake Charles's city docks was 832,000 tons. Of that, 513,000 tons were PL-480 cargo. In 2001, total tonnage was 728,000, and PL-480 was 424,000 of the total. In 2004, PL 480 tonnage had fallen to 342,000, out of 744,000 total tons. By 2005, the turnaround had begun. Even though PL-480 cargo fell to 158,000 tons, total bagged and breakbulk tonnage at the Port of Lake Charles increased to 926,000 tons.

The port has succeeded in substituting commercial exports of bagged goods such as rice for lost Food for Peace business, keeping that volume stable at about 400,000 tons ("Food for Peace: Breakbulk shifts to containers", page 6A). In 2005, the port began using a spiralveyor, an automated bagged-goods conveyor that loads ships more than twice as fast as conventional gangs doing palletized breakbulk loading. "Shipowners in particular are noticing that we are much more productive with these machines," McBride said. The port's principal competition in bagged goods is Houston, where there is another spiralveyor.

Louisiana rice exporters are feeling some pain, however. The shift to imported forest products has cut into their available warehouse space and severely hurt their ability to get bagged rice to market, said Robert Hanks, chief executive of Louisiana Rice Mills. Historically, he said, there has been about 100,000 metric tons of warehouse space available for bagged rice at the port; now, exports are squeezed into 20,000 metric tons of space.

The big breakbulk story at the Port of Lake Charles is forest products, however. "In 2003, we had zero," McBride said. "In 2005, we had 290,000 tons. This year, we'll have 300,000." Forest products, transported primarily by Gearbulk, arrive from Brazil and Argentina. Construction of a $12 million, 200,000-square-foot covered-space forest products warehouse with rail access and a truck drive-through is under way.

The port's bulk terminal, which handles 3 million tons a year   primarily in coal   is approaching capacity. "I wish I had one or two more terminals," McBride said. "I could fill them up. We are seeing a tremendous amount of interest. There seems to be a lot of cargo in the Gulf."

However, some of the interest may be related to port facilities that were damaged during the 2005 hurricane season. The port will decide if demand appears to be purely related to hurricane shifting or if it is permanent. "If it's longer term, we will take a look at expanding (our bulk) operation," McBride said.

Lake Charles does not expect to see much growth in containerized shipping, and has no plans to build a container terminal. The Port of Lake Charles handles only about 10,000 TEUs a year, McBride said, and most of it is bagged goods related to PL-480. Some is shipped out, and some is barged over to Houston or New Orleans for loading onto larger ships.

"For us," he said, "breakbulk is where it's at. We are a bulk and breakbulk port. We do a few boxes related to some of these cargoes, but it is far and away bulk and breakbulk trade."

There is more to the Port of Lake Charles than the city docks, however. The port, overall, is the 12th-largest in the nation in terms of traffic tonnage, handling 55 million tons of imports and exports a year through all of its port locations, and the majority of this tonnage is in energy-related cargoes that go through private terminals such as the Conoco refinery or the Trunkline LNG terminal, which produces about 2 billion cubic feet of natural gas every day.

The port is a key "energy gateway" for the nation, according to McBride, and is likely to become even more important as a second LNG terminal is built and a third begins the permitting process.

The second terminal, owned by California-based Sempra Energy, will handle 3 billion cubic feet of gas a day when it is finished in 2009 or 2010, McBride said. Cheniere LNG, out of Houston, has begun the permitting process for a third terminal. That facility, if it is built, will produce 3.3. billion cubic feet per day.

"If these three terminals all come to fruition," McBride said, "then we will be supplying between 4 and 5 percent of the nation's entire natural gas consumption through the Port of Lake Charles. We already supply 4 percent of the nation's gas products through the refineries here. So all of this means that, in addition to the breakbulk products, we will be one of the most strategically important energy gateways for the entire country."

McBride said there has been little controversy over the LNG terminals. "In Louisiana," he said, "there is a general acceptance of cargoes moving in the energy trades." The three LNG terminals, all on-shore, are or are planned to be closed-loop systems, which is more expensive but environmentally preferable, McBride said. He said he expects the cost of both new terminals to approach $2 billion. The port has no direct investment in the LNG terminals, but is purely a landlord.

In addition, the port is landlord to Pinnacle Entertainment, which built a casino resort and golf course, L'Auberge Du Lac, on Port of Lake Charles property in 2005. "Needless to say, since we ride with them on this, we've been pleased with their success," McBride said.

Food for Peace: Breakbulk shifts to containers

By Janet Nodar

Gulf Coast ports have long handled the majority of PL-480, or Food for Peace, cargo that the U.S. donates to the rest of the world. Relief organizations such as CARE, Catholic Relief Services and UNICEF request food aid for a stricken region, and the U.S. Agency for International Development or the U.S. Department of Agriculture purchase and ship the commodities overseas at the lowest cost possible. Lake Charles, Houston and Jacintoport are the big three, according to USAID, but PL-480 has shipped out of virtually every Gulf port.

Food for Peace shipments go to Africa, Asia, the Middle East, Latin America and the Caribbean. Typical commodities include wheat products, bagged and bulk, which make up the majority of shipments, feed grains such as corn, corn meal, soy, and sorghum, vegetable oil, pulses, other grains including rice and a few niche products such as textured soy protein.

Although PL-480 cargo has traditionally been breakbulk, USAID sees a trend toward containerization. The agency does not specify whether commodities should be transported bulk, breakbulk or container. At the Port of Lake Charles, PL-480 cargo is primarily bagged breakbulk, except for about 10,000-TEUs worth a year. The Port of Houston sees breakbulk and containerized PL-480.

"PL-480 used to be all palletized breakbulk cargo," said Jim McPherson Jr., president of Houston-based Commodity Solutions, which handles PL-480 cargo.

McPherson sees that tradition changing rapidly. A year ago, as much as 25 to 30 percent of PL-480 bids were for containerized cargo. And as of April 10, "the last two bids in a row were for 60 to 65 percent containerized cargo," he said.

McPherson, who has a background in stevedoring and in working with PL-480 cargoes, defines Commodity Solutions as a commodity vendor for the government that specializes in PL-480 pulses such as peas, beans and lentils. "We purchase for the government under export tenders, ship "and bag, and distribute as per the government's lowest landed cost," he explained. If the pulses do not meet export-quality grade, Commodity Solutions grades and cleans onsite. If the commodity meets grade requirements, they bag and deliver free alongside ship, or f.a.s.

Commodity Solution's "gentle-handling" packaging facility handles bulk, breakbulk and containerized pulses. The facility unloads bulk or bagged cargo and transloads into containers if that's what is required. It also has a bagger and automated palletizer. The company stuffs bagged commodities into containers, palletizes and loads bagged goods, or loads commodities directly into containers   whatever the carrier has requested. It is seeing more contracts for containerized PL-480 cargoes.

McPherson believes one reason for this trend may be that it helps carriers reposition boxes, helping solve the chronic backhaul problem created by the U.S. trade deficit. "Now PL-480 is playing an integral role in filling these empty boxes as they travel back overseas. That's what we believe is helping to cause the trend (toward) containers. The times call for containerization as well," he added. "There's less pilferage, less damage. Once the seal is on the box, it doesn't get opened until it's at its destination point."

Re)building boom

Softwood lumber imports climb steadily amid shifting trade patterns, recovery from hurricanes

By Janet Plume and Laura L. Myers

U.S. imports of softwood lumber, including plywood, continued a steady climb last year, rising about 6 percent to more than 23 billion board feet.

This growth was a positive trend given the changing land base in the Southeast by key manufacturers. Georgia-Pacific and Boise Cascade relinquished core assets in 2004. Koch Industries, a privately held conglomerate, bought out publicly held Georgia-Pacific. Early in 2005, top U.S. timberland owner International Paper divested itself of around 6 million acres in the southeast in a move to raise shareholder value.

Retail prices for wood-based construction materials began to erode last year amid forecasts that the nation's extended residential building boom was about to turn. Housing starts in the first eight months of 2005 had slowed to a 5.5 percent growth rate, but remained on pace to top 2 million homes for a total consumption of 27 billion board feet of lumber for the year.

Then hurricanes Katrina and Rita obliterated most of the central Gulf Coast. These factors contributed to the 2005 slowdown in the growth of softwood lumber imports. In 2004, the U.S. imported 23.3 billion board feet, a 10 percent increase over 2003.

For decades, Canadian exports have accounted for the lion's share of U.S. softwood lumber imports, but continued friction between the U.S. and Canadian governments over alleged subsidies and retaliatory tariffs has kept the trade from growing at the same rate as imports from other leading softwood lumber-producing nations.

Canadian exports to the U.S. exceeded 21.6 billion square feet last year, up about 2.6 percent, to feed the U.S. demand for the 65 billion board feet it consumed, according to statistics from the U.S. Census Bureau's Office of Foreign Trade Statistics. While the remainder of U.S. softwood lumber imports represent a fraction of the market, they are growing rapidly. Imports from Germany, the second-largest U.S. source of softwood lumber, and No. 3 Sweden skyrocketed more than 57 percent and 123 percent. Conversely, U.S. imports from Brazil plummeted nearly one-third to about 300 million square feet.

Brazil

"Lumber and lumber product imports have fallen off more than 50 percent in the last three or four months," said Bruce Schuck, president of Tampa-based JBS Shipping, agent for Oceanic Bulk Carriers Ltd., a multipurpose vessel owner-operator with service between South America and the Gulf. "We're forced to look for alternative cargo."

In Brazil, high interest rates and a stronger real have made Brazilian softwood lumber less competitive than softwood lumber from Europe.

While imports show Brazil's softwood lumber exports were down last year, ports in the U.S. Gulf failed to realize any decline, probably because ports such as Beaumont, Lake Charles, Mobile and Port Manatee since Aug. 29 have been sharing lumber cargoes that would normally have moved through the Port of Gulfport, Miss., which lost all its warehouses and transit sheds in the direct hit from Katrina.

"We're seeing a very definitive, systematic trend upward" in forest products overall, said James Lyons, executive director of the Alabama State Port Authority. "Out of Latin America, we're seeing fence boards and lower grades that are structurally strong."

Hurricane damage, reconstruction

It may take decades to rebuild the central Gulf. An estimated 19 billion board feet of timber   nearly the entire volume of softwood lumber imported from Canada last year   was damaged in forests from Texas to Alabama.

The price of framing lumber and panel board shot up in the weeks after Katrina roared ashore amid uncorroborated reports that coastal lumber mills had been swept away by the storm surge. Once communications were re-established in the devastated coastal regions, mills were dried out from floodwaters, power was re-established and many were back in operation within a month or two. Up to 100 million board feet of lumber waiting for export also was destroyed at several central Gulf ports, including Pascagoula and Gulfport, Miss.

From the thousands of acres of ruined forests in Louisiana, Mississippi and Alabama, the damaged timber that can be salvaged is being sent to the mills that have come back online, according to Wade Camp, economic services director at Southern Forest Products Association. Only about 20 to 25 percent of the downed timber is salvageable, according to the **Mississippi Institute for Forest Inventory.** It must be harvested by June, before the timber begins to degrade with mold and rot.

Camp predicts it will take mills 18 months to manufacture plywood and lumber from the salvaged timber.

Once the salvaged timber is manufactured and placed on the market, it will be absorbed quickly as the reconstruction effort ramps up when homeowners begin to receive insurance settlements and start to restore homes.

Because the extra softwood lumber is expected to be absorbed by the regional rebuilding effort, hurricane damage to the national market is forecast to be minimal or not at all, according to Bob Daniels, a Mississippi State University forestry professor.

The National Association of Home Builders research center estimates Louisiana and Mississippi account for about 1 percent of U.S. lumber, engineered wood and structural panel demand in an average year. Even doubling that volume would make little dent in overall supplies, the association has concluded.

Meanwhile, softwood lumber imports from Europe have continued unabated, thanks to the stability of the euro. "We have had a surge in imports from Germany and Sweden, while imports from both Latin American producers have fallen, particularly those imports coming from Brazil," said Michele Halickman, a commodity analyst at Global Insight.

Canada

The stalemate over Canadian softwood lumber exports to the U.S. doesn't appear near a conclusion despite a new ruling last month by the World Trade Organization. The U.S. insists Canada subsidizes softwood producers, and has slapped a series of duties on imports of Canadian softwood lumber. Canada disputes the claim and wants the money back. The WTO on March 17 ruled for the second time in favor of Canada. But the U.S. has ignored the initial ruling and could continue to do so, which analysts fear could lead to a trade war that could include retaliatory measures by Canada.

Canadian lumber exports to the U.S. currently are tagged with an 8.7 percent countervailing duty, and anti-dumping duties average about 2.1 percent.

In 2002, the U.S. government imposed countervailing and anti-dumping duties totaling 27 percent on softwood lumber, claiming Canadian imports were a threat to domestic lumber production. The percentage was subsequently reduced on two separate occasions but remains above 10 percent.

The WTO last month reaffirmed previous findings by North American Free Trade Agreement panels that the subsidy was below 1 percent, which meant the lumber imports were not subject to duties. The U.S. has until April 27 to appeal to the decision. The ruling has no effect on anti-dumping duties of 2.1 percent.

Several NAFTA decisions have unanimously determined that the Commerce Department used flawed calculations to conclude that Canadian lumber is subsidized. On Aug. 10, 2005, a NAFTA Extraordinary Challenge Committee upheld an earlier NAFTA ruling that found no threat of injury from Canadian imports. It also stipulated that the U.S. refund the billions of dollars of duties that Canada had paid to date.

Although a NAFTA ruling carries the weight of law in Canada, the U.S. and Mexico, the Bush administration has failed to invalidate the lumber duties and return duties paid out by Canadian firms.

OSB mill to be world's largest

By Laura L. Myers

The world's largest oriented strand board facility, a $185 million plant in southwest Louisiana near Oakdale, is scheduled to open this year. The plant, being built by the Martco LP unit of Roy O. Martin Lumber Co., will have annual production capacity of 870 million square feet and employ about 170 workers in Pawnee, La.

"There's so much building going on that there will be a great opportunity," said Buck Vandersteen, executive director of the Louisiana Forestry Association. Groundbreaking was in March 2005, prior to hurricanes Katrina and Rita. Oriented strand board is manufactured from waterproof, heat-cured adhesives and rectangular-shaped wood strands, arranged in cross-oriented layers similar to plywood, according to APA-The Engineered Wood Association.

According to CIBC World Markets, the wholesale banking arm of the Canadian Imperial Bank of Commerce, oriented strand board represents 60 to 70 percent of the U.S. structural panel market. "We expect that market share gains in the short term will be limited to 1 to 2 percentage points per year," CIBC stated in a March 9 equity research report.

"Competition is also expected to continue from import plywood from Brazil," representing about 2 percent of North American structural panel demand, CIBC said. Roy O. Martin Lumber Co., which owns 590,000 acres of Louisiana timberland, also is expanding a separate plywood plant in Chopin, La., to process veneer.

The company expects strong 2006 sales of hardwood red oak lumber to flooring manufacturers throughout the U.S., because of home construction and remodeling markets. Worldwide demand for prime, better- and saps-grade material used in moldings, stairs, flooring, cabinets, doors and windows also is strong in European and Asian markets.

According to a Martco newsletter, common and better-grade sales to the Caribbean are very strong because of rebuilding efforts from 2004 and 2005 hurricanes.

China still drives breakbulk trades: Liner services rule, but capacity constraints loom

By Peter T. Leach

The roaring flames of China's breakbulk trades have dulled slightly. The trade is still hot, but it just isn't sizzling the way it was a few years back. Significant volumes of project cargo are still being shipped to and from China, but carriers are managing to cope with the demand, despite tight capacity.

The China market is being well-served by regularly scheduled breakbulk liner services, so unlike other breakbulk trades, carriers don't often have to resort to the still-expensive spot charter market to find capacity. Capacity is tight to and from the U.S. and Europe and most multipurpose vessels are fully booked. But there is enough capacity to serve the trade.

That could change soon. "Over the next two years, the space situation is going to become more acute as the vessels age and they come out of service through normal attrition," said Jerry Nagel, president and chief executive of Rickmers-Linie (America) Inc. "You've got to remember that a full 40 to 50 percent of the (multipurpose vessel) fleet is 20 years or older and there's not that much replacing it."

Unlike the container fleet, which will experience a capacity growth of almost 15 percent a year in each of the next three years, the breakbulk fleet only has 4 to 5 percent of its total capacity on order for delivery through the end of 2007. That's because the world's shipyards are fully booked with orders for container ships and LNG vessels through 2007 and into 2008, so yard space is not available for multipurpose vessel orders. That means the China breakbulk trades will only get tighter as China continues to increase its industrial base.

This is why Rickmers-Linie cut a deal with Japan's Eastern Car Liner of Japan to take over ECL's four heavy-lift vessels at the end of each of their eastbound voyages in the next two years. The deal allows Rickmers to start a regular westbound breakbulk liner service to Japan, South Korea and China.

"We are offering three sailings a month to the Chinese ports, two eastbound and one westbound, which enables us to cover the market pretty well," Nagel said. In meetings with customers, he said he and his sales force are hearing about a substantial number of projects in the planning stages for this year and next. "They are power plants, chemical plants, and industrial facilities pretty much the gamut. And there are still a lot of raw materials going in there," Nagel said.

The main outbound ports used by Rickmers are Houston, New Orleans and Camden on the Delaware River. But demand is so strong that Rickmers frequently fills its vessels when it calls at additional ports. "We've got a vessel coming in next month that's got cargo for Savannah, so we're getting a lot of inquiries for a Savannah loadout," Nagel said. "We started getting inquiries once we broke the news we were calling there."

In China, Rickmers calls Hong Kong, then Shanghai, Qingdao, Xingang and then Dalian. "From time to time we call at Ningbo and Lanyungang and a couple of the other smaller ports. We tend to call more ports with the westbound service because the schedule is a little looser than with the eastbound service," Nagel said.

Despite the steady demand for project cargo and breakbulk capacity east- and westbound, carriers are getting squeezed by costs. "Bottom line is that you can't make a lot of money out of it because the labor costs are high," said Gao Weijie, chairman of Cosco Americas Inc. "It's piecemeal rather than container-load."

Gao said labor costs are increasing in China as well, but only gradually, and depending on the port and region, "but not as much as you have here in the United States."

Gao said Cosco, which inherited mostly aging conventional general-purpose cargo vessels that were used to haul breakbulk cargoes when the line was established, is transitioning to a fleet of new vessels. He said Cosco's fleet of multipurpose vessels numbers about 100 ships, of which 70 percent are new. Cosco has no plans to add substantially more ships to its fleet, "except in one's and two's," he said.

Gao said capacity on the China breakbulk trades is adequate, except when "all of a sudden you get an order to move 100 of something from Alaska over to China and it's difficult to find capacity." He said most of what Cosco moves is in regularly scheduled liner trades. "But when we get an order for something outside of a liner trade, it's hard to find a proper ship."

Gao said he does not see anything that would "drive U.S.-China breakbulk volumes down or accelerate the speed" over the next 12 months.

"China is still active, but China has slowed down from four to five years ago, when the project cargo and breakbulk market was hot," said Gregory Rusovich, president and chief executive of Transoceanic Shipping Co., a project-cargo forwarder that is a subsidiary of PWC Logistics. "Over the last five years, China has slowed. That said, there is now a nice backlog of project cargo shipments coming up. It's slowly but surely recovering, but it's not the bull market that project shippers were predicting it would be three or four years ago."

Project cargo and breakbulk rates to China have stabilized after a sharp run-up over the last few years, Nagel said. He said there are three factors keeping rates high: fuel costs, space availability and the lack of adequate port facilities.

Nagel said the lack of adequate breakbulk port facilities is as acute in the U.S. and Europe as it is in any of the developing markets his line serves. "If you look back at the past few years, you can't name a single breakbulk terminal that's been built in the U.S., much less in Europe," he said. "I tell people that breakbulk terminals are not sexy. The container terminals are. So the ports tend to put their capital into container terminals. I think that the port facilities are going to become a critical issue as time goes by."

Nagel also worries about the availability of labor to load and unload breakbulk vessels, especially in the U.S. and Europe.

"The available labor is aging," he said. "Just like multipurpose ships, we're losing labor to attrition and age. The younger guys are going into the containers where they get the big wages and the high benefits and the relatively easier work than tugging and lifting breakbulk (cargoes). So I see these as the main factors that are going to affect rates as we go forward over the next few years."

Strong demand boosts LNG shipping projects

By Bill DiBenedetto

Strong global demand for liquefied natural gas is attracting big investments for the construction and operation of LNG liquefaction plants, LNG ships and LNG regasification terminals, a report this month from Standard & Poor's Ratings Services said.

New LNG terminals are on drawing boards in the Gulf of Mexico and indeed worldwide. The LNG vessel fleet will nearly double in size during the next few years to about 330 vessels. There's potentially good news for those involved in coming up with the money to pay for what is recognized as a high-risk endeavor. LNG financing transactions have the potential to reach investment-grade credit ratings and thus lower credit risk, according to the report, "Global LNG shipping projects may be on course for investment grade." That would make raising funds in the equity and bond markets for LNG projects easier.

Investments in this area are flowing largely on a nonrecourse project-financing basis. Under nonrecourse financing, only the project itself secures capital and financing. This makes the risk assessment analysis of the project a crucial factor in determining the credit worthiness of the venture and how it is rated.

Because LNG ships are part of the value chain linking the LNG plant and the regasification terminal, debt ratings on LNG ships will largely derive from the rating on the LNG plant, which in most cases will set a ceiling for the ratings potential, S&P said.

"Few LNG projects are rated, but the overall credit profile for LNG plants with tight construction, solid operations and long-term off-take arrangements with strong counterparties generally argues for investment-grade ratings, provided the host country also has an investment-grade rating and a good business climate," said Terry Pratt, Standard & Poor's credit analyst and principal author of the report.

According to the report, the robust demand for natural gas in developed and developing countries, which is outpacing U.S. domestic production "continues to support robust LNG growth and interest in credit ratings for all components of the LNG value chain." Even countries that have adequate pipeline-supplied natural gas are looking to LNG solutions to diversify suppliers and minimize delivery risk, the report continued.

"Russia's recent problems with gas deliveries into some parts of Europe clearly underscore the risk a risk that has spurred calls for new LNG terminals on the continent," the report said. Huge investments in new LNG liquefaction facilities are matched by corresponding investments in the mid-segment of the value chain, LNG shipping, S&P said.

The current LNG fleet is about 190 vessels, and the order book has about 130 to 140 more. Delivery prices range between $150 million and $250 million, "so the level of investment represented by just the current order book is very large," the report said.

LOAD-DATE: April 22, 2006

LANGUAGE: ENGLISH

PUBLICATION-TYPE: Magazine

JOURNAL-CODE: EDGS