

Parcelling up a nice little niche out west

Sam Collyer

THE LAST two years have been a difficult time to be in bulk grain shipping, particularly for those whose business is in Australia.

With east coast wheat exports only now recommencing after sustained drought wiped out all but domestic supplies, Western Australian production has been put straight onto the export market.

But just as wheat production volumes have been uncertain, so too has the supply of ships.

Just six months ago demand for panamax dry bulk carriers was strong. Huge growth in the export of coal and iron ore ensured that any available tonnage – including newbuilds straight out of the yard – were quickly snapped up at top price.

The widespread economic slowdown and subsequent dip in demand for raw minerals have conspired with the new-found unavailability of credit to put the brakes on the dry bulk shipping sector.

Yet Chicago-based vessel charterer and owner Hudson Shipping said it was strongly placed.

In 2005, Hudson joined CBH – the grower-owned group representing Western Australian grain farmers and taking responsibility for moving their grain – and established the United Bulk Carriers (UBC) joint venture.

Far from being exclusively at the mercy of the wildly-fluctuating grain market – a sector the grower owners are most familiar with – the joint-venture has actually brought CBH members in contact with bulk shippers who have no association with grain.

UBC has created a niche for itself as Western Australia's dominant parcel carrier.

In much the same way less-than-container load (LCL) shipping has allowed smaller traders to avoid hiring a whole box, bulk parcelling allows small exporters a similar

luxury with bulk carriers.

Using mostly panamax bulkers, UBC fills about two to three of the seven holds with grain – enough to cover the operating costs.

The remaining holds are available to the many bulk exporters whose volumes are not large enough to warrant a whole ship.

Just two holds carrying particularly niche bulk cargoes from the state can be worth more than US\$100m – more than the value of the ship.

UBC chairman Ken Palmer said it was an excellent way for small minerals companies to liquidate their assets, instead of having to wait until stockpiles were big enough to fill a small handimax.

Hudson's WA representative, Ike Eilon, said exporters of products such as mineral sands often had just 6,000 tonnes to move at any one time.

"They come to UBC and get charged for only one hold and pay less freight costs, so it's like getting a taxi rather than hiring a truck," Mr Eilon said.

Exporters also delivered their product to market quicker, in what Mr Eilon said was a win-win for the customer, the shipper and the charterer.

But so far no major rivals have succeeded, a fact Mr Eilon attributed to the difficulties of establishing a business that needed multiple contracts.

"It is so complicated that, apart from keeping us awake at night, very few of our competitors are ready or able to do what we do now," Mr Eilon said.

"It takes a lot of planning – it's a Swiss clock operation that has to be very well planned"

Hudson president Avi Eilon said a competitor had attempted to break into the Western Australian market two years ago but went bankrupt within 12 months.

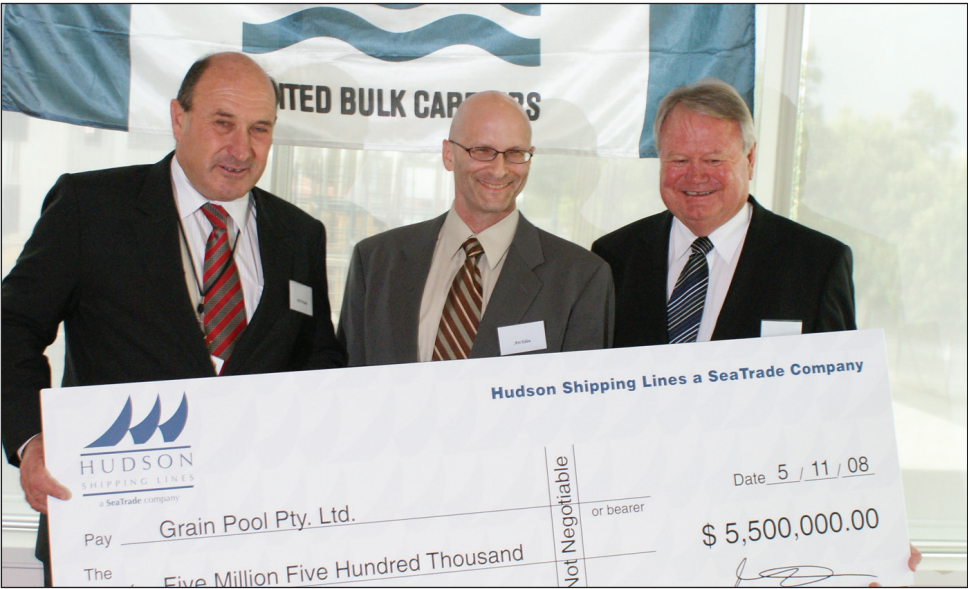
Mr Palmer said the business model worked because the grain exports were relatively guaranteed.

"You've already got two or three holds filled with grain – other competitors don't have that guaranteed supply chain," Mr Palmer said.

Avi Eilon said Hudson's Western Australian operation was one of the most complicated of its type in the world.

"We carry seven different customers – seven different parcels of cargo, usually loading from three different ports in Western Australia and going to up to five destinations overseas," Mr Eilon said.

"We introduced panamax ships to Geraldton in the mid-90s, when everyone was laughing at us."



REWARDING YEAR: CBH chairman Neil Wandel with Hudson's Avi Eilon and UBC chairman Ken Palmer.

Joint venture UBC looks for advantage as the uncertain economic outlook offers both change and challenge in the bursting of the bulk bubble. SAM COLLYER* reports.

IF THE golden rule of investment is to spread risk, then perhaps the golden rule of shipping is to spread both your load and your risk.

Western Australian-based vessel charterer United Bulk Carriers reckons it has found a healthy balance.

And that has kept it better insulated from the devastating effects that the burst bulk bubble has had on charter rates.

UBC, a joint-venture of Chicago-based Hudson Shipping Line and WA grain handler Cooperative Bulk Handling (CBH), came into being just over three years ago.

In an extended interview with *Lloyd's List DCN*, Hudson president Avi Eilon and the company's Australian representative, Ike Eilon, explained that Hudson had built its business on forging strong links with its many bulk customers.

The UBC venture is one of many ways Hudson has aligned itself with its customers in a formal way – in this case forging a link with the state's biggest grain exporter.

Logical partnership

For its part, CBH's shareholders – the many wheat producers spread across WA's vast wheat-producing regions – remain excited by the idea that they are becoming involved in the supply chain beyond the four main export ports.

It is, as UBC describes it, a logical partnership.

But even the most logical of partnerships can be stretched by the sort of economic turbulence now being experienced.

More than a year ago, UBC put 56,000 dwt dry bulk-er *African Kookaburra* on a 26-month charter in what was its first foray into such a long-term commitment.

At the time, panamax bulk carriers were typically being chartered for more than US\$85,000 a day.

At the time that the 2007 newbuild was launched, chartering rates had jumped by close to a third in just three months.

Market downturn

A ship such as the *African Kookaburra* could have reasonably been chartered at more than US\$54,000 a day in the first half of 2008.

On the one year anniversary of the launch, and at the time of a special function to mark three years of the UBC partnership late last year, panamax chartering rates had plummeted by about 90%.

This week, the same sized vessel could be chartered for as little as US\$5,000 a day.

Few would disagree that the market is difficult.

But Avi Eilon said that, while the group had been cushioned from the market downturn by being both an owner and a charterer, it now appeared a good opportunity to cash in.

Mr Eilon said the line – which at any one time has up to 150 ships on charter – was attracted to more long-term charters at the present prices.

"We charter one a week, so when we evaluate what to charter and when, it depends on the needs within Hudson, it depends on needs within our various joint ventures and it depends on the appetite of our joint venture for the proposal," Mr Eilon said.

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