01 **Interview** 英文で読む海事新聞 / 日本郵船社長・内藤忠顕氏

NYK President, Tadaaki Naito

Stable profits of over 120 billion yen in 2018

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The Japan Maritime Daily (JMD): How do you feel when you look back at 2015?

Naito: Up to Fiscal Year 2014, we achieved increased profits on increased revenue for three years in a row, and we were on pace to the same through the first half of FY2015. However, in the second half, the deterioration of the liner market in addition to the state of the dry bulk market, a stronger yen and lower stock market, created a "perfect storm" against us.

When I look at the results, I see that we put up a strong fight given the poor markets. While the earnings in the liner business decreased more than expected, profit in the strong tanker market, as well as in the LNG (liquefied natural gas) and offshore business, which are mainly operated under long-term contracts, exceeded the forecasts. The cargo volume in the car carrier segment was somewhat sluggish in the 4th quarter, but it only had a minimal impact on the results.

2016 will be a transition year

JMD: What are your expectations for FY2016?

Naito: The keyword for FY2016 is "transition year." In our mid-term business plan "More Than Shipping 2018," we indicated our intent to expand the business models that can secure stable profits. In particular, we will make priority investments in the LNG and offshore business. These initiatives are steadily progressing, and I expect visible results to start appearing in FY2018.

The profit from stable freight rate businesses is expected to increase from an average of 110 billion yen in FY2015-2016 to more than 120 billion yen in FY2018. The factors in this increase include the start up of 3 FPSO (floating production, storage and offloading) units and completion of 2 LNG carriers in the LNG and offshore business this year, as well as start of new terminals in the auto logistics business. The remainder lies in to what extent we can minimize the losses from our exposure in unstable freight rate businesses. This will change depending on how we view the market expectations and can be said to be an uncertain factor.

JMD: The environment surrounding containerships is quite harsh.

Naito: As a company policy, we look at this segment in combination with the terminals and logistics businesses. Looking more closely at the liner business, there is a need to reduce costs and limit the losses, and we will be forced to reduce the scale of the business. However, in order to retain our presence in the market, we will maintain our market share. Last year, although we dropped the unprofitable services to Australia, West Africa and Atlantic, we expanded the services in Asia, and began deploying 15 new 14,000 TEU class containerships on the east/west service this past February. By replacing the existing ships with these larger, more fuel efficient ships, we will increase operational efficiency and reduce the asset load.

One of the key points in FY2016 will likely be the introduction of the new "OPUS" core system for the liner business. By replacing the old system, the business trends, specifically the container and cargo movement trends, will be more visible, and this will significantly contribute to maximizing earnings.

Since 2013, we have promoted the EAGLE project, which aims to optimize container operations. Using IT support to make container operations more visible provided a big push for the realization of this project, and through the introduction of OPUS, we will obtain even more accurate and timely information and further increase efficiency.

Compared to 2015, the supply pressure resulting from completion of newbuildings will be relaxed in liner market, and I expect the supply and demand balance to improve. The annual contracts coming in for 2016 are not as good as last year, but these lower rates have already been factored in to some extent. The rates on the main Asia-Europe trade are already approaching the level at which it would be better to idle the ship, and if the market deteriorates any further, we may be forced to seriously consider idling the ships.

Path forward for reorganization by the middle of the year

JMD: The possibility of a reorganization of the liner alliances is increasing.

Naito: There is a strong likelihood that the reorganization of the alliances will happen in 2017 or later. Based on this, we need to decide that path forward by the middle of this year, and we are already in talks with the related parties. To date, we have operated as a member of the G6 Alliance, but going forward, while maintaining a similar scale, instead of an alliance based simply on slot sharing, we want to operate under the best ship model concept in which the best ship type is assigned to the optimum route and schedule.

JMD: Out of the three businesses in the segment, what are your plans for the terminals and logistics?

Naito: Container terminals are an area we hope to be aggressive, and we are looking at a number of investment proposals in Asia, Europe, the US and elsewhere. Containerships are significantly affected by the market conditions, but terminals, which serve as the gateway to the inland areas, have high physical and geographical barriers to participation and thus can be said to be a stable revenue segment.

Also, in the logistics business, we will continue to pursue scale for the time being. The current activities for changing the business processes are expected to be completed in FY2016. In FY2015, five years after the integration of the logistics business, we succeeded in making all segments and regions profitable. Going forward, we want to put our efforts into further expansion.

JMD: It appears as if air transport is on track.

Naito: Nippon Cargo Airlines (NCA) has completed a renewal of its equipment, and the allocation of the non-scheduled and chartered flights has been refined. Tearing down the walls within the organization and introducing a scheme for cross-divisional cooperation have been a big reason for the recovery at NCA. Despite the fact that cargo volumes in 2015 were only around 70% of what they were prior to the Lehman Shock, a profit for the year was secured. If NCA can secure a profit again this year for the 3rd year in a row, the future will look much brighter.

JMD: The historic lows in the dry market are continuing.

Naito: The existence of the BDI (Baltic Dry Index) for freight and charter rates is having a negative impact. The BDI recently functions similar to a derivative, but the shipping industry committed a fault in misbelieving the index reflects the actual demand for ships. Recently, several representatives from the Baltic Exchange visited us, and they also acknowledged the BDI does not 100% accurately reflect the market.

The indexing of time charter rates is also a fault. Not only is the size of each ship different, so are the shipyard where it was built and its specification. Moreover, the quality of the

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ship differs depending on the maintenance. These differences should have been taken into consideration, including whether or not to apply a premium to the charter rate. We need to seriously reflect on the fact that we consented to the commodification of ships.

JMD: In the 3rd quarter of last fiscal year, you recorded an impairment loss of 33.5 billion yen for bulk carriers. Is there need for any further structural reforms?

Naito: We will duly handle the impairment losses for ships in accordance with the accounting rules. On the other hand, mainly for panamax and capesize bulk carriers, we intend to continue with the sale of ships we own and the cancellation of time charters for ships we operate. However, we will incur cancellation fees if we cancel the contracts while the market is extremely low, so we will proceed with an eye on the market.

As an overall policy, we will continue to focus on businesses with stable freight rates. We intend to place importance on long-term relationship with customers who understand the quality of the service we provide. Our medium and long-term contracts with steel, electric power and paper companies are steadily increasing, and we want to proactively expand such contracts in the future. Also, we will put effort into improving profits through projects aimed at utilizing big data to increase the sophistication of operational management.

Avoiding market links

JMD: The tanker market has been strong.

Naito: The drop in crude oil prices has been a major factor, and the freight volumes for crude oil, petroleum products and LPG (liquefied petroleum gas) have been strong. The market has been firm, but considering the possibility of a rapid deterioration in the market, we intend to avoid contracts linked to the market to the extent possible and focus investment on the replacement of existing ships.

JMD: The car carrier and auto logistics segment has been stable.

Naito: The number of automobiles transported in FY2016 is forecast to drop by 5% compared to last year. Automobile sales remain strong in the US, but they willdrop slightly from 2015 in Asia, Australia, Middle East, Central America and South America.

In the auto logistics business, we are aggressively participating in export and import terminals in emerging nations and expanding our stable earnings. During this fiscal year, we will start operations at 5 new logistics bases in Saudi Arabia and elsewhere, bringing our global network to 42.

Our RORO (Roll-on, Roll-off) terminals combine both tangible and intangible features, and we have accumulated know-how over an extended period of time. One of our strengths is our ability to quickly and accurately respond to customers' shipping requests, such as changes to the destination, using IT. We will continue to focus on this area as a segment in which we can distinguish ourselves from competitors.

JMD: There are now headwinds in the LNG and offshore business due to the low LNG prices.

Naito: Fundamentally, there is no change to the increasing importance of LNG. In the mid-term business plan, we set the goal of making priority investments in the LNG and offshore business of 530 billion yen, which is 70% of the total investment amount between FY2014 and FY2018. However, because the FID (final investment decision) for new LNG projects has been delayed, part of this investment will likely be carried forward.

On the other hand, due to the low energy prices, there are currently M&A and other business opportunities in both the LNG and offshore segments that are rarely available in normal times. There are a number of promising prospects, and we need to show our ability to find out the best projects. We intend to evaluate the profitability and assess the partners.

JMD: What are your plans for the cruise ship business in the future?

Naito: Last year, we sold our US subsidiary Crystal Cruises and concentrated our cruise business into the "Asuka brand." We are now reconsidering the form of our cruise business. I hope to make a decision regarding the replacement of the Asuka II and the possibility of re-entering overseas market sometime this year.

JMD: How is the "Creative Solutions" project progressing?

Naito: Not a few people misunderstand Creative Solutions to be an attempt by the company to differentiate ourselves from competitors through new technology. More accurately, it is an activity aimed at distinguishing ourselves through "creativity and innovation." We will firmly establish a corporate culture that continuously strives to take on new challenges and foster project leaders who can think independently and execute.

Transforming the corporate culture and fostering project leaders will not happen overnight, so while implementing a variety of initiatives, I expect this project to have a slow but steady impact, similar to the effect of herbal medicines. One of the initiatives that will be implemented is the "Creative Solutions Training Fund," and as part of this initiative, we will invite ideas from employees of the company and our affiliates and promote those ideas that can be realized.

The "Symphony Project," which aims to develop and market next generation solutions in the shipping and logistics segments, was launched this past March, and it is the first project to be allocated a budget. There are other proposals that can be transformed into projects, and gradually we will achieve tangible results.

JMD: What is your long-term vision for the business model of the NYK Group?

Naito: Our company's businesses are starting to expand beyond the category of shipping, and the image I have for the company is kind of a conglomerate with a core in shipping.

Continuing to pursue diversity is important in order to evolve and grow, and we will extend our hand like an amoeba into new segments. We will likely run into a wall and be forced to withdraw on occasion, but I want NYK to be a company that endlessly searches for new growth opportunities. For this reason, we plan to spend 10 years fostering our human resources.

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MOL President, Junichiro Ikeda

Strengthening the sales capability, and returning onto a path to growth

Published on July 4th, 2016

The Japan Maritime Daily (JMD): What are your thoughts when you look back on FY2015?

Ikeda: Overall, I think we did a good job of managing our portfolio, which includes a diverse range of businesses, given the harsh market environment. The strong market for tankers made up for the weak markets in dry bulk carriers and containerships, and our Group real estate company Daibiru Corporation and the ferry and coastal liner businesses, which are clearly showing the effects of the modal shift, turned in strong performances.

On the other hand, it was also the year in which the illusion that China would continue devouring resources came to an end, and the structural changes became clear. China's economic bloc has now been completely incorporated into the global economy. The rapid growth as the country expanded from nothing in the late 1980s is now gone, and the growth rate going forward will likely be on par with that of the global economy. In the dry market, the collapse of the supply and demand balance occurred in the second half of 2015 due to a gap between this new reality and the excessive investment in new ships.

In the containership business, last year we sincerely reflected on and evaluated why we lost our relative competitive strength. There were issues with our ship-related costs and sales capabilities. In the annual business plan for this year, we will thoroughly strengthen our sales capability, which is the foundation of the company, in the containership, dry bulk and other businesses. This year will be positioned as a year in which we evaluate the business environment and lay the groundwork for returning onto the path to growth.

Narrowing down the fleet of small to medium sized ships

JMD: Last year, you recorded 117.4 billion yen for restructuring the dry bulk business, and in addition, you decided to dissolve your Singapore subsidiary MOL Bulk Carriers and cut your core fleet of small and medium sized bulk carriers in half.

Ikeda: I need to sincerely reflect on the inconvenience caused to our stakeholders by these huge restructuring expenses.

The keyword in the dry bulk business going forward will be stable, long-term trusting relationships with customers. We will put our efforts into such areas, regardless of the size of the ship. There are also areas where we have developed long-term relationships with both Japanese and foreign customers even in the small and medium sized ship segment, and we are receiving returns based on our quality and trusting relationship, not just the competitiveness of our freight rates.

On the other hand, chartering under TC (time charters) to counterparties we do not know by face and on the spot market will only be complimentary to the main business. Similar to our situation, when the scale of the fleet becomes too large, TC and spot charters always end up increasing.

First, we will narrow down the size of our fleet to a scale on which we can focus on medium to long-term contracts primarily to Japanese customers. If we don't at least once narrow down the size of the fleet, our mindset will not change. After that, we will decide the scale of the complementary business with an eye on the competitiveness of the fleet.

Positive earnings effects have been cancelled out

JMD: The forecast for the Liner Division is quite severe given that forecasted ordinary loss of 32 billion yen includes the effects of the restructuring from last year.

Ikeda: This year in the Liner Division, the restructuring from last year will have a positive effect on earnings of 10 billion yen, and service rationalization and lower bunker prices will each have a positive effect of 11 billion yen for total of 32 billion yen. Moreover, our US terminal operator TraPac will start operating a new on-dock rail facility, and this should contribute in terms of earnings.

However, the market is so bad that these positive effects will be cancelled out. The freight rates are too low for shipping lines to be profitable, so although there may be some reversal in the market, the sentiment is terrible.

Cargo volumes on the Europe trade are not growing, and the north/south routes have stagnated due to the low resources prices. On the North America route, which is the only route with any hope, the shipping companies have competed and increased capacity, so this route is now a buyer's market (for shippers).

Given the current situation, the level of the SC (service contracts) negotiations for the North America route is not good. Based on this harsh reality, this business forecast represents a conservative estimate.

At the same time, not everything is bad. In regards to the strengthening of the sales capability, which was one of our issues, the results of our efforts are starting to become visible, including an increase in the slot utilization rate on the North America route. At the very least, this year we want to improve our relative position which was subordinate to the other shipping lines.

This is a vital issue that we must commit to ourselves to achieving. The Liner Division and head office executives are holding monthly management committee meetings. These meetings tend to focus on discussions such the progress in the initiatives for recovering the sales capability rather than detailed figures. I have heard that the meetings have led to a certain level of results, and I hope they will lead to more.

MOL President
Junichiro Ikeda

Graduated with a degree in law from The University of Tokyo in 1979 and joined Mitsui O.S.K. Lines, Ltd. He was promoted to Human Resources Manager in 2004, Liner Division Manager in 2007, Executive Officer in 2008, Managing Executive Officer in 2010, Director and Senior Managing Director in 2013 and his current position in June 2015. He was born in Nagano and is 59 years old.

3 major groups

JMD: The formation of new alliances in the liner business have been announced.

Ikeda: With the announcement of "The Alliance," which includes 5 companies in addition to us, I feel the sentiment (that the market will remain low) may change. The Ocean Alliance including CMA-CGM and others was announced in April, and along with the 2M alliance, 2 major alliances had been formed, and it gave the impression that the other lines had been left behind. This would have pulled the rug out from under our sales.

With the formation of a framework for the new alliance, shipping will be concentrated into 3 major groups from next spring. This will significantly improve the unstable mentality resulting from concerns about oversupply. However, in order for the market to truly recover, demand will likely need to return.

JMD: The tanker market was strong last year.

Ikeda: In the tanker business, the demand created by the low oil prices and active build-up of strategic reserves mainly by China led an increase in the VLCC (very large crude carrier) market, and it was a welcome surprise. In the petroleum products trade as well, transport volumes increased due to generous production resulting from increased margins at the refineries. Also, chemical tankers recovered from their temporary slump, and the business improved to the level slightly above the moderate growth of the global economy.

Deliberate lower profits

JMD: You have forecasted lower profits in the tanker business this year.

Ikeda: Based on the assumption that the strong market of last year will not continue forever, we have placed effort into securing medium-term contracts.

As a result, the part of the fleet that can benefit from the strong spot market is smaller, and this is the reason behind the forecast for this year. However, this should be looked at as deliberate lower profits. We have taken these actions in preparation for a potential market correction from FY2016-FY2018.

JMD: How is the LNG (liquefied natural gas) and offshore business?

Ikeda: We had successfully increased our long-term contracts for LNG carriers up through the first half of FY2015, but new talks slowed down during the second half. Despite this, I do not see it to be a major deviation from the targets in the mid-term plan. This year, the LNG carriers for the project in China will start to be delivered, and the world's first very large ethane carrier will enter service. These ships will start making real contributions to our bottom line from about FY2018-FY2019.

In the offshore business, we have reached an agreement with the Uruguayan energy company Gas Sayago to conclude a time charter around the end of June in relation to an FRSU (floating LNG storage and regasification unit) project in Uruguay, which had been temporarily suspended. Presently, we have not resolved all of the issues, but it is a step toward success.

Slowing earnings driver

JMD: What is your outlook for the car carrier business?

Ikeda: Continuing on the trend from last year, overall, the trade environment is worsening. The number of vehicles exported from Japan has rebounded to some extent, but there is no change to the overall trend of manufacturers' production in the optimum location, and the era providing service radiating out from Japan is over. Structural changes in the trade are occurring, and as the trade involving return cargo, non-Japan-related cargo and the Atlantic increases, it is gradually becoming more difficult to effectively deploy the ships. The main driver of earnings to date has been the trade involving resource rich countries in Africa, South America, Australia and elsewhere, but the cargo volumes on these routes have slackened, and combined with the stronger yen, I feel it is a harsh environment.

JMD: This past spring, you decided to open your own maritime college in the Philippines.

Ikeda: I stated earlier that the sales capability is the foundation of the company, but the foundation for sales capacity is safe operations. Securing and training excellent seafarers who will work on the front lines of ensuring safe operations is a significant management issue. To date, we have partnered with local maritime colleges in the Philippines and recruited a select group of core seafarer candidates. By taking a step further and operating a maritime college, we will further strengthen our training system for Philippine seafarers.

Reorganizing to return to the starting point as a company

JMD: In April, in addition to establishing the "Marketing and Sales Force Committee," you introduced a business unit structure for dry bulk and energy transport.

Ikeda: With the large changes that are currently occurring in the industrial structure, this decision was made with the intent of returning to the starting point as a company and once again strengthening our sales capability. Marketing and Sales Force Committee was established as a venue for discussing together which fields and regions the Group as a whole should focus its efforts.

The aim of the business units is to respond to the changes in the needs of customers. For example, in Japan, as a result of the deregulation in the electric power industry, oil companies and companies in other industries are moving towards participating in the electric power business. Thus, there was a need to revise the sales functions under the traditional divisional structure.

JMD: At the overseas locations, you have assigned a Chief Executive Representative and Chief Country Representative.

Ikeda: This is also part of the efforts to strengthen the sales capability. In many cases the Japanese employees stationed overseas are sent from the Sales Division with ties to that region. However, this tends to result mainly in sales activities that mirror the division from which that employee originated. Despite the fact that we provide comprehensive transport services, in overseas regions, we have only been recognized in particular segments. In order to eliminate this negative element of vertical organizations, we have appointed Chief Executive Representatives and are working to first change the awareness.

This article published in Japanese on 2nd June 2016.

"K" Line President, Eizo Murakami

Slow growth period, equity capital to be increased

Published on July 11th, 2016

The Japan Maritime Daily (JMD): In April, K Line revised the Mid-Term Management Plan "K" Line Value for our Next Century. What is the reason behind the revision?

Murakami: The revisions were made in response to the structural changes in the business environment that became evident in the second half of last year. In the dry bulk market, the corrections to oversupply in the Chinese steel industry have had a large impact, and economic activity has decreased in resource rich emerging nations due to the low resource and oil prices.

In the advanced nations, there is geopolitical risk in Europe including the refugee problem and terror. These uncertainties in the global economy may impact the US economy, which has been firm.

Concerning the state of the current global economy, unlike the 1997 Asia currency crises and 2008 Lehman Shock, there are no clear causes. Rather, the fact that a variety of factors are interrelated in a complex manner makes the current global economy difficult to predict. I believe that for the foreseeable future, shipping companies will enter a period of low growth.

JMD: What is the basic policy behind the revisions to the Mid-Term Management Plan?

Murakami: Given the structural changes in the global economy, for the time being, the business environment in dry bulk carriers and containerships will likely be harsh. In order to acquire the competitive strength to survive in these environments, we will execute structural reforms and revise the investment plan and financial and profit targets.

However, we will maintain the major policy of securing stability through the originally planned strengthening of our financial structure. The shipping industry has highly volatile markets, and there are many variable risks that we cannot control, such as the exchange rate and oil prices. Given this, we intend to hold a relatively high amount of equity capital on hand. From FY2020, we will secure a capital ratio of 40% and absolute amount of about 500 billion yen, and we will realize the stable management of the company.

Downsizing the small to medium-size dry bulk ships to 70

JMD: In FY2015-FY2016, you will enact structural reforms amounting to a total of 69 billion yen.

Murakami: As restructuring expenses, we recorded 34 billion yen in FY2015 mainly for dry bulk. In FY2016, we have budgeted 35 billion yen, and in addition to restructuring in dry bulk, we will allocate money to fundamental revisions at our overseas affiliates.

We expect these structural reforms to improve ordinary income by 10 billion yen in FY2016 and 13.5 billion yen in FY2017. However, it will still be difficult to secure a profit this term if the dry market remains at the current levels.

We have lowered the original target for our overall core fleet size at the end of FY2019 by 50 ships to 514, and of these 50 ships, dry bulk carriers will account for 43. In particular, we will downsize our fleet of panamax and smaller ships, which is an area where we have high market exposure.

Our fleet of small and medium size bulk carriers numbered 99 ships at the end of FY2015, and we will reduce this to around 70 ships at the end of FY2019. Moreover, depending on the market, we feel it might be necessary to cut our fleet in half compared to FY2015 over the medium to long-term.

Possible reversal in containerships freight rates

JMD: What is your outlook regarding structural reforms in the containerships business?

Murakami: While the market was low following the Lehman Shock, we have implemented very large scale structural reforms, including narrowing down the scale of our fleet. In the past 2-3 years as well, we have made structural reforms mainly involving the rationalization of unprofitable services, and we currently are not considering any further reductions. In FY2018, all 10 of our 14,000 TEU class containerships will be in service, and we will improve profitability through the benefits provided by these new cost-competitive ships and continuing the cost reduction measures.

When looking at the North America SC (service contract) negotiations this year, the freight rates are much lower across the board. However, as a company policy, without "consolidating losses," which aims to secure cargo volumes even if it means offering rates below operating costs, we managed to just about break even at least. If the current situation endures, no shipping line will be able to stay in business. Although current market has a pessimistic outlook, I believe rates could possibly reverse in the second half.

Reducing costs by 16.5 billion yen

JMD: What is your policy for the containerships business this year?

Murakami: Our basic policy is to minimize the impact of market fluctuations while at the same time working to strengthen our stable baseline earnings over the medium to long term. As part of this, because there are basically no long-term contracts (similar to those for bulk carriers or tankers) in the liner business, we will secure relative competitive strength by selecting and integrating the businesses.

We will focus on the East/West main routes, particularly the North America routes in which we are strong, and expand our lineup of services. Concerning the Europe trade, as a member of an alliance, we will expand along with market growth, and we will rationalize the North/South routes with deteriorated markets. Concerning the Intra-Asia routes, because they have a function to serve as connections to the major routes, we intend to prepare a network of routes while reducing costs. This year, in addition to rationalizing the ser-

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Eizo Murakami

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vices and reducing operating costs through the framework of the CKYHE alliance, we will work to achieve scale merits from the deployment of larger ships and reduce rail costs in the North America routes, which are a particularly expensive part of the North America service. Through these efforts, we expect to reduce costs by 16.5 billion yen per year.
The CKYHE alliance will disband at the end of March 2017. After that, we will provide stable services on the East/West routes as a member of “THE Alliance,” which will be made up of us and 5 other shipping lines.
In the western part of the US, we use Union Pacific (UP) as our main railroad provider. While working with UP, we want to reduce the cost of inland transportation by increasing the efficiency of operations.

Expanding auto logistics

JMD: What direction will you take the car carrier business?
Murakami: In addition to the 10 post-Panamax car carriers capable of carrying over 7,500 cars, which have been positioned as our primary ship type, we will charter 5 ships under long-term charters and expand the fleet to 15 ships in FY2019.
Utilizing the main features of this ship type, we are focusing on securing high & heavy vehicles, agricultural and construction machinery, static cargo in addition to complete cars. As an initial approach, we concluded an agreement with Hitachi to transport railroad cars to England and have received high marks from the market. I intend to put further effort into securing these types of cargo.
I also plan to expand the auto logistics business. In addition to the terminal business in Singapore that we have participated in since 2007, we have started PDI (Pre-Delivery inspection) in Australia and inland transportation for complete cars in Southeast Asia. It will take some time for the results to appear, but while evaluating the logistics needs in each region through the partnerships we have formed in the containerships business, including our global network of local agents, we will establish new businesses.
JMD: Automobile manufacturers are accelerating production in the optimum location, and the complete car trade is diversifying.
Murakami: It will be necessary to respond to our customers’ needs for small lot, high frequency transportation. We will offer service with a higher level of convenience for the shipper, such as using different ship types depending on the cargo volume.

Increasing VLCC

JMD: What is your outlook for the oil and gas tanker business this year?
Murakami: I expect the market to soften in the second half of this year due to increased supply capacity. With our fleet, we have turned course towards securing profits through fixed-term contracts to the extent possible, including the tankers operating on the spot market, and we are working to minimize our risk.
JMD: In the revised Mid-Term Management Plan, you have increased the target for the tanker fleet by 3 ships to a total of 27 ships at the end of FY2019.
Murakami: We will increase our VLCC (very large crude carrier) on the premise of the acquisition of a medium to long-term contract. For VLGC (very large gas carrier), too, under a business model of continuing to renew medium and long-term contracts, we will grow together with our customers.
JMD: How is the LNG (liquefied natural gas) and offshore business?
Murakami: We have successfully increased the number of long-term contracts to date, and the current market trends have had little impact on us. However, delays have occurred in a number of projects as a result of the low oil prices, and the number of talks for new projects is slowing down. In the recent revision to the Mid-Term Management Plan, we reduced the target for our LNG carrier fleet at the end of FY2019 by 4 ships to 57.
The offshore business market will likely feel the impact of weakening demand caused by the low oil prices, but we will dig in and persevere through these times. The offshore fleet operated by our Norwegian subsidiary has excellent specs of ships, and they are the ships our customers seek out first. Thus, we are doing well despite the harsh environment.
JMD: What is the current status of the heavy lift business?
Murakami: Last year, we were affected by the low demand for large ships for transport and work in relation to offshore projects, and the losses increased. This year, we will undergo a fundamental review of the business.

President’s approval once a week

JMD: In April, in addition to revising the system for operation execution and establishing management conferences as a place for providing approval, you have also introduced a business unit system.
Murakami: All of these changes were made with the aim of strengthening governance. As a venue for discussing the business policies, management conferences will be held in principle once a week, and the president’s approval will be given at these conferences. Up to now, the president’s approval was given during the executive board meetings held once every 2 weeks. The conferences were established with the aim of speeding up the decision making process by expediting approval.
In the Business Unit System, by placing senior managing executive officers in charge of the business units, the aim is to clarify the responsibility of Unit Supervising Executive Officers for the results and operational execution of each unit. Now that the responsible executives can place more focus on execution, and they will be expected to thoroughly direct and oversee the business unit.
The grouping of each business unit is customer-oriented, and by bringing the points of contact together, we will work to properly grasp the needs of customers.
In the “Containerships, Car Carriers and Port Business Unit,” each segment provides service to automobile manufacturers, such as CKD (auto parts) and complete cars. In the “Drybulk, Energy Transportation Unit,” the main customers in both segments are trading companies and energy companies. In the “Logistics, Affiliated Business Promotion Unit,” there are many joint ventures with partners, and company management will be one of the main tasks.

This article published in Japanese on 7th June 2016.

NS United Kaiun President, Toru Obata

Seizing foreign transport demand

Published on August 2nd, 2016

The Japan Maritime Daily (JMD): What are your thoughts when you look back on fiscal year 2015?

Obata: Fiscal year 2015 was a strong market for VLCC (very large crude carrier) and VLGC (very large gas carrier), but since our tankers are chartered under medium and long-term contracts, we were unable to benefit from the high rates. On the other hand, our small and medium sized bulk carriers were hit hard by the historically low dry market.

The fact that we were able to secure a consolidated ordinary income of about 4.1 billion yen was thanks to the stable earnings from the long-term contracts mainly for our capesize vessels. We were also successful in increasing the efficiency of vessel procurement and operations. Moreover, the average exchange rate of 1 USD = 120 yen provided an additional level of support.

Although the cost of bunker fuel dropped, the profitability of our capesize vessels chartered under long-term contracts actually fell. The freight rates are revised on every voyage based on the BAF (bunker adjustment factor), but when the bunker prices have dropped sharply, the freight rates are lowered before all of the relatively expensive bunker fuel has been consumed.

Stronger yen will factor into lower earnings

JMD: You are forecasting a consolidated ordinary income of 3.6 billion yen in fiscal year 2016.

Obata: The main factor in the lower profit forecast is the stronger yen. The forecast for this year is based on an exchange rate of 1 USD = 110 yen. If you think back to when 1 USD was only equal to 80 yen or so, this is still not a unfavorable exchange rate, but a strong yen does hurt. After bottoming out between January and March of this year, the dry bulk market will likely recover to some extent.

The excess supply will cap the recovery. Over the past 10 years, the number of bulk carriers of 28,000 dwt and larger has doubled. Moreover, because the overall size of the vessels has increased, the actual increase in tonnage has more than doubled.

Because the usable life of bulk carriers exceeds 15 years, these vessels are not easily scrapped. Also, the growth rate of China's economy has slowed to 6-6.5%, and there is little hope for a return to the high growth in demand.

China's economy remains steady

JMD: How do you see the economy in China?

Obata: I do not have an overly pessimistic outlook. Last year, China imported 950 million tons of iron ore. Based on the imports through April, China is on track to import over 970 million tons this year. The reason the recovery in the capesize market remains sluggish despite the increased demand for transportation is likely due to psychological factors as well as the oligopoly formed by suppliers.

China purchases almost all of its iron ore CIF (cost, insurance and freight), so the mining companies arrange the shipping. Most of the buyers in China are traders, and compared to steel manufacturers, they are more flexible about the timing of the cargo arrival. By selling the iron ore CIF, the mining companies are able to control the loading schedule. In this way, they can increase the asset efficiency of the port assets. The fact that the suppliers have consolidated into 4 companies certainly puts them at an advantage when negotiating vessel

NS United Kaiun President
Toru Obata

Graduated with a law degree from the University of Tokyo in 1974 and joined Nippon Steel (presently Nippon Steel & Sumitomo Metal Corporation). He was promoted to Manager of the No.2 Raw Material Department in 2003, Director in 2005, Executive Officer and Director in 2009 and President of NS United Kaiun Kaisha in June 2011. He was born in Tokyo and is 64 years old.

charters. In addition, since last year, Chinese ports have been able to receive 400,000 dwt class ore carriers directly, and the increased utilization of Valemax vessels has had a negative impact on the spot market.

Searching for business opportunities that will lead to growth

JMD: What direction will the company take in the future?

Obata: We will search for business opportunities that will lead to growth in the future. Nippon Steel & Sumitomo Metal Corporation (NSSMC), which owns a 34% equity share of our company, is our parent company as well as a large customer. As stated in the mid-term business plan, there is still room for us to expand the transport of raw materials and steel products for the NSSMC Group, including coastal shipping.

The production of crude steel in Japan has plateaued, but the demand for steel products in China and emerging nations will grow along with economic expansion. We will focus on overseas locations where demand is growing. Although slowly, our spot and COA (contract of affreightment) deals with foreign shippers has definitely increased.

JMD: Outlook for the company's fleet management. How do you plan to manage the business of each division?

Obata: We operate a fleet of 37 capesize vessels. Of these, 25 are dedicated, and 12 are tramp vessels. However, the tramp vessels are mainly operated under COA, so only about 3 vessels are completely operated on the spot market. We plan to increase the fleet to 44-45 vessels by around 2018, but our goal of expanding to 50 vessels will likely be slightly delayed.

JMD: You are doing well in the handy segment.

Obata: We have a fleet of 60 handysize and handymax vessels, including near sea vessels. The basic voyage begins outbound from Japan where steel products are transported to North America, and from there, grain is transported to South America. Then, on the in-bound voyage, copper ore is transported to Asia. By accumulating and combining COA, we are aiming to stabilize earnings.

JMD: You are facing a difficult situation in the panamax bulk carriers.

Obata: Since November of last year, we have down-sized our fleet down from 21 to 17 vessels. The 6-7 vessels operating under medium and long-term contracts to electric power companies are earning a stable income. Improving the earnings for the 10 vessels operated on short-term contracts to companies in other general industries is an issue.

JMD: What about the tanker and coastal shipping divisions?

Obata: Our 3 VLCCs still do not need to be replaced anytime soon. We currently have 1 VLGC and have concluded two long-term contracts with major LPG (liquefied petroleum gas) wholesaler. We will expand our VLGC fleet to 3 vessels. In chemical tankers, we are solely ship owners. In coastal shipping divisions, we secured surplus, but income and profit were decreased as a result of lower demand for transportation resulting from decreased production by steel manufacturers. Overall, cargo volumes were subdued, but because we were able to conclude a new agreement for limestone, our transport volume increased.

JMD: Your balance sheet is steadily improving.

Obata: Because we secured a net profit, our balance sheet is now healthier. Even while maintaining an annual fleet investment of 20 billion yen, our D/E ratio (debt-to-equity ratio) dropped from 1.71 at the end of March last year to 1.62 at the end of March this year.

This article published in Japanese on 27th May 2016.

Iino Kaiun new President, Hiromi Tosha

Balanced management and catching up the changes

Published on September 9th, 2016

Iino Kaiun is a world-class chemical tanker operator, and at that same time it is also involved in a variety of other areas including gas and dry bulk transport and real estate. We asked Hiromi Tosha, who was newly appointed President on June 28, about the direction in which he plans to steer the company.

The Japan Maritime Daily (JMD): What are your aspirations as president?

Tosha: Iino Kaiun has 117 years of history, and if the history is likened to a relay race, I have just been handed the baton from the former president Tomoyuki Sekine, and it is now my turn to run my leg of the race. In this relay, however, there is no finish line, and the goal is to continue running as Iino Kaiun. We have to run with about 600 employees in our group, including the overseas offices, and I am prepared to lead the way.

JMD: How do you see the current business climate, and in which direction will you steer the company?

Tosha: The environment surrounding the shipping industry is becoming increasingly opaque. The dry market continues to remain weak, and China is transitioning from the massive consumption of resources to stable growth. Also, this past month, we have faced unexpected events including the UK's decision to leave the EU (European Union) and the resulting strong yen. Given this situation, the company needs to focus on balanced management. Corporations have a variety of balances, and in our case they include the balance between assets and debts in relation to finance, the balance between shipping and real estate, and the balance of the portfolios for each ship type in relation to investment. Because the current period lacks clarity, while firmly grasping customer needs and changes in the environment, we need to find the proper balance.

Preparing for the shale gas revolution

JMD: This year marks the end of the mid-term business plan "STEP FORWARD 2020 - Aggressive Development" that began in April 2014.

Tosha: In the mid-term business plan, we set forth 3 priority measures for strengthening the business, "Strengthen competitiveness through differentiation," "Strengthen overseas network" and "Strengthen stable earnings base," and our mission now is to carry these measures to completion. In terms of differentiation and the overseas network, we have begun to prepare for the changes in marine logistics for petrochemical products resulting from the US shale gas revolution that are expected to occur in 2017-2018. In addition to our traditional business network centered on Tokyo, Singapore and the Middle East, we opened an office in Houston in the fall of 2014.

Iino Kaiun new President
Hiromi Tosha

Graduated from the Waseda University School of Social Sciences in 1981 and joined Iino Kaiun. He was promoted to Group Leader of the Corporate Planning & General Affairs Department in 2009, Director and Executive Officer in 2010, Director and Managing Executive Officer in 2013 and his current position in June of this year. He was born in Kanagawa and is 57 years old.

Along with the London Office and Allied Chemical Carriers LLC., which is a joint venture with the US based Fairfield Chemical Carriers Inc., we have expanded operations in the Atlantic and will continue to grasp the flow of cargo.

During our long history, we have established solid relationships with major cargo suppliers in the Middle East, and then after we have formed deep relationships with end users in Asia and major petrochemical companies in the US and Europe. We will utilize these business relationships and aim to become part of the supply chain for export cargo from the US.

JMD: What initiatives have you taken to strengthen the stable earnings base?

Tosha: With the aim of securing and maintaining the commercial rights in Japan, we are proceeding with the renewal of the medium and long-term contracts for VLCC (very large crude carriers), and we concluded medium and long-term charter agreements with Astomos Energy for 3 new VLGC (very large LPG [liquefied petroleum gas] carriers). On the other hand, our real estate business, which owns 6 office buildings in central Tokyo, is unaffected by the exchange rate, and unlike the cyclical nature of the shipping market, it supports the company as a stable long-term business.

Reducing the dry fleet

JMD: What is the current state of the chemical tanker fleet and policy for acquiring new ships?

Tosha: Presently, we operate 40 chemical tankers and have 9 ships on order scheduled for completion in 2017-2018. Regarding the method used to procure our ships, we will combine ships owned by the company with ships chartered under short, medium and long-term contracts from owners.

JMD: In terms of your dry bulk fleet, you have enacted structural reforms, including the sale of ships.

Tosha: We have slimmed down our operational scale from 24 ships at the end of 2012 to 17 ships. We will continue to reduce the risks posed by market fluctuations. In terms of medium and long-term contracts, we intend to contribute to the stable supply of thermal coal for Japanese energy companies. Also, one of our unique strengths is the transport of fertilizer from the Middle East. I want to utilize these strengths going forward.

JMD: What are your plans for LNG (liquefied natural gas) carriers?

Tosha: In the midst of the harsh business environment for energy companies as the nuclear power plant continue to remain offline, the business model for LNG carriers is changing. However, the importance of LNG as an environmentally friendly energy is increasing. We intend to look into how we can contribute to the stable procurement of this fuel on the basis of long-term contracts.

JMD: What initiatives have you taken in terms of finances.

Tosha: In order to maintain stable management and remain an independent company, I am focusing on the DE ratio (debt equity ratio) as an indicator.

Recently in Japan, there has been discussion on the corporate governance code. However, each company has a different business model, and the ideal form of the company and target figures also differ. The important thing is for stakeholders to understand the business model of our company. For this reason as well, I intend to focus on communication with stakeholders.

This article published in Japanese on 15th July 2016.

Representative Director, Executive Vice President and Director General of the Dry Bulk Business Unit at Mitsui O.S.K.Lines, Kenichi Nagata

Clarifying the strategy through the implementation of a business unit structure

Published on April 14th, 2016

The Japan Maritime Daily (JMD): On April 1, MOL established a new Dry Bulk Business Unit and Energy Transport Business Unit. What is the background behind establishing these new business units?

Nagata: Given the ongoing harsh business environment particularly in the dry bulk segment, the aim is to optimize the fleet portfolio and increase the efficiency of management resources. When proceeding with the structural reforms, we need to make an overall decision about which ship types and businesses are our strengths and which we should stay away from.

For example, actively expanding our presence in the capesize segment while minimizing that in the panamax segment or limiting our fleet in the handymax segment in line with our current commercial scale. In ways such as this, we need to clarify our strategy.

To date, there has been no integrated control tower for either the dry bulk or energy transport divisions, and I can't deny that there was a feeling of competition among these segments to expand the fleets. Utilizing our reflection on past events such as this, we implemented a business unit structure in order to realize comprehensive management that goes behind ship type.

JMD: Traditionally, steaming coal carriers have been classified as part of the dry bulk segment. However, in the current reorganization, the steaming coal carrier division has been placed under the Energy Transport Business Unit.

Nagata: The energy segment is changing faster than we anticipated. With the deregulation of electrical power generation and the drop in crude oil and natural gas prices, energy companies are pursuing a best mix of energy resources, including LNG (liquefied natural gas), coal and crude oil, in order to lower the electricity costs they charge their customers. In order to keep up with these changes, LNG carriers and steaming coal carriers will cooperate to provide the optimum service for our customers' needs.

Analysis of each ship type

JMD: In order to make it through the poor dry bulk market, how will MOL operate its Dry Bulk Business Unit?

Nagata: Rather than looking at the market as a whole, we need to analyze the supply and demand gaps for each ship type as well as the underlying business model, and then establish a strategy for each.

A while back, the dry market boomed with the peak in 2007. However, when analyzing the details of that market, cargo volumes did not increase for all ship types. Rather, the largest increases occurred particularly for the large vessels.

In the Capesize segment, long-term contracts are the core of our business, and we will expand with a focus on customers based in actual demand, such as steel

Representative Director, Executive Vice President and Director General of the Dry Bulk Business Unit at Mitsui O.S.K.Lines
Kenichi Nagata

Kenichi Nagata. Graduated from the Waseda University School of Commerce in 1979 and joined Mitsui O.S.K. Lines. He was appointed Senior Managing Executive Officer in 2013, Representative Director and Executive Vice President in 2015 and Director Gereral of the Dry Bulk Business Unit on April 1, 2016. He was born in Chiba Prefecture and is 60 years old.

manufacturers and mining companies. As opposed to simply getting caught up in charter rate competitions, it is a business that customers value as financially healthy and working toward safety and environmental conservation. Positioning businesses such as this at the core of our company is a natural strategy.

On the other hand, there is a large supply and demand gap for small and medium sized vessels of the panamax size and smaller, and going forward, we will reduce our spot/short term contract vessels in line with the volume of stable cargo. Even so, we will still arrange sufficient vessels to respond to the needs of customers who use our vessels on an ongoing basis over the long-term, even if such use is on short term or spot contracts.

The starting point for shipping companies is the needs of shippers. Building and selling ships is the business of the shipyard, and loaning out ships is the business of the ship owner. Ship owner-operators such as us need to reflect back on the fact that our business is carrying the cargo of our customers.

JMD: Specifically speaking, how will the dry bulk structural reforms proceed?

Nagata: In the previous business restructuring that took place in 2013, the main point was shifting control of a certain size fleet to Singapore. However, the current reorganization will be a slimming down of our organization and will unfortunately involve some pain.

The structural reforms will mainly take place in the small and medium sized ships of the panamax size and smaller. We will thoroughly explain our business strategy to the ship owners and ask for their understanding and cooperation.

Cross-functional strategy

JMD: How will you proceed with strengthening the sales capability?

Nagata: In April, we will establish a committee together with the Sales Business Unit that is aimed at strengthening our sales capability across the entire company, and I will chair the committee. We will gather together the people in charge from the dry bulk, energy transport, car carrier, liner, port and logistics and group businesses, and we will establish a sales strategy that cuts across this company. Based on this backbone, each division will then take action.

When talking about sales, it is not just the sales activities, but focus will also be placed on marketing. We will question the state of shipping company marketing from the base up, and we will discuss which countries, regions and shippers we should selectively approach. Under the slogan of 'One MOL,' we will reform the awareness of each and every person in order to bring out the cross-sectional strength of the company.

Reevaluation of the indexes

JMD: How do you see the dry bulk market going forward?

Nagata: China's economy is approaching a turning point, and the high level of growth and massive consumption of natural resources that occurred in 2000s cannot be expected. Taking this into consideration, I have to say that the market outlook is severe.However, the recent crash has been caused in a large part due to excessive focus on the Baltic Exchange index. As a result of the index, the market climbs too high in the good times and falls too low in the down times.

Presently, the index has fallen below what can be explained by the supply and demand balance. The index and FFA (forward freight agreements) based on the index have come to incorporate financial engineering approaches and reflect the price trends of a wide range of commodities. As a result, a gap has opened between this and actual vessel supply and demand.

Moreover, the index does not incorporate the safe operations and environmental conservation initiatives of each shipping company. In the stock market, company ratings function as an important indicator. It is not sufficient if the dry bulk market does not indicate the quality evaluations of each company. I feel now is the time for the industry to reconsider what should be used a market indicator.

This article published in Japanese on 15th March, 2016.

NYK Representative Director, Senior Managing Corporate Officer and Chief Executive of the Energy Division, Hitoshi Nagasawa

Possible return of the USD 100,000 charter market for LNG carriers

Published on April 20th, 2016

The Japan Maritime Daily (JMD): What affect has the drop in crude oil prices had on the energy transport sector?

Nagasawa: It has had a large negative affect on LNG transport. As a result of the large drop in LNG prices, which are linked to the price of oil at existing gas fields in the Middle East and other locations, the FID (final investment decision) for new LNG projects in the US, Canada and East Africa has been delayed as these projects are now at a disadvantage in terms of cost. Given this, it is estimated that the start of 60-80 million tons of gas production per year will be pushed back. This will lead to a loss of demand for about 100 LNG carriers. For LNG carrier operators such as us, this means a lost opportunity for long-term contracts.

However, the LNG world can turnaround quickly with a single change in the environment. If the world economy improves and there is a sustained increase in the price of crude oil, the projects will again move forward.

Leveling off of new vessel supply

JMD: As the opportunities for long-term contracts decrease, what is your outlook for the spot market?

Nagasawa: It may be set to rise. While the growth in the number of vessels around the world will level off, LNG projects that have already received FID, including the Gorgon and APLNG projects in Australia and projects in Angola, will start production from this year, and this will cause the demand for vessels to tighten.

Currently in the LNG market, there is a strong feeling of oversupply, and because it is a buyer's market, it is difficult to secure long-term customers. Because it is unknown where the LNG will be shipped to, neither the LNG supplier nor the buy-

NYK Representative Director,
Senior Managing Corporate Officer
and Chief Executive of the Energy Division,

Hitoshi Nagasawa

Hitoshi Nagasawa graduated from Kobe University (Faculty of Economics) in 1980 and joined NYK. He was promoted to General Manager of the LNG Group in 2004, Corporate Officer for LNG Group in 2007, Corporate Officer for Offshore Business Group and LNG Group in 2008, Managing Corporate Officer in 2009, Director and Managing Corporate Officer in 2011 and his current position in April 2013. He was born in Kyoto Prefecture and is 58 years old

er has made any moves toward securing long-term charters, and they have instead focused on securing the necessary vessels through spot and short-term charters. Due to the increased supply of newbuildings, the recent spot market has been weak at USD 15,000 - 20,000, but if the current trends continue, it is fully possible that the market may start to recover from the second half of this year and a return to the levels exceeding USD 100,000 may occur in 2018-2019.

JMD: How are the contracts for NYK's LNG fleet structured?

Nagasawa: Of the 68 vessels (including co-owned vessels) in our fleet, over 90% are chartered under long-term contracts, and of the remaining vessels, 2 are chartered to the French company Engie (formerly GDF Suez) on a medium-term contract and 2 are being operated on the short-term and spot market. Furthermore, the approximately 20 new vessels that have yet to be delivered are planned to be chartered under long-term contracts. Going forward, we have no intention of changing our focus on long-term contracts. Also, we plan to strengthen our vessel management and sailor training programs for the purpose of achieving safe transport.

JMD: With the electricity deregulation, the business environment surrounding electricity and gas companies is significantly changing.

Nagasawa: Traditionally, Japanese electricity and gas companies have focused only on procurement to meet domestic demand. However, following the electricity deregulation, they are now actively pursuing fuel trading utilizing their massive bargaining power with the aim of strengthening their procurement capability and responding to changes in demand.

JMD: What changes will this new interest in trading bring to LNG shipping?

Nagasawa: The commodification of LNG carriers will further accelerate. The LNG carriers operated by Japanese shipping companies have traditionally been chartered under long-term contract to shuttle gas from the producing countries to Japan. However, with the increase in trading, the cargo will move around the world between diverse ports of loading and ports of unloading, so the demand for short-term and spot charters will likely increase.

In addition, vessel types will become more standardized. In the past, a vessel specialized for a particular loading and unloading terminal pair was built, but going forward, the need for generalized vessels will increase. The standard vessel type will most likely be the 170,000 - 180,000 m3 class, which is the optimum size for the new Panama Canal, and the LNG import and export terminals will be equipped to handle these vessels.

JMD: How will you respond to the short-term contract needs for LNG carriers?

Nagasawa: LNG carriers are a large investment at about 20 billion yen per vessel. Given this, it is difficult to operate new vessels under short-term contracts, which make it difficult to establish long-term income estimates. It is preferable for old vessels to be used mainly for trading under short and medium-term contracts after their long-term contracts have expired and for new vessels to be built based on long-term contracts to handle the stable supply of gas to Japan.

Profiting even in difficult times

JMD: What affect has the low crude oil prices had on the offshore development market?

Nagasawa: The development of offshore gas and oil fields has stalled, and there are strong headwinds in this market. However, the FPSOs (Floating Production, Storage and Offloading system) and shuttle tankers we participate in are securing stable earnings under long-term contracts, and the offshore business turned a strong profit in FY2015. This has proven that we can achieve stable earnings even in difficult times if we make use of our high quality.

Although the short-term COA at Knutsen NYK Offshore Tankers, our shuttle tanker subsidiary in Norway, have been affected by the poor market conditions, since long-term contracts form the core of the business, we were able to secure a profit in 2015.

Due in part to the high technical capability of our local partner, Etesco, our drillship in Brazil achieved an operational rate of 99% last year. Also, our 2 FPSOs have maintained high operational rates, and 2 additional FPSOs will be added in the first half of 2016. With a total of 4 FPSOs, we will further strengthen our stable earnings.

The low crude oil prices also present a chance for business expansion. Given that the asset values in the offshore development sector have fallen, the hurdle for participating in upstream interests has decreased, so this time should be regarded as an opportunity for new investment.

This article published in Japanese on 20th April 2016.

Seno Kisen President, Yoichiro Seno

Always managing the business while supposing the worst times

Published on July 6th, 2016

The Japan Maritime Daily (JMD): The dry market is in poor shape. What affect has this had on your shipowner business?
Seno: We have always managed the business while supposing the worst times. Although the dry market is in poor shape, everyone is affected, including operators and shipyards. When the dry market is low, people have a tendency to turn their eyes to other ship types such as tankers and gas carriers.
However, when looking at the tanker market, even though it has been strong recently, it was just as bad as the current dry market only 2 years ago, and everyone said shipowners should not own such ships. It is important to manage the shipowner business with your feet firmly on the ground rather than worrying about every turn the market takes.

Seafarer quality is the foundation of the business

JMD: Specifically, what is the secret behind those shipowners who can withstand the down times?
Seno: One is focusing on ship management operations, which is the core of the shipowner business, during the normal times. Strengthen ship management, including seafarer training and superintendents. Placing importance on ship management enables safe operations as well as makes it possible to reduce unnecessary costs.
Everybody, including maritime newspapers, focuses only on the charter rates and freight rates. These are of course important, but should a ship become unable to operate due to a deficiency in the ship management of the shipowner, the ship will be placed “off hire” and losses will pile up just because of that. It is important for the shipowner to limit the occurrence of preventable costs.
Given that the onboard manuals and operational systems are audited these days, including port state control (PSC) and the international safety ship management code, it would not be an overstatement to say that the quality of the seafarers forms

Seno Kisen President,
Yoichiro Seno

3-1 2-Chome, Kyoeicho, Imabari, Ehime Prefecture. Founded in August 1954, it is the first shipowner in Ehime Prefecture to build an ocean-going ship and currently owns about 50 ships, including ore carriers, cape-size bulk carriers and coal carriers ranging in size from 77,000 dwt to 100,000 dwt. The company has ferry operators, including Shikoku Kaihatsu Ferry, as part of its group.

the foundation of the shipowner business.

JMD: How many ships do you currently own?

Seno: We own about 50 bulk carriers.

JMD: Japanese shipowners have expanded their fleets in the good times. However, you have not increased your fleet very much.

Seno: There are currently 22 people working at our headquarters in Imabari, and the most they can handle is 50 ships. Each superintendent is in charge of 6-7 ships. It is not as simple as just increasing the number of ships. Given our management system, crew rotation and shipowner operations in line with our capabilities, the current fleet size is right for us.

We are unable to provide ship management for tankers and gas carriers on our own. We could own such ships if we hire an outside ship management company, but that would go against our policy of protecting our assets by ourselves.

JMD: What is the current state of your business with operators?

Seno: Presently, we have concluded long-term time charters with the 3 major Japanese operators NYK, MOL and K Line. Also, we have several ships still on order, and once they are delivered, our contract with NS United Kaiun will start. We currently have no business with foreign operators. The reason for this is we want to have long-term relationships with partners we can meet face to face.

Steady even when the yen is weak

JMD: Exchange rates also impact the shipowner business.

Seno: Japanese shipowners are mostly paid in dollars, so there is a large impact. I myself have experienced everything from 1 dollar = 360 yen to 1 dollar = 70 yen. Based on this, the key to the shipowner business lies in to what extent the shipowner can remain steady during the weak yen periods. When I was invited to speak to a shipowners' association, I explained that to eliminate the exchange rate risk when owning a large ship such as a capesize bulk carrier, arrange the loan in dollars. Recently, when the yen has weakened, I have emphasized the importance of storing away the profits, even if it means paying taxes. Taxes are simply carried over. They have to be paid sometime.

However, when the yen weakens, everyone rushes to restart investments in new ships and secure depreciable assets. Given the current effective corporate tax rate of about 35%, more than 600 million yen will remain in hand on a profit of 1 billion yen. Smartly owning a used ship that has been fully depreciated and can be sold will not result in a need to reschedule (revise the loan repayment plan) should the yen rise in value.

JMD: Where does your corporate philosophy come from?

Seno: The fact that we have a ferry company in our group plays a big role. Having the ferry business, which is directly responsible for protecting human life, in the group allows us to understand the operator's mentality and increases our awareness of safe operations. This has had an extremely beneficial effect on the shipowner business. Including the ferry affiliates, we have about 300 employees, and including their families, we are obligated to fulfill our responsibility to provide employment, so we cannot embark on any adventures.

This article published in Japanese on 31st May 2016.

Santoku Senpaku President Masashi Taga

Strengthening the management system and education for seafarers and employees "Returning to our roots" as the motto

Published on October 5th, 2016

Santoku Senpaku is one of the major shipowners representing Western Japan. The company started in the manning business and later expanded into ship management and shipowning. Despite being in the midst of a downturn in the shipping industry, the company has actively pursued new ship projects. For the current term, the company has designated "Returning to our roots" as the motto and will strengthen the overseas offices, management system and education for seafarers and employees. The Japan Maritime Daily (JMD) talked with Masashi Taga, President of Santoku Senpaku, about the current state of the company. (Interviewer: Hirofumi Yamamoto)

JMD: How many ships do you currently own?

Taga: Currently, we own or manage a total of 104 ships, 54 of which are owned by the company, and for 50 of the ships, we are responsible for ship management and manning. Regarding the ship types, excluding LNG (liquefied natural gas) carriers, we handle all ship types, including dry bulk carriers, tankers, containerships and car carriers. We also have 8 new ships still on order.

The number of ships we own has not changed in the past 6 years, but we have actively pursued newbuilding orders. In the shipowner business, unless we acquire new ship projects, it will be difficult to maintain our current fleet size. Recently, the shipping industry is said to be in a downturn, but we are working to the extent possible to acquire new ship projects.

JMD: What criteria has Santoku Senpaku set for ordering a new ship?

Santoku Senpaku President
Masashi Taga

After joining Nippon Shipping and working at several other shipping companies, he struck out on his own at the age of 30 and founded Santoku Senpaku in Osaka. He was born on June 23, 1942 and is 74 years old.

Taga: Normally, we need a charter guarantee from the operator or shipper and a loan commitment letter from a financial institution before ordering a new ship. The risk involved in owning a new ship for which there is no guaranteed cargo is too high. Concerning the ship type, without being biased toward bulk carriers, we are aiming for a diverse range of ship types and hull forms, including containerships and tankers.

Focusing solely on a single ship type makes it difficult to respond to downturns in the market. With our own capital, rather than investing a lot in a single ship, we hope to increase our fleet through well-balanced investments in a number of ships. Because the expenses incurred in US dollars will increase as the size of our fleet expands, it will also serve as a hedge against exchange rate risk.

Contracts following face-to-face discussions

JMD: This year, you have designated "Return to our roots" as your corporate policy.

Taga: The present downturn in the shipping industry is actually the time to once again review seafarer education and safety. At the same time, in order to strengthen employee education and the management system, we have implemented organizational changes. The important thing in the shipowner business is to conduct business face-to-face with the customer. Regardless of how well a foreign shipping operator is known, we cannot conclude a contract without first holding discussions at their office and hearing their business philosophy. Currently, we have dispatched staff from the headquarters in Japan to Europe and India to negotiate with customers.

JMD: How do you plan to strengthen your overseas offices?

Taga: We have opened manning centers in the Philippines, Bangladesh, China and Myanmar, and we have dispatched staff from the headquarters to these offices and are working to strengthen the agencies. Securing human resources is also important. In addition to our shipowner and ship management businesses, we also operate a real estate business.

The real estate business started from the construction of an employee dormitory with the aim of securing excellent human resources. As of today, we have built a single employee dormitory, superintendent dormitory (seafarer-related), as well as a family dormitory in response to the increase in employees who have married within the company. Six dormitories have been completed, and the land for a 7th has already been purchased. As a result of building these dormitories and other measures, the average age of our employees, which had been increasing, has decreased to 38.8 years old.

Including our desire to give back

JMD: With the current slump in the dry market, orders for new ships are decreasing. Given this, what is the reason for you to go against this trend and pursue new ship projects?

Taga: Frankly, one of the reasons is that we have received calls for new ship projects primarily from foreign operators and resource majors. Among the foreign operators who are chartering relatively expensive ships, some hope to dilute their operating costs by chartering highly cost-competitive new ships. Also, financial institutions occasionally bring us a failed (terminated contract) newbuilding project they have already committed to.

From our standpoint, as long as the charter rate level will not lead to losses for us, given the current ship prices, I believe we will definitely rally in the future. Including our desire to give back to those who have helped us in the past, I hope to respond to as many new ship projects brought to us as possible.

JMD: More and more operators are calling for reductions to the charter rates.

Taga: Unless extreme circumstances are encountered by both parties, once the agreement is concluded, it must be executed or else a black mark will be left on the shipping industry. Financial institutions will also lose trust. Personally, I have been involved in the maritime shipping for over five decades (50 years), and during that time, I have experienced oil shocks, dollar shocks and a rapid appreciation of the yen from USD 1 = JPY 360.

Given that shipowners have gotten through harsh periods on their own, although the shipping market is in a difficult period, I question the attitude of foreign operators who easily and unilaterally call for changes to the agreement. Above all, I am worried that the shipping industry I have helped create will be branded as untrustworthy by other industries. We are fostering excellent young human resources, and I sincerely hope it will lead to the further growth of the shipping industry.

This article published in Japanese on 23th August 2016.

Nissen Kaiun President,Katsuya Abe

Transforming the company while seeking out new challenges

Published on July 12th, 2016

The Japan Maritime Daily (JMD): The dry market is in poor shape. What affect has this had on your shipowner business?

Abe: To date, regional shipowners have generally owned bulk carriers, and 70% of the ships owned are bulk carriers. When the dry market falls, of course the orders for new ships will stop. If only certain ship types and certain people are working, the limits will naturally be reached. If the bulk carrier market is poor, diversify into tankers, gas carriers and containerships. By expanding one's horizons, a new world will come into view.

60% are foreign operators

JMD: Specifically, how are you diversifying your ships?

Abe: I recently spoke with a foreign operator. The CEO there is continuously seeking out new challenges. As a matter of fact, CEOs of foreign operators are required by shareholders to obtain results, so the CEOs are truly responsible for running their companies. Among the CEOs at foreign shipping companies, quite a few are making investments and taking steps aimed at the next generation, despite the currently harsh environment. We hope to identify projects in which we can work together with companies that have the same outlook as us. Of the operators of our ships, 40% are based in Japan while 60% are based overseas.

JMD: What is the current state of your fleet?

Abe: We own about 70 ships and have about 40 more still on order. Bulk carriers make up the majority of our existing ships, but we have also expanded into owning large containerships, chemical tankers and VLGC (very large LPG [liquefied petroleum gas]carriers). We will also replace a reefer ship and product tanker. The ship management and operational scheme differs for each ship type, so there are new discoveries. We mainly handle ship management in house, but we are managing tankers and gas carriers in cooperation with an Indian ship management company.

JMD: You have decided to build 3 VLGC for BW LPG, the world's largest gas shipping company.

Abe: Two of the VLGC for the BW Group will be built at MHI and are scheduled for delivery in 2020, and the other VLGC will a leaseback of a ship ordered by BW LPG and built at Daewoo Shipbuilding & Marine Engineering.

JMD: What are the strengths of Japanese shipowners?

Abe: One of the strengths of Japanese shipowners is financing. The financing terms offered by financial institutions in Europe are not as good as those in Japan. On this point, the creditworthiness and financing capability of Japanese financial institutions stands out. I firmly believe the strong financing offered by Japanese financial institutions enables us to firmly

Nissen Kaiun President
Katsuya Abe

Headquartered at 829-1 Kinoura-ko, Hakatacho, Imabari, Ehime Prefecture. Founded in 1889, and while operating as a family business, the company grew along with salt production on Hakatajima and the heavy industry in Niihama. Following completion of its first ship the steel ship "Nissen Maru," the company was incorporated in 1959 as Nissen Kaiun KK. Operating under the motto of "act as the circumstances require," the company has worked to firmly establish itself within the local community.

negotiate with foreign operators.

JMD: Many shipowners don't have sufficient revenue for depreciation and are hurting.

Abe: I think building a new ship for the sole purpose of having a depreciable asset is not the right way to manage the shipowner business. On the other hand, as a shipowner, even for BBC (bareboat charter) proposals, if it means challenging a new ship type, then, naturally, it may be a chance to expand our horizons. LNG (liquefied natural gas) carriers are not something for which regional shipowners can provide ship management. There are arguments for and against Japanese shipowners owning LNG carriers for BBC, but by having contact with this new ship type, it is possible to find value that exceeds simply possessing a depreciable asset.

Avoiding disorder

JMD: You are one of the shareholders of Daiichi Chuo Kisen.

Abe: The main reason behind our investment is to avoid any further disorder in the maritime cluster. Daiichi Chuo Kisen is a mid-level operator of bulk carries. If Daiichi Chuo's business falls apart during the current lows in the dry market, it could have a significant negative impact on the maritime cluster in Japan, including shipowners and shipyards. We are simply shareholders and have no intention of being involved in management. If the dry market recovers and the disorder in the shipping market subsides, I believe it is better in terms of being an operator if someone other than a shipowner is a shareholder of Daiichi Chuo.

This article published in Japanese on 1st June 2016.

NYK Corporate, Officer Akira Kono

No foundation yet for the spot market

Published on November 30th, 2016

The low spot charter rates for LNG (liquefied natural gas) carriers continued from the beginning of 2015 through the first half of this year.

Kono: In 2015, the delivery of speculative newbuildings peaked, and on top of that the start of the LNG projects in Australia and Africa were delayed. This resulted in a significant drop in the charter market. On the other hand, the supply and demand of LNG itself is becoming unbalanced. In 2014-2015, there was expected to be a large increase in the demand for LNG, and everyone was ready to herald the coming of the "age of gas." However, in reality, in addition to the end of the crude oil price bubble, growth in demand lagged in Asia, including China, Indonesia and Malaysia, and gas prices have fallen.

JMD: Beginning this past July, there have been some signs that the spot market is improving.

Kono: The fact that shipments have commenced or been restarted from the Gorgon Project in Australia and Angola in West Africa is having a positive effect. Also, only 2-3 speculative newbuildings per year are scheduled for delivery over the next 4 years. Moreover, a number of new projects will enter the operational phase in 2017-2018, and this should absorb some of the available capacity. Over the short-term, I expect supply-demand balance may tighten.

On the other hand, over the mid to long-term, shorter trade distances are one area of concern. For example, the ships built to handle the increased exports of shale gas in the LNG export project from next year were originally procured on the basis of supply to the Far East. However, as a result of the unbalanced supply and demand, the price difference between Asia and US produced LNG has decreased, and the US-Far East trade is now relatively more expensive.

As long as this situation continues, some of the shipments of US produced LNG may be shifted to nearby Europe. The

NYK Corporate, Officer
Akira Kono

Graduated from the Waseda School of Law in 1984 and joined NYK. He was promoted to head of the LNG Group in 2012 and his current position in April 2015. He is 55 years old.

European LNG market has high liquidity, and with its ample storage facilities, it can absorb the increased exports of LNG from the US.

Limited COA

JMD: Following the increased supply of LNG around the world, there is a strong possibility that the trading market will expand. In terms of marine shipping, how large do you expect the spot market will be?

Kono: The spot market for LNG carriers is a closed market with less than 100 ships, and it is highly sensitive to changes in supply and demand. As to how big I think this market will grow, there is currently no common index for charter rates and no solid foundation has yet been laid for any expansion.

Also, in the current spot market for LNG carriers, chartering is basically done under TC (time charters), not freight contracts. There is a movement towards introducing COA (contracts of affreightment), but at the present time, it is extremely limited. For shipping companies, it is difficult to find operational merits, such as efforts to improve fuel efficiency, and I feel there is little chance that the spot market business will ever become a major part of our operations.

Also, in terms of the charterers, I don't think there are any major players who are considering procuring all of their LNG on spot and short-term contracts. In particular, the electric power and gas companies in Japan procure 80 million tons of gas, which is equivalent to one third of the total global demand, and the majority of this is secured under long-term contracts. The variable portion is procured under medium and short-term contracts or on the spot market. In the same way, with the shipping capacity, there should continue to be a certain level of demand for long-term, stable business.

Revising the mid-term targets

JMD: What is the current state of the LNG carrier fleet at NYK?

Kono: We are currently involved in 68 ships, of which we provide ship management service to 40. The majority have been chartered out under long-term contracts. Two have been chartered under medium-term contracts of 5-7 years, and two are active in the spot and short-term market. We have firm orders for an additional 10 ships and plans to order 2-3 more.

In the mid-term business plan, we originally set the target of expanding our LNG fleet to 100 or so ships by 2018, but in light of the market opacity, this past July, we revised the target down to 80-90 ships. However, going forward I expect negotiations for long-term contracts to increase, and I hope to catch up to our original target by around 2020.

JMD: Given the current changes in the market, what direction do you plan to steer the LNG carrier business?

Kono: There will be no change to its positioning as a long-term, stable business. By utilizing our management capability, financing capability and sales network in an integrated manner, we will continue to be the shipping line chosen by customers. As stated earlier, I expect there will continue to be a certain level of demand for long-term charters to Japan and elsewhere. We will uncover these needs and secure a leading position by actively participating in the bidding process. On the other hand, we will maintain a portion of around the current 4 ships that will enable us to flexibly respond to the needs for medium and short-term charters. It is possible we will allocate existing ships that have already been depreciated to some extent to meet these medium and short-term needs.

Utilization of the "Echigo-Maru"

JMD: What are your initiatives in the offshore business and LNG bunkering (supply of fuel)?

Kono: In the offshore business, we have completed the training of technical staff and established an organization with the aim of joining the FSRU (floating LNG storage regasification unit) market, and we are now working to acquire projects. We are considering the option of decreasing lead time by retrofitting existing LNG carriers, and we are looking at using the older Echigo-Maru, which is currently laid up.

In regards to LNG bunkering, we established the new brand "Gas4Sea" in September with the French company Engie and Mitsubishi Corporation. We will start with supply to car carriers and intend to then expand to ferries and passenger ships.

The knowledge we obtain from the offshore business and LNG bunkering can be used in new areas such as offshore LNG facilities, small lot LNG shipping and terminal operations. Also, including through partnerships with our group's marine consulting company Japan Marine Science, Inc, we intend to show our ability to respond to a wide range of needs.

This article published in Japanese on 20th October 2016.

K Line Managing Executive Officer, Akira Misaki

Positively respond to the LNG shipping market requirements

Published on November 22th, 2016

The Japan Maritime Daily (JMD): How do you view the current state of the LNG (liquefied natural gas) carrier market?

Misaki: Our LNG carrier business is focused on medium to long-term contracts, so the impact of the short-term market conditions is limited. In regards to the current market situation, while a number of speculative new buildings have been delivered over the past 1-2 years, the start of several new LNG projects has been delayed. This resulted in excess capacity, which in turn led to a sharp drop in the spot time-charter market especially from 2nd half of last year. I feel the market has bottomed out and has begun to recover, but it still has not reached the breakeven point.

New Projects in West Africa and Australia have started, and this has absorbed some of the ships that were temporarily forced into the spot market. There have also been spot shipments to countries that were traditionally not LNG importers, and this has helped to gradually tighten the demand for ships.

JMD: What is the current state of your LNG carrier business?

Misaki: We are currently involved in 41 LNG carriers, of which 13 are provided ship management by us. Our in-house ship management companies are located in Tokyo and London, and they manage 5 and 8 ships, respectively. We have 8 new vessels now under construction of which 7 will be under our ship management. Tokyo will additionally manage 4 vessels and London 3 vessels.

Our initial plan was to increase our fleet to 61 vessels by the end of 2019 (our 100th Anniversary) in line with the expansion of the LNG trade. However, given the

K Line Managing Executive Officer
Akira Misaki

Graduated from the Waseda University Faculty of Commerce in 1983 and joined Kawasaki Kisen (KLine). He has Container, Dry Bulk and LNG experience and was assigned to Managing Director of K Line LNG Shipping (UK) in 2006, General Manager of LNG Group Head Office in 2008 and his current position since April 2015.

sudden drop in resource energy prices, the investment decision for the new LNG projects has been pushed back, so we have revised the fleet target to 57 ships in our Mid-term Business Plan announced in April of this year. Going forward, there is no doubt that the demand for LNG carriers will increase, and we will proactively respond to the requirements from our customers.

JMD: Are there any projects that are expected to result in increased demand for ships?

Misaki: The Indian state-owned gas company GAIL is holding discussions on procuring 9 LNG carriers which they will require for their transportation needs from U.S. We have participated in this shipping tender with our partners. However, as GAIL has requested some of the ships to be built at an Indian shipyard, the bidding process itself has not moved forward. There are also several opportunities in which a few major Spanish energy companies have requested shipping companies to submit their bids for their shipping needs.

The LNG market is currently a buyer's market whereby there are still LNG to be marketed from the existing projects and from projects which have already taken FID. Thus the investment decisions for the so called Greenfield projects will need more time. However, again, there is no doubt that the demand for LNG will globally increase, and I expect more of these planned new projects will positively move ahead, e.g. from Africa, U.S., Australia, etc.

Thorough risk management

JMD: In what direction do you plan to target your LNG business?

Misaki: There will be no change to our current policy of targeting long-term charter demand and further strengthening our stable earnings.

Whilst the long-term contract model will still remain, there are also demand for medium and short-term charters as players in the market seek for flexibilities. We will also seek for these medium and short-term requirements taking in our risk exposure control. We will also actively and positively pursue the business opportunities that arise within the whole energy chain and aim to increase our mid to long-term stable earnings.

Last year, our UK subsidiary K Line LNG Shipping (UK) partnered with the Greek shipowner Chandris and concluded a time charter for 2 LNG carriers with BP. The charter term is for 10 years or so, but we are happy that we were able to conclude this deal with a very good reliable partner which is a good example of how we have responded to the increasingly diversified needs of our customers.

JMD: What are your main strengths?

Misaki: I think it all comes down to the quality of ship management. When the quality of ship management, which supports safe operations, is evaluated highly, it leads to trust from customers, and this results in subsequent business opportunities. We are working to further improve the quality of our ship management within our Group (Tokyo and London) so that customers will feel more comfortable in relying on our services.

Our ship management for LNG in Tokyo has more than 30 years experience and London has over 10 years. The responsible and key persons in our Tokyo and London offices regularly hold safety meetings where they share information and experiences, and by bringing the K Line Group together as one, we are aiming to take the quality of our ship management to the next level (aiming for continuous improvement).

One of our strengths is that in addition to LNG carriers, we can provide a wide range of services for energy transportation including crude oil tankers, LPG (liquefied petroleum gas) carriers, offshore support vessels, coal carriers, etc. to our present and potential clients throughout the world. Some of our customers have common business fields in which we will be able to serve them for their various needs. In April of this year, we reorganized our company structure by forming business units in the aim to further strengthen horizontally across the business sectors. The energy sector and the Dry Bulk sector have formed as one of the business unit.

JMD: You have reopened your US office in Houston in November.

Misaki: We placed our representative in Houston office (K Line America) in 2003 in order to strengthen our energy sales activities mainly in North America. In 2011, we closed the office but we have once again decided to place our representative in Houston as many activities e.g. shale gas exports will soon start their operation and we will have a few of our LNG vessels be assigned for these projects. As there are many energy clients in the U.S., we hope to bring up our presence not only for LNG, but for the overall energy shipping needs.

This article published in Japanese on 3rd October 2016.

MOL Executive Officer and General Manager LNG Carrier Division, Kenta Matsuzaka

Potential decrease in ton-miles as a result of trade optimization

Published on November 17th, 2016

The Japan Maritime Daily (JMD): The spot charter market for LNG (liquefied natural gas) carriers has been on recovery track.

Matsuzaka: Although Angola in West Africa was inoperable for a time and the Gorgon Project in Australia was delayed, LNG shipments from both have finally commenced, and the supply and demand balance for ship capacity is starting to tighten.

Between July and September 2015, the number of ships in the spot market ballooned to about 50. This occurred due to the delivery of speculative newbuildings and as a result of a number of ships being temporarily forced into the spot market due to delays to the LNG projects for which they were procured. Presently, the number of ships in the spot market has fallen to about 20.

However, in addition to these ships, there are about 10 other LNG carriers which are currently moored or laid up, excluding the old ships that will likely be retrofitted into FSU (floating storage units). When these ships are included, it is hard to say that supply and demand is balanced. These ships will likely be brought back into service if the market recovers, so it is difficult to foresee supply and demand balance tightening further.

Market may rise from 2019

JMD: What is your outlook for the direction of the LNG market?

Matsuzaka: The demand for LNG as a clean energy will likely grow in the future. On the other hand, there are also factors that are depressing the transport demand. For example, one such factor is the commodification (transformation into a general commodity) of LNG. If the price of LNG is standardized through commodification, users will start to purchase the LNG from the nearest supply point. As a result, the trade patterns will be optimized, and the long haul trades that have existed up to now will decline, bringing about a potential decrease in ton-miles.

Another factor would be the stop of LNG supply and liquefaction due to a drop in the price. If the price of LNG continues to remain below the cost required to produce it, some analysis has indicated that supply from projects with high production costs will stop. If the Henry Hub (US natural gas price index) price surpasses the DES (delivered ex-ship) price for shale gas, instead of liquefying and exporting it, there will be a movement towards shifting some of the gas to the domestic US market.

Concerning the planned construction of natural gas liquefaction plants in the US, the investment decision has already been made for an equivalent of 60 million tons. Of this, there are forecasts that liquefaction plants with a capacity of 30 million tons will never be operational. Although it is expected that liquefaction plants will be built in North America and this will create demand for transportation, there will be a large drop in the number of newbuildings scheduled for delivery from 2019 and beyond, and in light of this, there is an outlook that the LNG carrier market will rise. However, it is also necessary to prepare for the case in which this does not happen.

Asia will be based in Hong Kong

JMD: Can you give me an overview of MOL's LNG carrier business?

Matsuzaka: We own a share of 91 ships, which includes the 22 ships still on order. Originally, we set the target of expanding our fleet to 120 ships by 2020, but due to the delays to the investment decisions for new LNG projects, we revised this down to a target of 100 or so ships.

In September of last year, we established the ship management company MOL LNG Transport (Asia) in Hong Kong. Close communication between the ship and superintendent is essential to safe operations. Providing ship management close to the trades is one of our basic policies. The increased demand for transport to Asia will be covered by our base in Hong Kong. Ship management for LNG carriers is handled from Tokyo, London and Hong Kong. Tokyo and London each manage 15-20 ships, and Hong Kong

MOL Executive Officer and General Manager LNG Carrier Division
Kenta Matsuzaka

Graduated from The University of Tokyo College of Arts and Sciences in 1984 and joined Mitsui O.S.K. Lines. He was promoted to General Manager of the LNG Carrier Division and Group Leader of the No.1 LNG Group in June 2014, General Manager of the LNG Carrier Division in December 2014 and his current position in June 2015. He was born in January 1961 and is 55 years old.

manages several.

Utilizing know-how

JMD: What are your strengths and main characteristics?

Matsuzaka: Compared to the contract portfolio of other companies, in addition to our high ratio of long-term contracts, the fact that we are involved in high value-added project ships is our main characteristic. High value-added project ships refer to the LNG shipbuilding project in China, ice-class LNG carriers for the Yamal Project in the Arctic and FSRU (floating LNG storage regasification unit).

As a result of the Greek shipowners joining the LNG carrier segment, competition has intensified, and the profit margin of the traditional business model is falling. The high value-added project ship segment is not an area accessible to everyone, but by utilizing the know-how we have accumulated over the years and mitigating the risks, we can expect a relatively high profit margin. The knowledge we have accumulated from the difficult shipbuilding project in China, ice-class LNG carriers and FSRU will certainly be of use in future projects.

Responding to shorter contracts

JMD: In which direction will you steer the LNG business?

Matsuzaka: Maritime trade of LNG is forecast to increase from 250 million tons in 2015 to around 400 million tons in 2025. In line with the growth in the trade volume, the terms of sales contracts are expected to become shorter, the destination provisions will be eliminated and demand will become more segmented. As flexibility in the market increases, it is expected that the short-term charter market for LNG carriers will grow and volatility in the demand for ship capacity will increase.

Because LNG projects require a huge investment, one of the conditions for making the investment decision is the expectation of a long-term, stable cash flow. It is necessary to secure customers who will reliably purchase the LNG over the long-term, and it is also necessary to arrange a stable means of marine transportation. It is only after a solid LNG chain has been established that the investment can be approved. For this reason, it is likely the demand for long-term charters will remain in the future. On the other hand, we will flexibly respond to the new needs for shorter terms contracts by utilizing existing ships and strengthen the sales know-how to link these to medium-term contracts.

This article published in Japanese on 20th September 2016.

NYK Corporate Officer, Hiroki Harada

Realization of the efforts to achieve optimum operations

Published on September 23th, 2016

The Japan Maritime Daily (JMD): How do you perceive the business performance last year?

Harada: Personally, in all my years in the liner business, I feel this is the first time for such a large gap to exist between the forecast and results. The costs, which incorporated the lower crude oil prices in the budget, were roughly as expected, but the drop in freight rates was severe.

It was very disappointing that there was no action to stabilize the market. In the Asia-Europe trade, which is one of the main trades, as the delivery of very large containerships capable of carrying over 10,000 TEU reached its peak, the cargo volumes decreased, causing a breakdown in the supply and demand balance. As a result, freight rates in the Europe trade decreased to the point where it would have been better to lay up the ship, and this situation impacted the annual service contract negotiations this year.

However, even though the market remains weak, our efforts to increase profitability are starting to realize results. The "IBIS" project aimed at achieving optimum economical operations and the "EAGLE" project aimed at optimizing operations on the container level are several examples. In particular, EAGLE is having a visible effect on the figures in a variety of ways.

True alliance

JMD: The alliances are set to be reorganized in 2017.

Harada: We wanted to protect the best ship method employed by the G6 in which

NYK Corporate Officer
Hiroki Harada

Graduated from the Waseda University School of Law in 1983 and joined NYK. He was promoted to Director of NYK Line (Europe) RORO in 2006, Managing Director of NYK Group Europe in 2009, Head of the Energy Coordination Group in 2011 and his current position in April 2014. He is 55 years old.

the optimum ship is used for each service, as well as the joint operational office (based in Singapore) for implementing this. As a result, the best ship method will continue to be employed after "The Alliance (TA)" is formed in 2017. Both the positive and negative aspects of the joint operations under the best ship method will be shared in their entirety between each line. When one loop is suspended, each company will make an immediate decision without being egotistical. This is what a true alliance looks like.

The G6 was scheduled to end in 2017, and just as we were considering our future plans, the Hong Kong shipping line OOCL decided to withdraw from the G6, and events suddenly took a quick turn. Our focus was on maintaining the concept of joint operations based on the best ship method. On that basis, we focused on which companies would be the best partners and who agreed with our operational concept. In the end, The Alliance will be formed by 6 companies who accept this concept.

Europe freight rates are on the rise

JMD: There have been signs recently that the freight rates in the Europe trade have bottomed out.

Harada: Presently, Europe is looking better, and as a result of each alliance's decision to reduce capacity, demand has tightened to the point where slot utilization is at about 90%, and this has led to a rise in spot freight rates.

However, the one thing that concerns me is that frequently repeating rate restorations will cause the freight rates move up and down in a short period of time, and it will be difficult to stabilize the rates. This problem likely won't be resolved until demand tightens to the point where cargo has to be rolled over. At any rate, if the spot freight rates in the Europe trade sink again, there will be no improvement in the financial results of the shipping lines.

JMD: The North America trade may be running out of steam.

Harada: It is worse than most people realize. I think all of the shipping lines had a hard time during the first quarter (April-June). One of the major factors in this was the impact that the drop in spot freight rates had on the long-term contract negotiations. The freight rate levels in the long-term contracts were extremely low, and because we passed on such contracts, we concluded fewer long-term contracts than we did the year before. The reason we passed is that once such a contract is concluded, the losses are immediately locked in. I do not think spot freight rate will remain low for long, and I expect a quick recovery. We are constantly preparing based on a stance of actively securing cargo that will lead to as much profit as possible.

Regarding the impact of the Panama Canal Expansion on the North America trade, the shipping lines'aim is to increase cost competitiveness by consolidating the services that have been operated using panamax ships into larger containerships. Thus, the canal expansion won't directly result in increased capacity (in the trade). At the present time, no shipping lines are making any aggressive moves, and not all of the transit slots have been reserved.

JMD: What initiatives have you taken to improve operational efficiency, expand profits and decrease costs?

Harada: In the EAGLE project, we have worked to increase the efficiency of the entire loop, including both the outbound and return voyages, and solicit a well-balanced cargo load. Although our overall handling volume only increased slightly, the degree of profit contribution of the return voyage is increasing, and despite the poor market conditions for both short-term and long-term cargo, we have managed to minimize the negative impacts on the results.

EAGLE has been used in the North America trade for 3 years and the Europe trade for 1 year, but I want to expand it to other trades as well. For example, I want to roll it out to India and other regions with high in-land costs. The new benefits realized by the implementation of this system are slowly shrinking, but I think there is still room for improvement, such as through even more detailed management of the profitability of each container depot. In terms of sales, the target areas for the "Country Goal Management (CGM)" initiative, which sets monthly numerical targets for each country and region and seeks to increase container handling volumes and profitability, have been expanded beyond Asia and Oceania. It may be rather naive way of running the business, but we want to load cargo that contributes to our bottom line.

The competitiveness of a shipping line is decided by the balance between scale and efficiency. In terms of scale, there are some areas where we cannot compete with the larger shipping lines, but there is still room for us to improve our operational efficiency. We will continue to work hard going forward.

This article published in Japanese on 27th July 2016.

MOL Liner Chief Executive Officer, Akihiko Ono

Dramatic improvement in ECSA (East Coast of South America) trade

Published on September 06th, 2016

The Japan Maritime Daily (JMD): What is your overall feeling when you look back on last year?

Ono: 2015 was a very difficult year. In addition to the poor market in the Europe trade resulting from the deterioration in the supply and demand balance, there were absolutely no signs of a recovery in the South America east coast trade. We implemented a drastic rationalization of the ECSA (East Coast of South America) services at the end of the year, but it did not bring about a recovery last year.

Since taking charge of the Liner Division in June of last year, I have worked to improve our earnings and expenses with a focus on strengthening sales and securing cargo for the return voyage. Because the profit forecast took into account the cargo volumes and business process improvements, the results as of March 2016 were roughly in line with the forecast. However, even though we achieved the forecast, the figures themselves were extremely poor to begin with.

JMD: What is the state of the various services this year?

Ono: It is safe to say ECSA trade has dramatically changed. The capacity during the peak season was reduced almost in half compared to last year. Demand is now exceeding capacity, and currently there is no extra space. Although there has been some political turmoil, signs of a shift in the Brazilian economy are apparent, and I expect both export cargo volumes (from Brazil) as well as imports to increase as we move forward.

My main concern is that when the market environment improves, there will be a move toward expanding the services. Already some shipping lines are soliciting cargo from Asia for transshipment from another service to the ECSA. Typically, this arrangement results in excessively

MOL Liner Chief Executive Officer
Akihiko Ono

Graduated from Hitotsubashi University Faculty of Commerce and Management in 1983 and joined Mitsui O.S.K. Lines (current MOL). He was promoted to Manager of the Corporate Planning Division in 2010, Executive Officer in 2011 and his current position in 2015. He is 56 years old.

long transit times and fails as a service, but with the supply and demand balance as tight as it currently is, shippers will use this service. Rightly, none of these actions have led to the establishment of new permanent services, so they will most likely not upend the current tight situation. Our service should now be profitable.

It feels like the currents have changed in the Europe trade. While the peak season capacity dropped 10% compared to last year, cargo volumes increased 6-7%. May and June were also firm, so there are signs the freight rate might rise. The fact that the European shipping lines are taking the lead in the effort to increase freight rates is also having a positive impact on the market sentiment. However, there are questions as to how the BREXIT (UK's decision to leave the EU) will affect cargo volumes. We will keep an eye on whether volumes continue to increase.

Increased capacity has impacted the North America trade

JMD: How is the Transpacific trade?

Ono: Compared to the ECSA and Europe, the Transpacific trade has been weak. Cargo volumes are increasing, but there is no mood for increasing the freight rates. The increased capacity is definitely having an impact. The SC (service contract) renewal negotiations this year were conducted at a harsh level. For this reason, our ratio of long-term contracts decreased compared to last year while the number of short-term contracts increased. I have hope that the spot freight rates during the peak season will increase.

JMD: The Panama Canal expansion opened on June 26.

Ono: The first containership to transit the expanded Panama Canal belonged to COSCO Container Lines, but this was just for ceremonial purposes. The first ship to transit on a regular service from Asia was our vessel, MOL BENEFACTOR, which is operating in one of the services operated by the G6 Alliance. Unfortunately, the limitations on cargo weight due to water shortages made the ship appear less than full, but was still a good memorable event.

JMD: In May, The Alliance, which will include six shipping lines including MOL, was announced.

Ono: Excluding the old consortium, it will be the first time for the three Japanese shipping lines to work together since the alliances first appeared in the late 1990s. However, just because the three Japanese shipping lines will be in the same alliance does not mean that we will focus solely on rationalizing the services calling in Japan while ignoring the needs of our customers. Deploying larger ships will reduce costs, but if the service frequency decreases, so too will the convenience, which will make it difficult to receive support from our customers. It will be important to find a balance between achieving rationalization and maintaining a certain service frequency. For the Europe trade as well, we will proceed with organizing the services based on the maintenance of direct service from Japan.

Also, the new alliance will continue the mind-set of the G6 alliance, and in principle, it will be a mixed fleet based on the best ship concept.

Accelerating the implementation of IT

JMD: You have worked to strengthen sales. Have you started to notice any results?

Ono: We have focused on improving customer service and have worked particularly hard to enhance inside sales and customer support. We are moving forward with improving the business processes and Project Sea, which is a system development project, and we are putting effort into preparing sales support tools that utilize IT. We will accelerate the implementation of these tools as necessary. I want to swiftly improve customer service. I hope this is not misconstrued, but consolidating operations into the service center may diminish the customer-focused sales capacity. On the other hand failing to do this will make it impossible to maintain our cost competitiveness. Although they are contradictory, we must achieve both.

JMD: In 2017, you will take delivery of six 20,000 TEU containerships.

Ono: We will replace the current 14,000 TEU ships chartered from APL. In combination with the large containerships of the other alliance members, these new ships will likely be used to create one loop in the Europe trade.

JMD: It has been a year since you have taken charge of the Liner Division.

Ono: Since taking charge, I have taken action in the various areas, such as improving the business processes, and the results are slowly but steadily becoming tangible. It has been difficult to see no improvement to the bottom line as the downturn in the market was severe enough to wipe out the improvements, but I will continue to work toward improving the business together with the MOL liner staff around the world and the rest of the MOL group.

This article published in Japanese on 12th July 2016.

Norden CEO, Jan Rindbo

Strong policy "customer first", Believing relationship with owners

Published on August 22th, 2016

Norden, one of the largest dry bulk and product tanker operator, are going forward their business. They focus strategy Focus & Simplicity, now shaping up their dry bulk carriers such as post-panamax, small handy sizebulkers. Mr.Jan Rindbo sat down with us in his office talking about their strategy and relationship with customers and shipping owners.

The Japan Maritime Daily (JMD): First, would you explain outline of Norden?

Rindbo: About dry bulk side, we operate around 250 ships at that moment. Tanker side, all product tanker 40 ships are going on under our management. In dry bulk sector Norden manage dry bulk pool, including very short-term such as spot term. Today, 45% of our fleet is ships that are taken in on just single trip. Almost half of our dry bulk fleet is chartered in on very short-term basis. And that is of course, to meet our customer requirements. We get cargo from our customers and then also charter ships in from the market, both of course, long-term, but now also, a lot of ships on short-term to meet out cargo requirements.

JMD: Generally speaking, many Japanese operators tend to shrink dry bulker division. Is it the same situation in your company?

Rindbo: I am not sure about Japanese shipping operators. However, in terms of Norden, dry division expands rather than past years. Because focusing cargo custmers, it generates more vessel demand, especially short-term vessels. Actually,we have a very strong focus on cargo and customers. and we have offices around the world. Last year we opened up two new offices, one in Santiago, Chile also, we opened up Melbourne, in Australia. This is done to meet our customers demand.

JMD: What is strong point or motto Norden going forward dry bulk business?

Rindbo: We are led by customer demand. We believe as long as having cargo, the better access we have to cargo, the more ships we need to service our customers. Of course, it is our decision what the composition of the fleet is. For instance, do we long-term charter ships or do we short-term charter ships? In short, we think "cargo first," and then we think about how do the ships meet the cargo requirements.

Norden CEO, Jan Rindbo

Mr. Jan Rindbo has been the Chief Executive Officer of Dampskibsselskabet Norden A/S since May 2015. Mr. Rindbo served as the Managing Director of IHC & IHX at Pacific Basin Shipping Ltd. until November 7, 2014. He served as the Chief Operating Officer of Pacific Basin Shipping Ltd. from January 1, 2010 to November 07, 2014. He served as a General Manager of Pacific Basin Shipping Ltd. until November 7, 2014. In 1994, he joined Torm, where he specialized in Handysize chartering activities and pool operations and was Chartering Manager with TORM Asia, Hong Kong in 1996. Mr. Rindbo graduated from Naestved Business College in Denmark in 1993. He attended the International Executive Development programme and Managing Global Virtual Teams at INSEAD in 2007.He is 42 years of age.

If our customers have more cargo to move, then we need more ships. I also think that in the market that we are in now, a lot of uncertainty bulkers in the market on performance. But, Norden stands out a reliable partner; someone you can trust. And I think both on cargo, but also on ships, it means that more people looking to do business with Norden.

JMD: What cause so dry market such low revels, do you think?

Rindbo: Obviously, one thing is over supply issue. I think the fundamental problem or challenge we have in the dry cargo market for the last ten years. We have been used on average to be economic growth of around 7 percent. Therefore, also supply side the world fleet has been built to meet that kind of growth. Now, time changes, it's a new situation with much, lower economic growth. We need to adjust the world fleet to this lower growth scenario, but of course, that can't happen overnight. That takes time to do more scrapping. No ordering of new ships. A balance will be found to take a long time to find recovery.Quite a bit of order book prepares to deliver. These are the ships that were ordered back in 2013. It is difficult to see right now, how fundamental change can happen in the market. I think we need to get past the current order book.

JMD: Norden negotiated some Japanese shipping owners to pre-payment to arrange charter rates. What is aim for Norden such a negotiation earlier timing?

Rindbo: We have since January of 2015, paid around 80 million dollars in pre-payments. I think what is really fundamentally different the situation at that moment. We sit down with owners, and then find an agreement together for mutual benefit. That's a very important way of doing business for us.

It's not about winning or losing, it's about doing business together as a partnership. When we do the higher pre-payments, we do that because there's a benefit for the owner to get the money early. Especially, last year when the yen was at 120 and that was a big benefit for owners. We are in a good position where we have cash. Of course, this is one way we can use the cash -actively. We think that deal is getting the mutual benefit.

JMD: How about tanker side?

Rindbo: Tanker side is smaller because the ships that we operate on part of tankers are all either owned 40 ships. All product tankers and spec type is mainly MR (medium-range). Norden focuses only product and flexible tankers. Not interesting in crude tanker including VLCCs. The reason we like to focus on product tankers is an important part of our strategy, both for dry cargo and for tankers. Handy-size bulkers and MR tankers are both to operate in ship types where we can add value as an organization. Adding value means it's a combination of cargoes how can we be operating smarter. Minimizing ballast time, where can we service our customers? Where do customers have higher demands? We think that we do that in what I would call the mid-range, the mid-size ships. On tankers, they are very much MR and also, Handy-size on dry cargo, Super-max and Panamax. That's where we believe that our organization can add more value.

This article published in Japanese on 19th July 2016.

Mizuho Sangyo President, Norikazu Ochi

Navigating the good times and bad together with the operators

Published on July 19th, 2016

The Japan Maritime Daily (JMD): The dry market is in poor shape. These are tough times for shipowners.

Ochi: We are doing everything we can to survive. We have remained focused solely on the shipowner business and have experienced both good times and bad. I believe the current situation calls for perseverance.

JMD: Some operators are calling for charter rate cuts.

Ochi: We have always worked together with Japanese operators. During the down times, both the operators and shipowners are affected. If there are any requests to lower charter rate that would be something we would look at together with the operator. The maritime cluster in Japan is made up of the shipowners, ship operators and shipyards and has a strong sense of togetherness. It is this sense of togetherness that enables the maritime cluster in Japan to show its strength.

For us, it would be difficult to accept any cuts to the charter rates. However, we could also look at it as a good challenge. When the operators are in a difficult position, the shipowners should cooperate. It is this sense of togetherness that will lead to the formation of a stronger trusting relationship when the market recovers in the future. The shipowner business I am aiming for is one that works with our partners to get through the hard times together.

JMD: There have been large fluctuations in the exchange rate. What have you done in response to this?

Ochi: As long as the exchange rate remains at 1 dollar = 110 yen, we will not face any severe problems. We have experienced a rate of 1 dollar = 70 yen. We also keep the exchange rate risk in mind when managing the business, and when the yen weakens to 1 dollar = 120 yen, we hedge our risks. We do not go after

Mizuho Sangyo President
Norikazu Ochi

Headquarters 4-32 6-Chome Jibori, Imabari, Ehime Prefecture. The company owns the "Oita Maru," the first 300,000 dwt ore carrier operated by NYK. In addition to owning the first of the JFE series of setouchi-max bulk carriers, the company has extensive experience with capesize bulk carriers. The company also owns car carriers.

prospective profits from a weaker yen. Rather we hedge our risks for the strong yen periods.

Diversity is a strength

JMD: Orders for new dry ships have stopped.

Ochi: Everyone involved in shipping believes the market will rise if the supply of ships stops. On the other hand, shipyards want to build ships. The shipping industry has always operated based on this inverse relationship between supply and demand. In the case of Japan, shipyards can build not only dry ships but also a wide range of other ship types such as tankers, gas carriers and offshore structures. This diversity is one of the strengths of Japanese shipyards. Even if the demand for dry ships falls, I believe most shipyards can respond flexibly.

JMD: What is the current situation regarding the ships you own and have on order?

Ochi: In principle, we do not order a ship unless we have a charter guarantee from the operator. We believe that the charter guarantee from the operator is the most important commercial right. It might take 1-2 years for the dry market to recover. Until the currents shift, we will refrain from ordering any new ships.

We own 38 ships, most of which are capesize bulk carriers. In addition, we own 3 car carriers, 1 VLGC (very large LPG[liquefied petroleum gas]carrier) and one small LPG carrier. We have 6 ships on order, 2 capesize bulk carriers and 1 handysize bulk carrier, as well as a car carrier and VLGC.

JMD: Do you conduct any business with foreign shipping companies?

Ochi: Transactions with Japanese operators make up the majority of our business. The reason for this is we can have face to face conversations and build a long-term trusting relationship. For this same reason, we conduct business with the foreign shipowner Zodiac Group. We have worked with them for 7-8 years now, and they are on the same wavelength as our management policy. We are willing to conduct business with foreign shipping companies if we can find a partner with whom we can develop a trusting relationship.

JMD: Do you own any containerships?

Ochi: Prior to the Lehman Shock, we owned several 4,500 TEU class ships. Originally, we were one of the first to own a containership. It started with a near-sea containership chartered to NYK. Presently, we do not own any containerships.

Taking pride in ship management

JMD: How is your ship management?

Ochi: The pride of Japanese shipowners is that we perform ship management in house and achieve safe operations. The strong ship management is what has made it possible to form trusting relationships with the Japanese operators. Superintendents (SI) are important for in house ship management. We foster personnel who have an attachment to the ships we own and can provide ship management with a sense of pride. For this reason, we place effort in attending the ships, and each employee conducts his or her work with a sense of responsibility. I believe this is extremely important to the management of the shipowner business.

This article published in Japanese on 6th June 2016.

K Line Representative Director and Senior Managing Executive Officer (Responsible for the Drybulk and Energy Transportation Unit), Hiromichi Aoki

Fleet of small and medium sized bulk carriers to be cut in half in the future

Published on June 20th, 2016

69 billion yen for structural reforms

The Japan Maritime Daily (JMD): From the term ending in March 2016 through the term ending March 2017, K Line has budgeted about 69 billion yen for structural reforms.

Aoki: Of this 69 billion yen, 34 billion was spent in FY2015 and 35 billion will be spent in FY2016. Not all of it has been allocated to the dry bulk business, and in FY2016, we expect to allocate some of this budget to major structural reforms at our affiliates.

JMD: What is your basic policy for the reforms in the dry bulk business?

Aoki: There are two basic policies: one is to reduce our exposure in the small and medium sized segment and the other is to increase the cost competitiveness of our large vessels. We are steadily making advances in both of these areas.

Our dry bulk business secured profits for the past 36 years, but we were unable to avoid a loss in the term ending March 2016. To date, we have secured stable profits from transportation of raw materials for steel manufacturing, thermal coal and raw materials for making paper, and we were able to absorb the losses from our tramp vessels during the down times and achieve higher profits during the good times.

However, the dry market is in a structural stagnation due to a combination of a slowing Chinese economy, low resource prices and increased vessel supply. The earnings deterioration in the tramp segment has been extraordinary, and it is becoming difficult to cover these losses with the stable profit. Over the short term, there is little hope for a real recovery in the dry market.

That's what makes it the right time to undergo painful structural reforms, increase the competitiveness of our long-term chartered vessels and reduce our exposure in the tramp segment. Over the

K Line Representative Director and Senior Managing Executive Officer (Responsible for the Drybulk and Energy Transportation Unit)

Hiromichi Aoki

Graduated with a degree in economics from Shinshu University in 1981 and joined K Line. He was promoted to head of the LNG Group in 2003, Executive Officer in 2008, Managing Executive Officer in 2011, Director and Senior Managing Executive Officer in 2014, Representative Director and Senior Managing Executive Officer in 2015 and his current position in April 2016. He is 57 years old.

years, the dry bulk business has accumulated several hundred billion yen in profits, so the current structural reforms can be viewed as a reassessment of the assets. We expect profits to improve by 10 billion yen in 2016 and 13.5 billion yen in 2017.

JMD: From a long-term perspective, what direction do you plan to take the dry bulk business?

Aoki: In line with the freight volumes based on our long-term relationships with customers, we will set the appropriate scale for the fleet. Over the long-term, I want to reduce our fleet of small and medium size bulk carriers by at least half, but for now, we will reduce the fleet by 1/3.

Minor impact on LNG

JMD: How is the business environment in the LNG Division?

Aoki: The recent spot market is at historically low levels. However, we have been able to cover these low rates with the medium and long-term contracts, so the impact has been minimal. The start of future projects has been delayed due to the drop in oil and gas prices, but the impacts of these lost opportunities will not appear during the period of our mid-term plan.

JMD: Following the increase in LNG trading, Japanese and foreign shippers are showing increased preference for short-term charters.

Aoki: Our basic policy is to focus on chartering one vessel at a time to customers who value the service we provide based on our core ship management capability. We are not considering building new vessels to be operated under short-term contracts, and we will continue to procure made-to-order vessels in accordance with the long-term demand.

However, in order to respond to the needs for short-term charters, we will keep the short and mid-term offerings in our portfolio of existing vessels. For example, the medium term contracts for 1-2 gas carriers in our fleet will end next year. In addition, several of the contracts for LNG projects that have received FID include an option with leeway between the vessel delivery and start of transport operations. I want to use these ships to respond to the short-term demand.

JMD: In the LNG business, you are more actively pursuing the commercial rights of major US and European oil companies in addition to the Japanese electric power and gas companies.

Aoki: In the area of ship management, we are providing service to nearly all of the major oil companies, including ExxonMobile, Royal Dutch Shell, BP, BG, Total and Repsol and many others. Moreover, our local office in England, K Line LNG Shipping (UK), which opened in 2001, has worked to further reinforce sales. We started providing ship management in the UK in 2007-2008, and including spot contracts, we have conducted business with almost all of the customers in the Atlantic.

Call-off contracts

JMD: With the low oil prices, there are headwinds in the offshore development market.

Aoki: In the North Sea, almost 50% of the AHTS (anchor handling tug supply vessel) and about 30% of PSV (platform supply vessel) are currently idled and laid up. However, the new, large AHTS operated by our local Norwegian company "K" Line Offshore are the strongest in the world and highly regarded by customers. They are chartered at rates well above the market average and have a high utilization rate.

In addition, "K" Line Offshore has concluded call-off contracts with Lundin, an upstream energy development company in the Netherlands, and ENI, an Italian oil company. These agreements are similar to COA (contract of affreightment) except they are based on the length of the charter, such as at least 90 days or at least 180 days per year.

This article published in Japanese on 10 th May 2016.

Director, Senior Managing Executive Officer and Director General of the Energy Transport Business Unit at Mitsui O.S.K. Lines, Takeshi Hashimoto

Conquering the overseas market through the partner strategy

Published on April 21th, 2016

The Japan Maritime Daily (JMD): On April 1st, you were appointed Director General of the Energy Transport Business Unit.What are your goals for the business unit?

Hashimoto: Our Tanker, LNG Carrier and Steaming Coal Carrier businesses are 3 divisions that are competitive internationally. With the implementation of the business unit structure, we will further refine our strengths and gain an overwhelming competitive advantage over our competitors. Given that the market in Japan is not expected to grow, the major competition will take place overseas.

The partner strategy holds the key to our overseas expansion. We have strong partners in the LNG Carrier and Tanker businesses, including national oil companies, government affiliated shipping companies and our partners in joint operated shipping pools. We will fully leverage the business networks we have formed between the divisions.

Identifying the growth sectors

JMD: What effect has the falling resources prices had?

Hashimoto: There has never been a time before when market intelligence has been as important as it is now. Upstream development has languished around the world, while on the other hand, there are sectors and regions where demand is growing as a result of the drop in crude oil prices. China, which has been the main driver of growth to date, is entering a period of adjustment, and the business environment in the US and Europe lacks strength. However, the demand for crude oil and gas is growing in India, China and South America.

Also, nuclear power and renewable energy are positioned differently is each country and region. While Germany has decided to withdraw from nuclear power, China is promoting it as a means of dealing with environmental issues. Although there is little hope for an increase in the demand for coal in developed countries due to the environmental problems it causes, developing countries, which are suffering from increasingly severe electricity shortages, are promoting the construction of coal-fired power plants.

After identifying the areas that still have room to grow, we will direct our sales efforts toward those areas. Looking from a mid to long-term perspective, which sector we invest in and when that investment is made will have a large impact on the results. While gathering and analyzing data, we will also value the feedback from customers, who have a high level of market intelligence.

100 LNG carriers

JMD: These past several years, you have increased the number of LNG carriers on long-term charter.

Hashimoto: Presently, our LNG carrier fleet numbers about 70 ships, and we have about 30 ships on order. New large-scale projects are being planned in East Africa and Canada, but the start of these projects is slightly delayed due to the low energy prices. The expansion of our LNG fleet to 100 ships is now within sight. For the time being, we will place our efforts into following through with the contracts we have obtained.

JMD: In the Offshore and LNG Project Division, you have already invested in 6 FPSO (Floating Production, Storage & Offloading System) .

Hashimoto: Previously, we had intended to invest in 10 FSPO in the near future, but the development of offshore oil fields has been temporarily delayed. On the other hand, FSRU (Floating Storage and Regasification Unit) has received a boost. Following the drop in LNG prices, the number of countries and regions around

Director, Senior Managing Executive Officer and Director General of the Energy Transport Business Unit at Mitsui O.S.K. Lines

Takeshi Hashimoto

Graduated from the Kyoto University School of Letters in 1982 and joined Mitsui O.S.K. Lines. He was promoted to General Manager of the LNG Carrier Division in 2008, Executive Officer in 2009, Managing Executive Officer in 2012, Director and Managing Executive Officer in 2015 and his current position in April 2016. He was born in Tokyo and is 58 years old.

the world newly considering importing LNG is increasing.

We are able to make use of our strengths in regions such as Southeast Asia and India. Following Uruguay, we want to participate in a second and third project. However, the financing composition is one of the hurdles given the large investment of USD300-400 million per FRSU and the fact that many of the projects are in developing regions.

Small lot demand for LNG

JMD: What can you tell us about the shuttle tanker business you are operating together with the Norwegian shipping company Viken Shipping.

Hashimoto: We have concluded long-term contracts and stable earnings which are unaffected by changes in the economic conditions or crude oil prices. The demand for gasoline will continue to grow mainly in developing countries. This growing demand will be met by the deep water and North Sea oil fields. There is a good chance that demand for shuttle tankers will grow.

In addition to shuttle tankers, we are looking into working with Viken in the area of small LNG carriers and offshore support vessels. As natural gas becomes more widely used, there will likely be small lot demand, such as LNG bunkering and offshore LNG storage.

JMD: How about the tanker business ?

Hashimoto: I have a rather cautious outlook for the tanker market. The market has been strong these past two years, but the supply of newbuildings will increase in 2016 and 2017, so the market will likely soften. We will respond to this weakening by reducing our market exposure. On the other hand, the global demand for crude oil will continue to grow. While consulting with experts both inside and outside the company, we will formulate a mid to long-term strategy.

This article published in Japanese on 31st March 2016.

The head of the d'Amico Group

Getting through the tough times together with our Japanese partners

Published on April 19th, 2016

We interviewed the top executives of the d'Amico Group, a major Italian shipping company specializing in dry cargo vessels and product tankers. Despite the ongoing historic lows in the dry bulk market, the company has emphasized its stability, stating "We have built a strong financial foundation." In addition, the company is determined to "get through this difficult situation together with our Japanese maritime partners." The interview was attended by Chairman Paolo d'Amico, CEO (chief executive officer) Cesare d'Amico, CEO of d'Amico Dry Luciano Bonaso and CEO of d'Amico International Shipping (DIS) Marco Fiori.

Abnormal market level

The Japan Maritime Daily (JMD): Faced with a difficult business environment, dry bulk shipping companies are requesting ship owners to reduce the charter rates.

d'Amico: The situation at each company is different. Our dry bulk fleet is not very large, and we were also cautious about our fleet investment. Of course, we do have ships that are expensive to operate, but overall we have a relatively competitive fleet. However, at the current market levels, regardless of how competitive our fleet is, there is no avoiding a loss.

Honoring our commitments is one of our basic policies. However, the current market is not normal, and we are unable to cope just through our own efforts. Therefore, we are discussing with multiple ship owners what measures can be considered. We will not do anything such as issuing a request for a 50% reduction in charter rates. We will negotiate on a case-by-case basis. For example, based on the consent of the ship owner, we are considering extending the charter period in exchange for lowering the charter rates. We may also consider a temporary interruption to the charter contract.

We are also discussing with shipyards about changing the delivery times of the

The head of the d'Amico Group

d'Amico was founded in 1952 in Italy as a dry cargo vessels and tankers owner and operator. Primarily headed by the d'Amico family, the product tankers operator DIS is listed on the Milan stock exchange.

newbuildings. Japanese shipyards are known for their strict observance of delivery dates based on exacting process control. We are aware that it is difficult to change the delivery. However, if the ship operators, ship owners, shipyards, financial institutions and other related parties do not work together, it will be difficult to make it through this difficult period.

Strong financial foundation

JMD: The dry bulk market has hit historical lows.

d'Amico: Unfortunately, a number of negative factors occurred at the same time, and the dry bulk market was overtaken by a perfect storm. Compared to past years, global economic growth has slowed. In particular, the slowdown in China has pushed down the demand for transportation. On the other side, the supply of newbuildings ordered during the good years is continuing. The oversupply will most likely not be easily eliminated. If the weak market continues, I believe the scrapping of mainly older ships will increase. The age of ships targeted for scrapping will also get younger. The number of delayed or cancelled newbuildings will increase as well, providing an opportunity for the market to recover.

The d'Amico Group has dispersed our risk by operating the two segments of tankers and dry bulk, and we have built a strong financial foundation. We have overcome countless weak periods over the years. The market will eventually recover. Difficult times such as these also create opportunities for further growth in the future.

JMD: How is your dry bulk fleet structured?

d'Amico: We operate 43 ships. Of those, we own 22 and charter the other 21 on long-term charters from Japanese ship owners. Our ships are mainly panamax, supramax and handysize type. Eleven of the ships on long-term charter will be returned in the next 2-3 years. We have 26 ships on order scheduled for delivery through 2019. Of those, we will own 12 and charter 14 on long-term charter from Japanese ship owners.

Good results in product tankers

JMD: DIS's results for FY2015 were the best since 2009.

d'Amico: The reason is the improvement in the product tanker market. As a result of the large drop in crude oil prices, the demand for petroleum products increased. Gasoline consumption increased in Asia, Africa and the United States. There was also a clear contango in diesel fuel and other products, and the demand for ships for storage further lifted the market. Also, new refineries coming online increased the transportation demand. The market level in 2016 will likely be below that of 2015, but it is expected to remain firm.

JMD: Last year, you ordered LR1 tankers and made a new entry into that market.

d'Amico: Our newbuilding program for product tankers is 22 ships and will be a total investment of around USD750 million. 12 ships have already been delivered, and another 10 ships, including 6 LR1 tankers, will be completed in 2016-2018. Last year, we decided to charter 6 MR tankers from Japanese ship owners. 6 newbuildings will be delivered in 2017-2018 from Minaminippon Shipbuilding, Onomichi Dockyard and Japan Marine United (JMU). They will be a new design, and the fuel consumption performance, etc. was the deciding factor.

This article published in Japanese on 14th March 2016.

Pacific Basin CEO, Mats Berglund

customer and cargo first, passion for service and reliability

Published on April 15th, 2016

The dry market is facing some of its worst ever times and some shipping operators have already entered into bankruptcy protection. Pacific Basin, however, continues to generate positive EBITDA, operating over two hundred Handysize and Supramax bulkers which benefit from high cargo utilization due to the Company's global office network, system of complementary cargo trades and optimal scheduling of their large fleet of substitutable ships.

We, Japan Maritime Daily sat down with CEO Mr. Berglund to ask about Pacific Basin's "customer and cargo first" business model and passion for service and reliability.

The Japan Maritime Daily (JMD): In 2015 fiscal year, the dry market fell to historical lows. How did you perform last year?

Berglund: We managed to improve our results slightly from the previous year; so slightly higher EBITDA earnings, which increased from US$82million to US$88million. We halved our underlying loss from US$56million to US$28million, and our bottom line was a much reduced net loss of US$19 million. I think these are fairly respectable results considering that the market was very tough.

We managed to turn around our Supramax business partly by growing our parceling activity and reducing our chartered in costs. We use a lot of "short-term chartered-in ships" and so, when market rates fall as they did, short-term charter costs reduce significantly for us. Also, we significantly reduced our G&A (general and administrative) expenses by US$19 million compared to 2014.

Looking to the balance sheet, we had US$358 million dollars of cash at the end of 2015 with an additional US$375million of committed loan facilities. That is primarily JBIC (Japan Bank for International Cooperation) export credit agency financing to pay for the thirteen remaining newbuildings, all from Japanese shipyards. Our net gearing reduced from 40% to 35%. We have two convertibles bonds,

Pacific Basin CEO, Mats Berglund

Mr Berglund joined Pacific Basin as Chief Executive Officer in 2012. He previously served with Swedish family-owned conglomerate Stena from 1986 to 2005, occupying managerial and leadership positions in various Stena group shipping businesses in Sweden and the USA including group controller of Stena Line, vice president and chief financial officer of both Concordia Maritime and StenTex (a Stena-Texaco joint venture), president of StenTex, and vice president and president of Stena Rederi AB (Stena's parent company for all shipping activities). From 2005 to 2011, he was senior vice president and head of Crude Transportation for New York-listed Overseas Shipholding Group. Between March 2011 and May 2012, he served as chief financial officer and chief operating officer at Chemoil Energy, a Singapore-listed global trader of marine fuel products.

one of which will mature in April 2016 and the other has a put option in October 2016. Together these known and expected repayments would total US$230 million, and we have sufficient cash to repay them.

JMD: How do you see the dry market in 2016?

Berglund: We think it will be a very tough year. However, scrapping has picked up significantly to a level which we think may lead to a shrinking fleet this year. Scrapping in the year to date represents a significant 60 million deadweight tonnes on an annualized basis.

Last year, newbuilding deliveries amounted to 49 million deadweight of new capacity. So, if we see 49 million deadweight of new deliveries in 2016 and scrapping stays at current levels - say 60 million deadweight for the full year - the global dry bulk fleet would decrease a little bit this year. That's really what we think needs to happen for the market to improve. We have to see more scrapping. About 9% or 10% of the world fleet is older than 20 years and, with spot rates now below shipowners' cash operating levels, there is real market pressure and incentive to scrap more of these ships.

JMD: The reason why the Capesize market was so depressed last year is partly due to much reduced Chinese coal imports. How about in the Handysize and Supramax segments?

Berglund: We think that the supply side picture is better for the minor-bulk ships than for Capesize. The Handysize fleet has an older age profile which means there are more Handysize ships around scrapping age than in the bigger vessel sizes. So we think that in the long term it will look better. We see still too many ships today and we need to see more scrapping. Rates have come down to such low levels that one has to ask: how can we cope with this very weak market?

Our company's biggest strength is our ability to optimize the combination of our cargo routes and optimally schedule our large fleet of interchangeable ships, and thereby achieve a very high laden percentage.

We have been generating daily earnings that are higher than the index rates and we do that by achieving a very high laden percentage. We are not paid higher freight rates than market rates, but we very often manage to get cargo in and cargo out, which is what one needs to increase utilization of one's ships.

We have 12 offices around the world for which our local chartering managers source cargoes from local clients. You've got to have cargo; "cargo is king" and it will be so even more in the future.

Coming back to the supply side, we see very few newbuilding orders now and I think that will continue.

JMD: We would like to know about your strength how your company can "survive" such a weak dry market situation.

Berglund: We are a big shipowner with a hundred owned ships. I believe that in 2016 companies like us will gain some advantage from a cargo perspective. Going forward, I think shippers will look more carefully who they give their cargoes to and who they give their longer-term cargo contracts to. I think we will benefit by being owners (not just operators) of ships, which is a competitive advantage,. We are a strong, credit-worthy counterparty for our customers to fix their cargoes with; we have US$358 million in the bank. I think that the shippers, including Japanese cargo owners and trading houses can comfortably give their cargoes to us without the risk of having the ship arrested due to bankruptcy, unpaid bunker bills or similar.

JMD: Do you have plans to lay-up or idle your vessels?

Berglund: We have no reason to scrap or lay-up our ships because our earnings are still above our cash operating levels. That is thanks to our high utilization rates. which enables us to generate an earnings premium compared to market rates. Our oldest ship is fifteen years old, so we don't have any old ships and we are making positive cash flow so we have no reason to scrap or lay-up or even idle our ships. But there are other companies that do not have the business model that we have and they are more exposed to today's spot market. They may have older ships, and they are the companies under more pressure to consider scrapping.

JMD: Pacific Basin offers reliability for shipowners especially, Japanese shipowners. Could you give us comment for ship owners?

Berglund: We would advise Japanese shipowners (and all shipowners) to be careful who they do business with, especially if they timecharter their ships out to operators. As we have in the past, we honour our commitments. We have the will as well as the ability and health to do so. We would never unilaterally change the terms of a charter, although we do very occasionally agree to revised charter terms - but only where such revisions have been through amicable negotiation and serve to benefit both parties.

This article published in Japanese on 28th March 2016.

Ultrabulk, Executive Vice President, Head of Shipholding, Mr. Henrik Sleimann Petersen

Our values are INTEGRITY, EXCELLENCE,SAFETY and PASSION

Published on April 06th, 2016

The Japan Maritime Daily (JMD): What is your purpose, in this time you come to be held conference for Japanese shipping owner and other business partners?

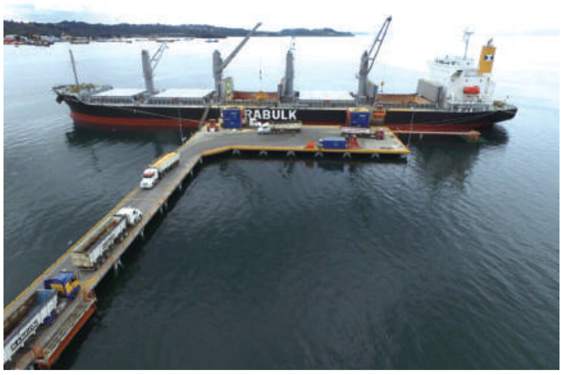
Petersen: This is the 4th annual presentation to our Japanese partners. We started the tradition in 2013 after some of our friends asked for an update of our business and our long term exposure. The first year it was only in Tokyo and we had 45 friends and business partners attend the first presentation. This year we make the presentation in both Tokyo and Imabari City and have more than 150 people attend.

It gives us a great opportunity for Ultrabulk to give all our friends and partners in Japan an update on the Ultrabulk platform, our financial performance in the year passed and our long term goals and ambitions for the future, including an update on our long term market exposure. We invite our long term partners like shipowners, ship builders, trading houses, brokers, financiers and cargo interest, and the attendance is growing every year.

Japan is the most important market for Ultrabulk long term ambitions and we take great pride and honor in keeping our friends and business partners informed of our life.

JMD: Dry bulk market is now under severe situation. How does Ultra Bulk overcome the 2016 dry bulk market?

Petersen: 2016 will be very challenging for everyone involved in drybulk. There is a continued oversupply of new vessels, and the international demand for drybulk transportation is not able to match the increase in tonnage supply. Thankfully scrapping of old vessels is increasing, but we expect a very tough 2016 and also



Ultrabulk, Executive Vice President, Head of Shipholding,

Henrik Sleimann Petersen

Mr. Petersen joined the Company in 1997. Until 2006 he held the position as Director of Eitzen Bulk (USA) Inc.He started his shipping carreer in 1986 in A.P. Moller - Maersk where he was part of the Maersk Bulk team to 1994, including overseas postings in Taiwan and Brazil. From 1994 to 1997 Mr Petersen was a senior partner in a Danish drycargo broker company. He is a graduate from the Maersk Shipping Academy and has completed executive development programs at amongst others the Wharton School, University of Pennsylvania, USA and INSEAD, France. He is a board member of Ultra Summit (Singapore) Pte Ltd. and Ultra MO One (Singapore) Pte. Ltd, as well as some subsidiaries of Ultrabulk Shipping A/S. Mr Petersen is a Danish citizen and resides in Denmark.

outlook for 2017 is not too promising. Ultrabulk has a business model where a very large cargo book assures employment of our fleet for many years into the future. In 2016 Ultrabulk already has secured 86 % cargo cover for our fleet and all the way in 2020 we already have 50% cargo cover. This makes the business model less exposed to heavy market fluctuations, and allows Ultrabulk to make long term investment programs with less risk.

The biggest risk for continued profitable results is counter party default. When the market is challenging some contract counterparts can or will not perform and we see many companies in the shipping market trying to renegotiate already agreed contracts.

In Japan many honorable Japanese Ship owners are being asked to reduce long term charter rates for existing vessels. At Ultrabulk we are very sad to see many of our Japanese ship owner friends now having big headaches for some ship charterers trying to renegotiate contracts.

At Ultrabulk we hope that the Japanese owners will not agree to such requests since it will put pressure both on the Shipowners themselves, but also extra pressure on the long term charterers like Ultrabulk who is performing and honoring old contracts at originally fixed levels. This will put unfair competition on Ultrabulk and other shipping companies honoring their contracts.

If our competitors get special discounts, they can compete harder with Ultrabulk at unfair terms and Ultrabulk can not silently accept such unfair competition. This is real threat to Japanese shipping in 2016.

JMD: How many vessels does Ultra Bulk operate at the moment, and how many vessels do you have in your new ship building program?

Petersen: We operate a fleet of approximately 120 vessels within the handy size, supramax and panmax/kamsarmax segments. And as of today, we have 14 new buildings on order. all from Japanese ship builders. When Ultrabulk orders new vessels from shipbuilders we highly value the quality shipbuilding available by Japanese shipbuilders.

JMD: Would you give us your statement for Japanese shipping owners and community?

Petersen: Japanese ship owners and the Shipping community is very unique. Every contract is done with focus on high ethics, high quality and a true commitment to deliver on the contract. Ultrabulk and our mother platform Ultranav, has been doing business in Japan for several decades and we truly find our values very much aligned to Japanese business. Our values are INTEGRITY, EXCELLENCE, SAFETY and PASSION; all values that also are very important in Japan and every contract and partnership we have in Japan is built on these values. Our industry is in the worst crisis ever recorded. It is times like this that all friends and partners should stay extra close together and help each other to overcome the many challenges we face. If we stay close and remember our long term friendships and partnerships, then we will all come out stronger at the end of the crisis. From Ultrabulk we value our Japanese partnerships very highly and we will fight very hard to protect them.

This article published in Japanese on 23th March 2016.

23 Interview 英文で読む海事新聞 / 商船三井常務執行役員・光田明生氏

Managing Executive Officer at Mitsui O.S.K. Lines, Akio Mitsuta

Aiming to expand commercial deals with India and major oil companies

Published on March 31st, 2016

The Japan Maritime Daily (JMD): Please tell me about your analysis of the crude oil and product (petroleum products) tanker markets last year and your outlook for this year.

Mitsuta: Oil prices fell again at the beginning of 2015, and following the occurrence of demand for offshore storage, the supply and demand balance for VLCC (very large crude carriers) further tightened. Following the drop in oil prices, China has been actively establishing strategic reserves and increasing its commercial inventories, which has resulted in a significant increase in the demand for crude oil transport. On the other hand, supply pressure was weak, with the addition of just over 20 VLCC newbuildings. Meanwhile, about 100 new MR (medium range) product tankers were built last year. However, in part due to the start-up of new refineries in the Middle East, cargo volumes increased by almost 7%, and this absorbed the supply pressure.

Low 50,000 dollar range in 2016

This year, I expect it will be difficult for the VLCC market to remain as strong as last year. Regarding the demand for transport, it is expected that oil prices will remain low for quite some time, and China will likely continue to add to its strategic reserves. As a result, the growth in cargo volumes will probably grow at the same pace as last year. However, 50 new vessels are expected to be built this year, which will increase the supply pressure.

I expect the average freight rate in 2016 to be around WS (world scale) 70, and if bunker prices remain around the current prices, daily charter rates will reach the low 50,000 dollar level. Although this is less than last year's 60,000 dollar level, it is definitely not a bad market.

In regards to product tankers, in the MR segment alone, about 85-90 vessels are expected to be built, so there will likely be some loosening in the supply and demand of MR tankers. Concerning demand, the oil refineries in Europe are aging, and their operating rate is expected to drop. As a result, transport in LR (long range) 1 and LR 2 tankers may increase.

20 vessels are chartered to Japanese oil companies

JMD: What is the size of MOL's crude oil tanker fleet?

Mitsuta: Our group as a whole operates a fleet of 33 VLCC and 4 Aframax tankers. At the peak, we had a fleet of just under 40 VLCC and 7 Aframax tankers, but we reduced our market exposure with the aim of stabilizing income.

JMD: How are the VLCC contracts structured?

Mitsuta: 20 vessels are on long-term charter to Japanese oil companies. In addition, at the end of last year, an additional medium-term contract was concluded for an existing vessel, and through this, we were able to expand our baseline income. To foreign companies, we have 7 vessels dedicated to contracts with companies mainly in South Korea and India, and the other 6 vessels are engaged in spot or short term contracts.

JMD: What is your policy on newbuilding programs?

Mitsuta: We are considering a fleet replacement scheme that meets the transportation needs of our customers. Our basic policy is to order a vessel after we have received commitment to a long-term contract. However, the oil industry in Japan is entering a period of reorganization, and because it is a difficult environment to conclude long-term contracts, we may end up negotiating with the yard in advance to reserve a shipbuilding berth.

JMD: What are your thoughts about the spot voyage ratio?

Mitsuta: Just because charter rates are high, we don't intend to expand our earnings through spot charters. Ideally, we seek to provide customers with safe, reliable, relatively inexpensive service. The main directive for the group is to secure medium and long-term contracts and expand our stable income when the market is strong, as it has been since last year. However, we also have no intention of completely withdrawing from the spot

Managing Executive Officer at Mitsui O.S.K. Lines
Akio Mitsuta

Graduated with a law degree from Kobe University in 1982 and joined Mitsui OSK Lines, Ltd. Appointed head of the Tanker Division in 2011. Later appointed Executive Officer in 2013 and then Managing Executive Officer in June 2015. He is 56 years old.

market. Our joint venture Aramo Shipping in Singapore is currently operating 2 VLCC on the spot market, and we want to add at least 1-2 more spot vessels to be operated by the MOL Group.

Having contact with the spot market and obtaining up-to-date information holds important meaning for tanker operators. Also, our Japanese customers do not cover all of their marine transport needs under long-term contracts, so there is a need for spot charters. We seek to have sufficient flexibility in our fleet to respond when customers want to increase their coverage.

Growth through foreign commercial deals

JMD: What is your growth strategy?

Mitsuta: Our basic goal is to respond to the needs of our customers in Japan. However, there is little hope that demand for transport to Japan will grow, and rationalization is expected to further progress as a result of reorganization in the oil industry. In order to envision growth scenarios, it is necessary to expand our commercial deals overseas.

China is advancing its policy of 'Chinese oil in Chinese ships' under which the oil destined for China is transported by Chinese shipping companies, so it is difficult for a Japanese shipping company to obtain a long-term commitment. Given this, our targets may be India and the major European/U.S. oil companies.

In regards our relations with the major oil companies, currently, we have relations through the Aframax business, and out of the 4 vessels operated by the group, 3 are on time charter to major European oil companies.

Pools in 3 vessel segments

JMD: I understand that the MOL Tanker Division is actively participating in jointly operated vessel pools.

Mitsuta: Presently, we have established pools for MR (medium range) tankers, LR (long range) 1 tankers and VLGC (very large LPG carriers), and in terms of improving the quality and frequency of service, the pools have achieved good results.

By establishing pools with reliable partners, we can increase our operational scale and provide high quality service without increasing the risks for our company.

JMD: How is the MR segment structured?

Mitsuta: Alone, we operate a fleet of 34 vessels. Of those, excluding 5 vessels involved in the transport of biofuels, the remaining 29 vessels have been allocated to the 'Clean Products Tankers Alliance'. The alliance is made up of 4 companies: MOL, Asahi Tanker, the Chilean company Ultranav and the US company OSG, and it operates a total fleet of 55 vessels. Pool managers from our company primarily handle the Pacific Region, and pool managers from Ultranav handle the Atlantic Region. The fleet is divided into IMO rated vessels, which are in high demand in the Atlantic, and non-IMO rated vessels in the Pacific.

Particularly, in the Far East, we and Asahi Tanker have been providing MR tanker services for over 20 years, and although it has primarily been on the spot market, we have built long-term relationships with customers around Japan and South Korea.

JMD: What is the pool structure for LR 1 tankers and VLGC?

Mitsuta: For LR 1 product tankers, the pool manager Straits Tankers (Singapore), which was established as a joint venture between MOL and the Danish company Hafnia, is operating the world's largest fleet of over 30 vessels. Our company has contributed 11 vessels to this pool.

For VLGC, the 'Helios' pool established with the Greek company Dorian LPG is operating a fleet of 21 vessels. Of these, our 100% Singapore subsidiary Phoenix Tankers has contributed 4 vessels.

JMD: In October 2015, MOL's chemical tanker subsidiary Tokyo Marine Asia cancelled the pool with the Norwegian company JO Tankers.

Mitsuta: If we can find a high quality partner, the pool may be restarted from the perspective of increasing the service frequency and coverage. In such a case, we may have the Tokyo Marine affiliate Milestone Chemical Tankers participate.

Strengthening the partnership in MR

JMD: Are there any initiatives to strengthen the partnerships with group companies?

Mitsuta: Our head office and Tokyo Marine Asia are looking into the possibility of a partnership in coated tankers such as MR.

Tokyo Marine's basic fleet is specialized in stainless steel tanks, but there is a need among customers for large lot transport in coated tanks. Currently, this need is being met through charter-in vessels on the spot market, but going forward, we want to look for business opportunities through a stronger partnership with Tokyo Marine.

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