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Global Maritime Weekly Digest

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The **Global Maritime Weekly Digest**, based at **Southampton Solent University**, provides a regular flow of maritime news and analysis, of significance in a global context.

Topics covered include shipping fleets and management, seaborne trade, ports, shipbuilding, ship recycling, maritime policy and regulations, and seafarers' labour.

Contents

Editorial comments

- Some interesting critical points about the **current difficulties** of the global shipping industry are made by a well-known senior industry personality and guru (item 2).
- According to this view shipping is now "full of **insolvent and bankrupt companies** that have a fleet, in excess of demand, of more than 30% in some sectors". A call follows for shipping to restructure itself, by consolidating and placing more emphasis on longer-term commitments (instead of spot market charters).
- An exception to the depressed pattern is the **tanker market** (item 5), which has been benefiting over the past eighteen months from highly remunerative freight rates, even if these are not quite as good as enjoyed during the boom years up to 2008.
- The '**ocean economy**' is a novel concept, defined as the sum of the economic activities of ocean-based industries, plus the assets, goods and services of marine ecosystems. It includes shipping, ports, shipbuilding, offshore oil/gas, tourism, and also emerging aquaculture, wind and renewable energy and many other aspects.
- Research on the **sustainable development** of these linked activities within the ocean economy has just been published by the OECD in a new report (item 1), looking at how activities could evolve in the future up to 2030.

Richard Scott MA MCIT FICS

Editor

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(1) Organization for Economic Co-operation & Development, 28 April 2016

Sustainable Source of Economic Growth

http://www.oecd.org/sti/the-ocean-economy-in-2030-9789264251724-en.htm

The last few years have seen a spectacular increase in attention devoted to the need to protect the world's ocean and seas. At the same time, interest has been growing in the huge potential offered by the future development of ocean-based industries. Striking the right balance means greatly enhancing efforts to address the challenges of sustainable use of the ocean.
The OECD is already contributing at international policy levels to specific aspects of ocean-related issues – such as fisheries, shipbuilding, marine biodiversity and biotechnology. This report is the first endeavour by the OECD to consider the global oceanic activities with an economic and foresight perspective, with a view to supporting national and international efforts towards a more sustainable development of the ocean economy in the future.

The quick read
The Ocean Economy in 2030 analyses the economic perspective of the ocean economy while meeting the goals of a more sustainable development, and provides policy recommendations to support such national and international efforts. The many economic activities that make use of the ocean possess great potential for boosting economic growth, employment and innovation. Together, ocean-based industries play a key role in the world economy.

Calculations on the basis of the OECD's Ocean Economy Database estimate the ocean economy's output in 2010 (the base year for the calculations) at USD 1.5 trillion in value added, or approximately 2.5% of world gross value added (GVA). This is roughly equivalent to the size of the Canadian economy that same year.

The report puts forward a number of recommendations to enhance the sustainable development of the ocean economy:

- foster greater international co-operation in maritime science and technology as a means to stimulate innovation and strengthen the sustainable development of the ocean economy
- strengthen integrated ocean management
- improve the statistical and methodological base at national and international level for measuring the scale and performance of ocean-based industries and their contribution to the overall economy
- build more capacity for ocean industry foresight.

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(2) Hellenic Shipping News, 27 April 2016/article by Paul Slater, First International Corporation

Shipping: The Business of an Industry

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The shipping industry is a collection of thousands of businesses operating around the world carrying a huge variety of cargoes across the oceans and in the seas and rivers that separate the land masses where populations live.

Raw materials and commodities of all types are shipped efficiently from the source countries to consumers that manufacture finished goods, which in turn are shipped to other consumers. Energy products such as oil and gas and the chemicals they produce are shipped to consumers who cannot exist without them. Food products are also moved across oceans today and many form a fundamental part of the consumers' daily diets.

Up until the middle of the 20th century these shipping services were provided by large Liner companies and certain smaller companies serving specific trades mainly in the dry cargo markets. They were mostly located in the developed countries of Europe, Asia and the USA and certain fleets were directly owned by energy suppliers.

Greece and its nationals were a rising factor following the transfer of a large number of WW2 ships from the USA and have grown today to have the largest fleets of independent owners, most of whom are private companies.

The creation of containerization, started by Malcom Maclean, changed the whole shipping picture as the large liner companies failed to respond to this fundamental change and the de-colonisation of the UK's and other European countries changed the trading patterns of world trade.

These factors, combined with the acceptance of Flags of Convenience, now called Open Registries, opened the door to Independent owners who could be located anywhere and trade anywhere, thus creating a new competitive environment. Today there are thousands of shipping companies, mostly private, operating globally except in certain cabotage trades such as the US Jones Act.

The second-half of the 20th Century also saw the enormous growth of the ship-building industry in Asia. Japan, Korea and China, which is today where some 90% of all cargo ships over 1000 dwt are built. Crewing has also been revolutionized away from the old developed countries, and crews can now be found in the Philippines, India, China, the former Soviet countries of Eastern Europe and elsewhere, and serve with no restrictions on Open Registered ships.

Thus entering the 21st Century we had a huge industry serving profitably the growing interests of world trade, with very few companies trading in the public capital markets.

If there is any weakness to this revolution it is the failure of the Open Registries to have any form of licensing, with required evidence of operating competence, experience and financial viability, of the owners who register their ships there.

The ship's condition is arguably monitored by Classification Societies that were created by the Insurance industry, and have rules for ship-construction and inspection of the ships' condition. This is done on a regular basis and ships cannot trade without a valid current Class certificate. Additionally the introduction of Port State controls has added another layer of certification which is under-funded and far from comprehensive.

However now we have entered a period of financial distress for the shipping industry, the issues of ship's condition, quality of service and financial viability loom ever larger.

The 21st Century has been a time of enormous change particularly in the demand for shipping services, the growth of the ship-building industry and the arrival of new investment capital from venture capitalists and the public equity markets.

These factors were all driven by the unpredicted and enormous growth of the Chinese industrial markets and their demand for shipping services, both importing and exporting cargoes.
China initially paid a huge price for shipping it's cargoes for a period of nearly 5 years from 2004, until its stated focus of carrying a majority of its cargoes in Chinese controlled tonnage, took effect.
Unfortunately most of the new investment capital came into shipping on the false assumption that the high freight rates of the recent past would continue and ship values would rise as well.

A visit to Chinese history would show how China has valued its shipping interests for centuries past and used them to expand and develop its trade and commerce. A visit to the events of the early 1400s and later to the 18th and 19th centuries evidences some of China's shipping history.

We now have an industry full of insolvent and bankrupt shipping companies that have a fleet, in excess of demand of more than 30% in some sectors, whose revenues do not meet operating expenses and whose ship values have greatly reduced.

The shipyards of China and Korea are in serious financial trouble and have shut down much of their capacity. This can be easily re-instated as the Chinese economy stabilizes and they seek to control the freight costs of trade.

It is time for the Industry to restructure itself by consolidating into large, well capitalized companies focused on developing long-term charters and contracts of affreightment with cargo interests.

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(3) Hellenic Shipping News, 28 April 2016/ International Maritime Bureau

Violent attacks worsen in seas off West Africa despite global piracy downturn, IMB reports

As piracy on the world's seas continues to fall, new figures from the International Chamber of Commerce (ICC) International Maritime Bureau (IMB) highlight growing violence off the coast of West Africa, where 44 seafarers have been captured so far this year.

Worldwide, IMB recorded 37 piracy and armed robbery incidents in the first quarter of 2016, down from 54 in the same period last year. Three vessels were hijacked and 29 boarded, with 26 crew kidnapped for ransom and a further 28 held hostage.

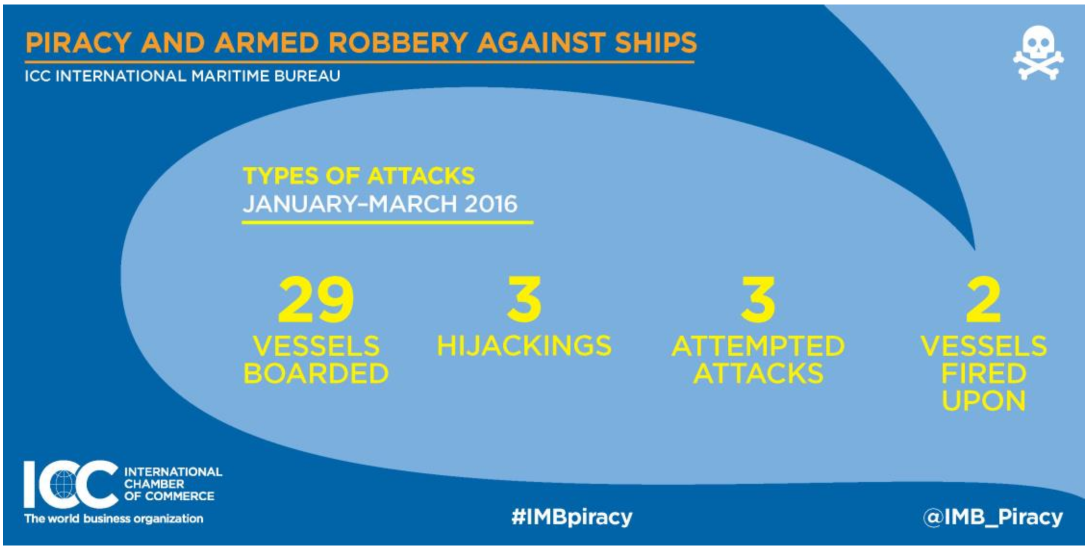
With Nigeria and Ivory Coast accounting for two of the three hijackings recorded globally, and all 28 hostages, the Gulf of Guinea dominates world piracy in terms of numbers and severity. Additionally the region saw 16 crew kidnapped from chemical and product tankers in four separate incidents. Ten attacks were reported off Nigeria alone, all involving guns.

"Reports in the last quarter indicate unacceptable violence against ships and crews in the Gulf of Guinea, particularly around Nigeria. The current increase in kidnappings is a cause for great concern," said Pottengal Mukundan, Director of IMB, who has monitored world piracy since 1991.

IMB's Piracy Reporting Centre (PRC) warns all seafarers in the region to stay vigilant, maintain anti-piracy watches and take additional measures to prevent boarding. Armed groups have attacked vessels and their crews along the coast, rivers, anchorages, ports and surrounding waters – as well as up to 110 nautical miles out to sea this quarter. Bulk and vehicle carriers have been targeted as well as vessels associated with the oil industry.

India: armed robbers

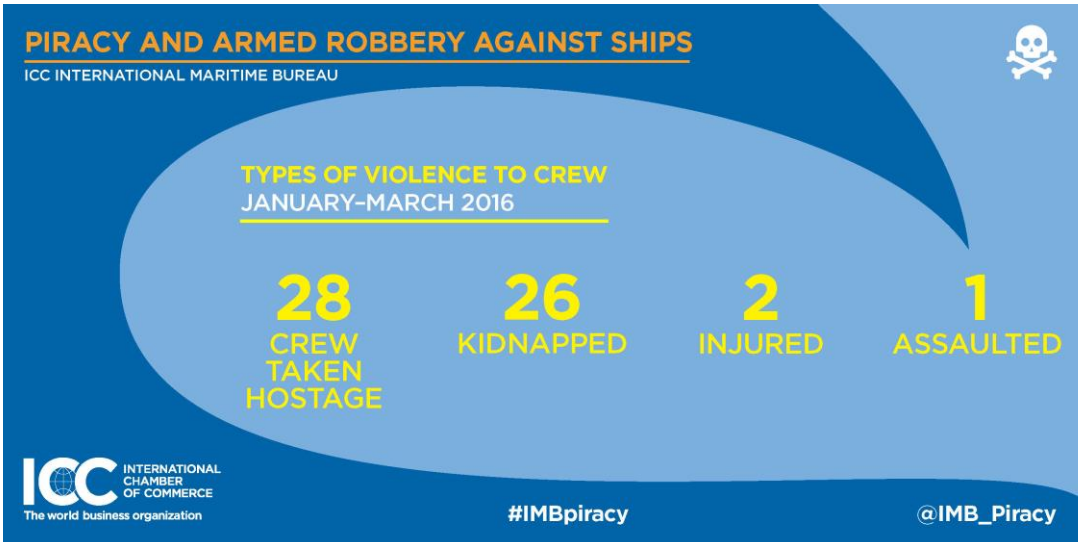
IMB noted ten incidents off India in the first quarter of 2016. The seaport Kandla in Western India reported seven of these – more than for the whole of 2015. They were predominantly low-level thefts by groups of armed robbers targeting anchored vessels.



Positive signs in South East Asia

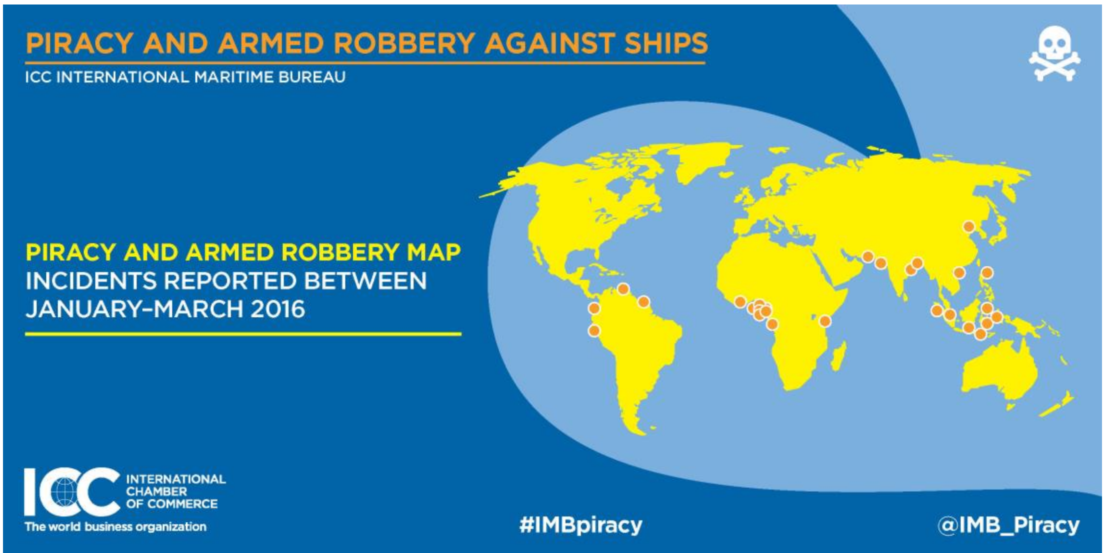
No small product tankers have been hijacked in South East Asia so far in 2016, after a spate of attacks between April 2014 and August 2015. "Actions taken by the Malaysian and Indonesian authorities against pirate gangs in 2015 appear to have had the necessary deterrent effect," said Captain Mukundan. Indonesia recorded four low-level thefts. This is a noticeable reduction compared to the 21 incidents noted in the first quarter of 2015.

The Philippines was the location of the third hijacking this year, after the two product tankers hijacked off West Africa. Pirates attacked a tug and coal-carrying barge off Omapoy Islands in March. The barge was cast off and ten crewmembers kidnapped from the tug. The tug was recovered by the Philippine Police and the still-laden barge recovered a week later by the Malaysian Maritime Enforcement Agency (MMEA).



Somalia fragile

No pirate attacks have been recorded off Somalia. However, as of 31 March 2016, suspected Somali pirates continue to hold 29 crew members for ransom. IMB PRC advises shipmasters to stay vigilant and follow the industry's Best Management Practices while sailing through these waters especially as the situation onshore in Somalia remains fragile and the threat of Somali piracy has not been eliminated.



2016 Q1 IMB Piracy Report

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(4) Hellenic Shipping News, 29 April 2016/ WISTA UK

Providing support for women at sea

Some relatively simple and low-cost interventions could improve the health and welfare of women seafarers, the WISTA UK AGM was told in London.

Caitlin Vaughan, Project Manager, ISWAN – the International Seafarers' Welfare and Assistance Network – told members that a survey of 600 female seafarers revealed that the main areas of concern were: back pain, mental health, nutrition and gynaecological complaints.

Simple interventions to improve the welfare and morale of female seafarers include the introduction of sanitary waste disposal of for all female crew on all ships. Ms Vaughan also called for the improved availability of female specific products such as sanitary products in port shops and welfare centres worldwide.

She spoke after WISTA UK members heard how membership had increased from 134 in 2014 to 144 in 2015, and how a chapter in Southampton had been set up, serving the burgeoning Solent maritime hub. In 2016 WISTA UK will be working to establish chapters in Liverpool and Glasgow.

Sue Terpilowski OBE, of Image Line, was confirmed as President for the remainder of her two-year term and Rachel Lawton FCA, of Mazars LLP, and Bridget Hogan of The Nautical Institute, were re-elected Treasurer and Secretary respectively.

Ms Terpilowski said: "I am proud of our successes over the past year. Not only have we increased membership, and added depth with the Southampton chapter, we also held a series of social events and technical talks.

"Our conference during International Shipping Week attracted nearly 300 delegates from 13 countries and it seems the appetite is for more such events in the future."

Julie Lithgow, chief executive of the International Chartered Shipbrokers was WISTA UK's Woman of the Year in 2015 and members are now choosing their candidate for 2016.

Ms Vaughan addressing the AGM, explained that the yearlong health investigation grew out of a concern that medical handbooks and other literature aimed at women seafarers were outdated and failed to consider female-specific health and welfare issues. "If we want to recruit and retain women seafarers then their specific health and welfare needs must be addressed," she said. There is evidence to show that retention of seafarers is not gender related and ship operators are neglecting a source of potential labour.

Women continue to face discrimination at sea with some countries even banning women from enrolling on nautical courses and some employers reluctant to take on women cadets or qualified seafarers. Women are often paid less than men doing the same work and some employers are reluctant to promote women to more senior ranks, Ms Vaughan continued. Women may be denied the facilities or equipment available to men on board and can face bullying, sexual harassment or violence at sea.

A study by the UK and Dutch based Nautilus union found that 66% of' their female members work on ships for more than six years and 19% for over 15 years.

"Given that dissatisfaction with prolonged separation from home and family has been reported as one of the most common reasons for male seafarers abandoning a career at sea, the issue of retention applies to both male and female seafarers and should be addressed by the industry," she continued.

“Having women as part of the crew can help reduce the sense of isolation felt by many seafarers and so support overall retention.”

Of the 600 female seafarers surveyed, 73% were under the age of 40; 41% were aged 19-30; 32% aged 31-40 with 18% aged 41-50; 8% aged 51-60 years; only two respondents were over 60. Most worked on cruise vessels or ferries; others on cargo vessels or tankers and some on fleet auxiliary vessels. But other ships included yachts; military vessels; education or training vessels and tugs.
Countries of those surveyed included Philippines and other Asian countries, Europe and North America. Although the ILO says only 7% of officers are female, nearly half of those in this latest survey were officers.

Issues common to men and women seafarers topped the survey: joint and back pain closely followed by stress, depression or anxiety.

“The cause of health problems such as back pain and stress need to be studied and solutions proposed. The lack of confidence in the medically trained staff on board needs to be investigated, together with sexual harassment, Ms Vaughan said “We hope the industry will take up this challenge to make life better for all those onboard and benefit from the skills and dedication of female seafarers.”

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(5) Clarksons Research, 29 April 2016

Celebrating Good Times: A Look Back At The Tanker Market

In 1980, the pop funk group Kool & the Gang sang “Celebrate Good Times” and since late 2014 tanker owners have been enjoying some rather good times. The fall in the oil price after the summer of 2014, coupled with the decision by OPEC to keep oil production at elevated levels has combined to support an improved tanker market, but just how good are these “good times” in a historical context?

Getting The Lowdown

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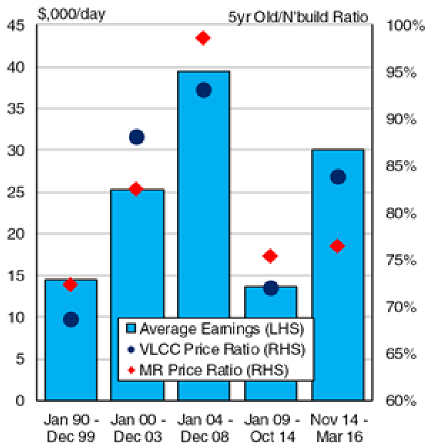
Graph of the Month

Celebrate! Just How Good A Time Has The Tanker Market Had?

The blue bars represent weighted average tanker spot earnings during five periods since the start of the 1990s (left hand axis). The points indicate the ratio between the five year old and newbuild price for an MR (red diamonds) and a VLCC (blue points). On the basis of a straight line depreciation to zero over a 25 year life of a ship, a 5 year old vessel would be worth 80% of the newbuild price.



Source : Clarksons Research

Following OPEC's decision to maintain production levels in the face of declining crude oil prices in November 2014, it became apparent that oil prices could remain low for a sustained period of time, whilst the volume of crude available for export remained high. Meanwhile, low oil prices supported refinery margins, notably in the OECD, which led to increased refinery activity driving up oil products trade, supporting product tanker demand. Overall, seaborne oil trade grew by 4.7% in 2015, the fastest rate since 2004. These trends, plus low bunker costs and limited fleet growth in the crude sector, meant that the stars aligned to support a significant improvement in the tanker market. Weighted tanker spot earnings surged to average $30,031/day between November 2014 and March 2016, compared to an average of $13,570/day in the period after the onset of the economic downturn up until October 2014.

Partying On Payday

Even comparing earnings over a longer period shows just how robust the market has been recently. Average earnings over the last 17 months were over double the average in the 1990s, when tanker spot earnings averaged $14,436/day, and were still above the average in 2000-03, $25,202/day, when the market started to improve. However, earnings over recent months have not matched the extraordinary earnings levels reached in the 'boom' years of 2004-08 when weighted tanker spot earnings averaged $39,432/day and VLCC average earnings topped $200,000/day, compared to a peak of just over $100,000/day in December 2015.

Expecting A Good Time?

The recent uptick in the market has also translated into an improved ratio between five year old and newbuild prices, a classic indicator of short-term market expectations. Between November 2015 and March 2016 the ratio for a VLCC and an MR averaged 84% and 76% respectively. This represents a marked improvement on the post-recession years when the 5yo/newbuild ratio averaged 72% for a VLCC and 75% for an MR, and is an increase compared to the ratio in the 1990s. However, while earnings in recent months have been higher than the average in 2000-03, the 5yo/newbuild ratio has typically been lower than in the early 2000s. This largely reflects the difference in sentiment between the two periods, with a more cautious outlook recently than in previous periods, potentially reflecting concerns over the large orderbook. Meanwhile, limited availability of finance has partially constrained the recent increase in asset prices.

So, although earnings and asset prices have softened so far in 2016, the tanker market currently remains healthy. Whilst the mood has been less bullish than during the 'boom' years, it is clear that in a wider context tanker owners have had plenty to celebrate since late 2014.

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(6) Hellenic Shipping News, 28 April 2016/ Human Rights at Sea

Human Rights at Sea expands global flagship programmeto record and investigate cases of missing seafarers toinclude missing fishers at sea

The updated and re-titled 'Missing Seafarers and Fishers Reporting Programme' is a reflection of the increasing scope of the Human Rights at Sea charity's flagship programme established in January 2014 originally focused on identifying missing seafarers.

CEO, David Hammond, said: "Due to the number of cases being submitted to the international database and which include cases of fishers lost at sea, the charity has decided to positively respond to this trend and adapt the programme accordingly."The three web addresses which all point to the updated site www.missingseafarers.org | www.missingmariners.org | www.missingseamen.org remain the primary addresses to access the site, while all other case submission features remain the same. Further updates will follow.

The Programme
The Programme's Mission is to support seafarers, fishers and their families by theregistration, tracking, investigation and advocacy on behalf of those missing at sea through a secure mobile on-line platform. That platform is known as the Missing Seafarer & Fisher Register. The Aim of the Programme, through the use of the Missing Seafarer & Fisher Register, is to build an accurate international database detailing the status of seafarers and fishers missing at sea on a global basis. The Vision is to become the focal international database for recording missing seafarers and fishers.
Funding

The programme is entirely self-funded and dependent on donors and sponsors.

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(7) Clarksons Research, 24 April 2016

Happy Birthday, Dear Box!

Container shipping is 60 years old next week. From its origins in the first seaborne transportation of containers on board Malcolm McLean's Ideal-X on 26 April 1956, containerized shipment has become the glue that holds together today's globalised economy. This week's Analysis takes a look at how the container sector exploded into the centre ground of the world's shipping business.
Lighting The Candles

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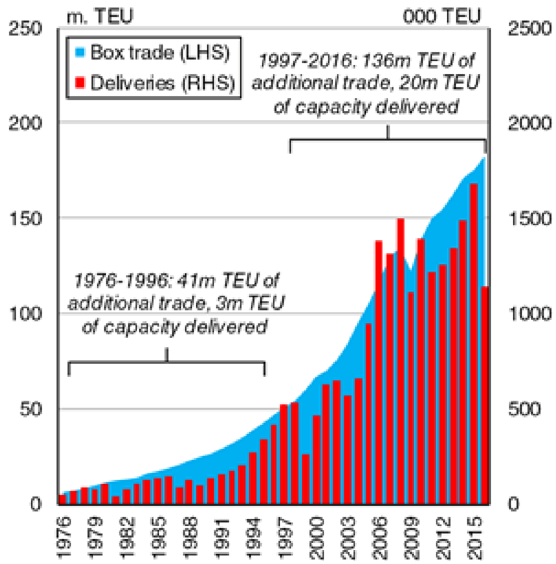
Graph of the Week

Oh Containers, How Quickly You Have Grown!

The graph shows estimated global container trade (in terms of loaded A to B container shipments) over the last forty years, along with total containership capacity delivered each year across the same period. Note that prior to 1996 global container trade is an estimate derived from growth rates in available data on world container port throughput. 2016 statistics are based on latest published projections.



Source : Clarksons Research

The man acknowledged to have been container shipping's true pioneer, Malcolm McLean, a trucking magnate, used a converted tanker to move the first containerized cargo by sea from New Jersey to Houston, 60 years ago, back in 1956. Four years later, Sea-Land introduced the first Transatlantic service, and in 1969, in the UK, Overseas Container Lines launched its first service. Landmarks indeed, and the benefits have been widely felt ever since. Containerization enabled the standardization of port handling equipment, increased speed of cargo handling, and flexibility of location of stowage and unpacking which all changed the way that manufactured goods are shipped around the world. It also improved cargo security, and facilitated intermodal integration to provide an inter-connected transportation system.

Pass The Parcels

Today, containerized transport links up just about every corner of the world, even if cargo might need to be 'transhipped' from one vessel or service to another to reach its final destination. Reflecting this, the 'liner network' has seen rapid increases in volumes. Across the last 40 years the compound annual growth rate in global container trade volumes stands at 9%, and this year world box trade is projected to surpass 180m TEU. As the graph shows, following the first 20 years of container shipping history, the next 20, 1977-1996, saw the addition of an estimated 41m TEU of box trade per annum, and the most recent 20 years have seen the addition of a further massive 136m TEU of annual loaded container trade.

The network has also provided cheap 'per unit' shipping. With around 400 flat screen TV sets in one box, every $100/TEU of freight cost equates to just $25 cents per unit. Given the type of vessels introduced, per TEU costs of operating ships have dropped too. Across 1976-96, 3m TEU of capacity was delivered, with an average ship size of 1,673 TEU. In 1997-2016, 20m TEU was delivered with an average size of 4,363 TEU, taking today's fleet capacity to 19.9m TEU.

Icing On The Cake

So, whilst growing up, container shipping has been busy connecting the world via the liner network for the movement of goods in a speedy and secure fashion. Whilst partially separating vessel ownership and operation, it has enabled cheap door-to-door transportation of manufactured goods, and the connection of consumers with the lowest cost production locations, facilitating the great outsourcing boom and enabling multi-location processing. Supply chains have been optimised and specialist port infrastructure has been established and connected to the distribution network. All in all, containerization has been one of the greatest facilitators of change in the world economy in the last century. Happy birthday to you, container shipping!

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(8) Lloyd's List, 22 April 2016

UK maritime bosses warn of Brexit risks

London's position as a leading professional services centre for shipowners will be weakened if Britain leaves EU, say industry leaders

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BRITAIN’S financial services industry, including the maritime sector, would be seriously harmed if the UK voted to leave the European Union, business leaders warn.

The dangers of quitting the EU were set out at a breakfast meeting hosted by the Lord Mayor of the City of London, Alderman the Lord Mountevans, to launch a new report on the UK’s global maritime professional services.

The findings show that the country’s maritime businesses contribute some £4.4bn to the economy, both directly and indirectly, with more than 80% of sales coming from abroad.

The research, conducted by accountancy giant PwC, did not take account of the impact of Brexit as it was commissioned by the City of London before the June 23 referendum was called and the polls started to show support for the campaign to leave.

Many in the business community have been reluctant to speak up on this issue although the Corporation of London, which runs the City of London, the centre of the capital’s financial and professional services industry, has come out in support of remaining in the EU.

Maritime London, which represents the whole UK maritime sector, wants to obtain a clear mandate from its members before deciding whether to adopt a formal position on EU membership.

But many individual senior executives are firmly in favour of staying in the EU, even if they hope to see reforms in Brussels.

In a roundtable discussion on Friday morning, Peter Ahlås, chairman of legal and claims consultancy firm C Solutions, warned that the UK’s withdrawal from the EU would be “extremely damaging” for the insurance community, including Lloyd’s of London and marine underwriters, with business likely to be lost to other centres such as Singapore. The PwC report highlighted insurance as one of the strongest sectors of the maritime services industry.

Lloyd’s Register executive vice-president and former UK Chamber of Shipping president Tom Boardley said efforts to revive the UK ship register could also be jeopardised by an exit from the EU.

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The UK flag is the premier register in the EU, he said, and withdrawal would have “rapid consequences” for Britain’s plans to attract more ships to the Red Ensign.

A banker with ship finance interests, speaking on the condition of anonymity, also spelled out the risks for Britain's financial services of a vote to leave.

Banks would re-evaluate their presence in London, he said.

“They will not shut their doors… but they might shift part of their operations to other European locations,” he predicted.

Norton Rose transport partner Harry Theochari added his voice to those keen for Britain to remain a member of the EU.

“In my view, a vote to leave would be damaging,” he said, while the Lord Mayor, who is also a director of shipbroking giant Clarksons, is firmly in favour of remaining in the EU.

The risks for UK maritime interests of leaving the EU come at a time when there is unprecedented co-operation between industry and government to ensure Britain remains a leading maritime nation and London retains its position as one of the world’s top providers of professional services for shipowners.

But former head of ship finance at the Royal Bank of Scotland Lambros Varnavides, who is now Baltic Exchange vice chairman, said London’s future as a leading maritime hub was at risk from the lack of a shipowning base in the UK.

Without shipowners, London’s professional services would eventually “wither away”, he cautioned, unless the government takes action to make the tax regime more accommodating.

Some prominent shipping names have already left London ahead of tax changes that came into effect earlier this month, he said when calling for non-residency legislation to be tweaked to allow shipowners to spend up to six months in the UK rather than the current three months.

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