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Global Maritime Weekly Digest

Publishing Director: Prof Minghua Zhao **Editor: Richard Scott**

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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.

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Editorial comments

- An ***improving safety record*** for the global shipping industry is suggested by one broad indicator, a declining trend in ship casualty losses in recent years (item 4).
- Despite enormous growth in the world merchant ship fleet, ***ship losses*** resulting from accidents have become relatively rare, falling to a historically low level last year.
- Estimates of the world shipping industry's ***vessel employment earnings*** point to a bigger 'pie' available for slicing, but that does not necessarily benefit all involved equally (item 1).
- Many aspects of ***China's Maritime Silk Road*** scheme are evolving apace, but some parts are facing problems. Difficulties encountered in making progress with several major port projects have been highlighted (item 3).
- Is there a need for a modified approach to ***European Union shipping policies***? A consultancy report (item 2) recommends a shift of priorities for maintaining and boosting the competitive position - characterised as being 'under significant pressure' - of the region's shipping activities.
- One trend being watched closely is how ***China's shipbuilding capacity*** evolves, both from a shipbuilding and shipping viewpoint. Further massive shipyard capacity reductions seem to be needed in China, but there is uncertainty about how much will be permanently eliminated (item 8).

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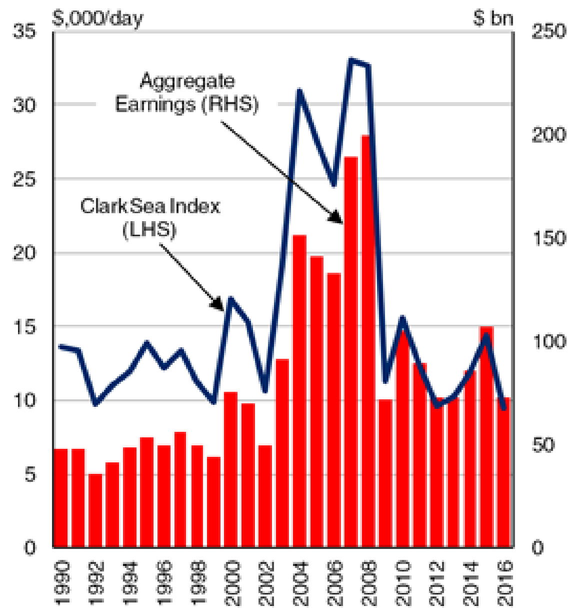
(1) Clarksons Research, 24 February 2017

A Bigger Pie – Can You Get A Good Slice?

With the ClarkSea Index around $9,000/day, and many if not most of the major shipping markets under severe pressure, it's hard to escape the conclusion that the shipping markets are a tough place right now, with limited pickings to share between owners. However, everything's relative, and from one angle the size of the 'pie' might just be bigger than it seems…

Graph of the Week

It Could Be Much Tastier But The Pie Is Bigger...



The graph shows the annual average value of the ClarkSea Index from 1990 to 2016 (left hand axis) and the aggregate annual earnings across the basket of ships in the index each year (right hand axis).

Source : Clarksons Research

How Big's The Pie?

Last week the ClarkSea Index stood at $8,743/day, and during 2016 as a whole the index averaged $9,441/day, taking into account earnings in the tanker, bulkcarrier, gas carrier and containership sectors, across a selection of over 21,000 units at the start of the year. Estimating the aggregate annual earnings for the basket of vessels in question, that works out at $72.5 billion in full year 2016. To put this in context against the boom years of the 2000s, in 2007 the ClarkSea Index averaged $33,061/day across a basket of over 15,000 ships, generating aggregate earnings of $189.1bn, over two and half times more than in 2016.

In terms of average earnings levels, 2016 actually compares more equally to 1992, 25 years ago, when the ClarkSea Index averaged $9,786/day, or 1999 when it averaged $9,855/day. But of course the fleet has grown since those days and, in dwt terms, the basket of ships in the index in 2016 was 159% bigger than in 1999 and 219% larger than in 1992. Aggregate earnings in 1999 reached $43.6bn and in 1992 were $36.1bn. 2016's total was 66% and 101% larger respectively. In today's challenging markets it is food for thought that the earnings stream is still that much bigger than at similar earnings levels in the past.

A Bigger Bake

And furthermore, there's a wider world of shipping outside the scope of the ClarkSea Index basket which is (hopefully) generating income too. If, for instance, the 2016 earnings of the ClarkSea Index basket were extrapolated on a $/dwt basis (it stood at $48/dwt) across the whole of the 1.7bn dwt world cargo fleet, the overall earnings of that wider fleet would have come to $85bn. That's roughly the size of the economy of Ukraine!

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Rising Cost Of Ingredients
However, having said all this, it's not just about earnings. Costs need to be taken into account too. Using a weighted index of OPEX across the ClarkSea Index basket and subtracting it from aggregate earnings would imply an overall net cash flow in of $23.4bn in 2016 (this compares to around $150bn in 2007 and 2008). Helpfully, in recent decades fleet expansion has outweighed growth in OPEX so the net cash flow pie has grown compared to previous downturns too.
A Slice Of The Action
So, whilst market conditions are as challenging as any seen in the last few decades, the revenue 'pie', though hardly tasty yet, is at least significantly larger than it was last time that earnings were at a similar level. For the industry that means a larger pie to be shared around. In today's difficult markets that could be helpful, but of course you have to get a big enough slice. Have a nice day.
Source: Clarksons
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(2) Hellenic Shipping News, 1 March 2017/ Deloitte

Maintaining and boosting the competitive position of the European shipping industry require a shift in policy priority says Deloitte study

The shipping industry in the EU is a highly mature industry and an economic giant in the European economy directly accounting for over 620,000 jobs.1 On the global level of shipping, the EU is still a large player compared to most regions in the world with 36.5 percent of owned gross world tonnage and 46.2 percent of operated world tonnage. An overall competitive regime for fiscal and social measures as well as quality registers and a strong skills base support the current status of the EU as a location for shipping activities.
Current growth rates in the overall market share suggest that the EU remains competitive, but at the same time that there are clear signs that the competitiveness of EU shipping is under significant pressure. The EU is experiencing cases of relocation of activities as well as de-flagging, despite its ambition of the opposite, and its growth rates in terms of ownership and the tonnage operated are significantly lower than those of its competitors in for instance Asia. In this study commissioned by the European Community Shipowners' Associations, Monitor Deloitte has identified a number of important policy gaps in the overall EU shipping policy framework on the basis of a benchmark study of five specific international shipping centres (Singapore, Hong Kong, Dubai, Shanghai and Vancouver).
Through the comparison of the successful policies across eight competitiveness factors in those centres with EU policies, the policy gaps have been identified (see box on right). The study concludes that there is an overall solid – and highly important – EU policy framework facilitated by the Community Guidelines on State aid to maritime transport (SAGs) that has enabled a competitive position of EU shipping centres vis-à-vis competing non-EU shipping centres. But it is also concluded that there are EU policies making the EU less attractive to shipowners and to shipping activities and hence constituting policy gaps. Three gaps have been emphasised in this summary and form the basis for the key recommendations while further gaps have been described in the full report.

Important policy gaps exist in an otherwise strong policy framework
Firstly, in terms of taxation and fiscal incentives the current regime provides for a relatively competitive European shipping sector at its core. However, the EU framework is less competitive with regard to several elements, including the EU eligibility criteria relating to the flag requirement and the current ring-fencing of maritime activities applicable to tonnage tax put in place by the European Commission. Effective taxation at both corporate and shareholder level is a sine qua non condition to maintain a sizeable market share in international shipping.
A second significant gap has been identified concerning the regulatory framework specifically relating to the application and legal status of the SAGs for competitiveness. It is a perceived weakness seen from the shipowners' point of view that the EU's – and often also the member states' – interpretation of the

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SAGs is based on legal grounds, but lacks flexibility, whereas administrations in international centres are often much more pragmatic and business-friendly. This problem is reinforced by the fact that the SAGs are easily amendable by the European Commission and that there are no explicit periods of applicability. In a sector where most business decisions are long-term, these factors give rise to uncertainty due to a perceived risk of interpretive policy change.
A third gap on flag attractiveness and the legal framework for vessel exploitation emanates from the regional legislation for international shipping that is introduced by the EU and entails different standards for EU flags and shipowners, causing additional administrative and technical requirements. Moreover, some EU registers still stipulate specific nationality requirements and crewing restrictions that also lead to increased administrative and economic burdens. Competitors, like Singapore, have strategies to ensure that national regulations do not go beyond the international standards and are, at the same time, considered a quality flag option. The consequence of the EU policy is that the competitiveness of EU flags is harmed as this leads to differences in operational costs and not quality.

EU shipping policy must evolve and change to better support
EU shipping at a global level Monitor Deloitte's recommendations come at two levels: the overall perspective of shipping as a global industry and specific policies. Further recommendations are put forward in the report.

1. Formulate a comprehensive and globally oriented shipping and maritime policy in the EU
EU policies on short sea shipping must be complemented by a policy with a view to improve the EU's competitiveness as a location for international shipping at a global level. While both short sea and global shipping are important markets, the largest share of EU shipping is international and crosstrading, carrying cargoes between third countries. Furthermore, the policy should be comprehensive by cutting across policy fields like transport, taxation, environment, etc, and thereby cover the key competitiveness factors.

2. Improve legal clarity around the application of the SAGs
The EU should increase the clarity around the applicability of the SAGs by clarifying the principles and objectives applied. While the SAGs should remain soft regulation, there is an apparent need for continued flexibility in the member state application of the guidelines – a one-size-fits-all model that drives out the particularities of individual member state shipping sectors would be very harmful to the competitiveness of EU shipping. Also, to the extent possible, the EU should aim at setting medium/long-term horizons for the applicability of the SAGs to induce increased legal certainty. Finally, the EU should not question previous decisions that were duly notified and approved.

3. Assess and ease the flag link eligibility criteria for entering the tonnage tax regime
Too rigid an insistence on the flag link eligibility criteria may be counterproductive as this could lead to increased operating costs or lack of market access. The EU should consider easing, or as a minimum not further restricting, the current flag link requirements set up in the SAGs as other important shipping centres do not have such requirements, which allows for more flexibility. Instead, the EU should maintain and focus on its requirements concerning strategic and commercial management activities.

4. Deviating from or going beyond IMO/ILO conventions in EU and member state regulation should be prevented
In order for the EU to offer competitive conditions for its flag states and shipping companies, deviating from or going beyond IMO/ILO conventions should be prevented. Furthermore, current regulation should be reviewed in 4 order to reduce unnecessary detailed and burdensome regulation. From a competitiveness perspective, it is important that the EU does not impose stricter regional regulations on top of global agreements. Implementation of regulations outside standards introduced by IMO/ILO will increase the operating costs relative to flag states, such as Singapore, pursuing regular implementation of IMO/ILO conventions, and should be avoided.
Source: Deloitte
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(3) Hellenic Shipping News, 28 February 2017/ Eurasia Review

Asian Ports: Pitfalls Of China's One Belt, One Road Initiative – Analysis

Troubled ports in Pakistan and Sri Lanka, envisioned as part of China's string of pearls linking the Eurasian heartland to the Middle Kingdom, exemplify political pitfalls that threaten Beijing's ambitious One Belt, One Road project.

Political violence over the past decade has stopped Pakistan's Gwadar port from emerging as a major trans-shipment hub in Chinese trade and energy supplies while turmoil in Sri Lanka threatens to dissuade Chinese investors from sinking billions into the country's struggling Hambantota port and planned economic hub.

The problems of the two ports serve as pointers to simmering discontent and potential resistance to China's ploy for dominance through cross-continental infrastructure linkage across a swath of land that is restive and ripe for political change.

Chinese, Pakistani and Russian officials warned in December that militant groups in Afghanistan, including the Islamic State (IS) had stepped up operations in Afghanistan. IS in cooperation with the Pakistani Taliban launched two months later a wave of attacks that has targeted government, law enforcement, the military and minorities and has killed hundreds of people.

China is investing $51 billion in Pakistan infrastructure and energy, including Gwadar port in the troubled province of Balochistan that is struggling to attract business nine years after it was initially inaugurated. The government announced this week that it had deployed 15,000 troops to protect China's investment in Pakistan, a massive project dubbed the China-Pakistan Economic Corridor (CPEC).

For Gwadar to become truly viable, Pakistan will have to not only address Baluch grievances that have prompted militancy and calls for greater self-rule, if not independence, but also ensure that Baluchistan does not become a playground in the bitter struggle for regional hegemony between Saudi Arabia and Iran.

To do so, Pakistan will have to either crackdown on militant Afghan groups with the Taliban in the lead who operate with official acquiescence out of the Baluch capital of Quetta or successfully facilitate an end to conflict in Afghanistan itself.

That is a tall order which in effect would require changes in longstanding Pakistani policies. Gwadar's record so far bears this out. Phase II of Gwadar was completed in 2008, yet few ships anchor there and little freight is handled.

Success would also require a break with long-standing Chinese foreign and defence policy that propagates non-interference in the domestic affairs of other countries. China has pledged $70 million in military aid to Afghanistan, is training its police force, and has proposed a four-nation security bloc that would include Pakistan, Afghanistan and Tajikistan.

A mere 70 kilometres further west of Gwadar lies Iran's southernmost port city of Chabahar that has become the focal point of Indian efforts to circumvent Pakistan in its access to energy-rich Central Asia and serve as India's Eurasian hub by linking it to a north-south corridor that would connect Iran and Russia. Investment in Chabahar is turning it into Iran's major deep water port outside the Strait of Hormuz that is populated by Gulf states hostile to the Islamic republic. Chabahar would also allow Afghanistan to break Pakistan's regional maritime monopoly.

Former Sri Lankan President Mahinda Rajapaksa warned Chinese officials in December that public protests would erupt if plans proceeded to build in Hambantota a 6,000-hectare economic zone that would buffet a $1.5 billion-deep sea port, a $209-million international airport, a world-class cricket stadium, a convention centre, and new roads. Protests a month later against the zone turned violent. Similar protests against Chinese investment have also erupted in recent years in Kyrgyzstan, Kazakhstan and Tajikistan.

In Sri Lanka, the government has delayed the signing of agreements with China on the port and the economic zone after the protests catapulted the controversy onto the national agenda with opposition politicians and trade unions railing against them. A Sri Lankan opposition member of parliament moreover initiated legal proceedings to stop a debt-for-equity deal with China.

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China's Ambassador to Sri Lanka, Yi Xianliang warned that the protests and opposition could persuade Chinese companies to walk awayfrom the $5 billion project. "We either go ahead or we stop here," Yi said.
"The Hambantota fiasco is sending a clear message to Beijing: showing up with bags of money alone is not enough to win a new Silk Road," commented Wade Shepard, author of a forthcoming book on China's One Belt, One Road initiative.
Adding to China's problems is its apparent willingness to at times persuade its partners to circumvent or flout international standards of doing business. A European Union investigation into a Chinese-funded $2.9 billion rail link between the Hungarian capital of Budapest and Belgrade, the capital of Serbia, could punch a hole into Chinese plans to extend its planned Asian transportation network into Europe. The investigation is looking at whether the deal seemingly granted to Chinese companies violated EU laws stipulating that contracts for large transportation projects must be awarded through public tenders.
The sum total of problems China is encountering across Eurasia highlight a disconnect between grandiose promises of development and improved standards of living and the core of Chinese policy: an insistence that economics offer solutions to deep-seated conflicts, local aspirations, and a narrowing of the gap between often mutually exclusive worldviews. It also suggests that China believes that it can bend, if not rewrite rules, when it serves its purpose.
To be sure, protests in Sri Lanka and Central Asia are as much about China as they are expressions of domestic political rivalries that at times are fought at China's expense. Even so, they suggest that for China to succeed, it will not only have to engage with local populations, but also become a player rather than position itself as an economic sugar daddy that hides behind the principle of non-interference and a flawed economic win-win proposition.
Source: Eurasia Review
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(4) Clarksons Research, 24 February 2017

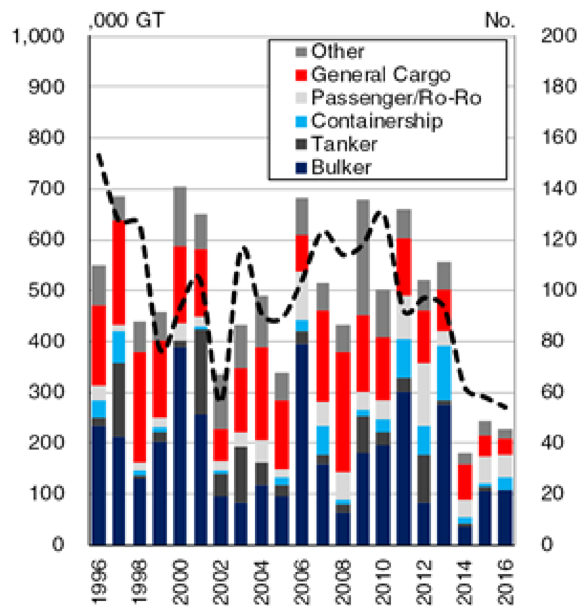
Vessel Losses: Is Shipping Resuscitating Its Record?

Safety at sea has improved significantly in the past twenty years, with losses of large merchant vessels becoming a relatively rare event. Whilst casualties appear to be more common among older and smaller vessels, total losses seem to be on a downward trajectory. Even as the world fleet reached its greatest ever size, last year marked the fewest number of vessel losses on record.
Examining The Vital Signs
Although major accidents will always hit the headlines, merchant ships have in recent times been an extremely low risk form of transport. Total 'losses', when vessels are permanently lost from the fleet due to sinkings, groundings or other incidents, have been on a downward trend over the long-term despite the growing fleet. This has been supported by improvements in ship design, an increasing number of port state control inspections and a decline in the proportion of vessels above 25 years old. In 2016, reported losses reached a historically low level of 54 vessels and 0.2m GT, equivalent to just 0.02% of the start year fleet in GT terms.
Bulkers Critical?
Looking at the statistics across the major vessel types, losses have typically been greatest in the bulkcarrier sector. From 1996 to 2016 a total of 160 bulkers of 3.7m GT were reported as casualties, accounting for 36% of the total in tonnage terms. On average, bulker losses each year were equivalent to 0.09% of start year bulkcarrier tonnage. In comparison, the total volume of tanker and containership tonnage reported as losses in the same period represented 9% and 5% respectively of total losses (totalling 143 tankers and 49 boxships). Average annual tanker and boxship losses in GT were equivalent to 0.02% and 0.03% of the start year fleets in each sector. In the bulkcarrier sector, losses of larger ships have been more common, with an average vessel size of 23,247 GT, against 6,181 GT for tankers. This is likely to have been supported by stricter regulation on tanker designs since the 1990s as well as improved vetting procedures.
Smaller Ships In The ER?
Sectors with a large number of smaller units represent the majority of losses in numerical terms. In general, smaller ships account for a larger proportion of casualties, with the average size of losses

peaking at around 7,600 GT in 2000. 1,033 general cargo ships were reported as losses from 1996 to 2016, making up 50% of the total in numerical terms. Meanwhile, 184 vessels were recorded as losses in the same period in the passenger and ro-ro sectors. Aside from a number of high profile larger vessels such as the “Costa Concordia” and “Sewol”, the majority of these casualties were small passenger ferries, predominantly in South East Asian waters.
The long-term trend of declining vessel losses appears to have continued over the last few years. However, there is still a significant degree of variation between sectors, with older and smaller vessels also much more likely to become casualties. Whilst risk very much remains a part of shipping, the last few years appear to show that merchant shipping is still improving its safety record, with the number of vessel losses continuing to fall.

Graph of The Month

Ship Losses: Sailing Into Safer Times



The bars on the graph show total annual reported losses in GT terms, for merchant vessels of 100 GT and above, split by vessel sector. The line illustrates the total number of vessels reported as losses in each year.

Source : Clarksons Research

Source: Clarksons
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(5) Hellenic Shipping News, 2 March 2017/ Nautilus International

Maritime Union calls for more training and better jobs for skilled European seafarers

Maritime professionals’ trade union Nautilus International is arguing for fairer regulation in the shipping industry to safeguard more skilled and less precarious jobs for European seafarers.
Speaking during a European Shipping Week seminar on how to make the European shipping industry a generator of wealth and employment – hosted by the European Transport Workers’ Federation – Nautilus’ General Secretary Mark Dickinson warned: “We need to see adequate regulation for the shipping industry, to stamp out the downwards spiral in the quality of seafarers’ working lives, provide support for the maritime cluster and ensure the overall resilience of European shipping.”
In a bid to reverse this downward trajectory in jobs and training opportunities for its members, Nautilus launched its Charter for Jobs in October 2016. A 10-point charter, the document calls on the government

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and industry to secure the future of the UK maritime sector, delivering decent work and training opportunities for the UK's seafarers.
Devised by the union, which represents 22,000 maritime professionals at sea and ashore, the charter provides a commitment to lobby the government and industry on issues including improving the system for issuing foreign seafarers with Certificates of Equivalent Competency, which currently promotes unsustainable competition within the industry.
"Shipping is a microcosm of the damage done by unchecked and unfair competition," said Mr Dickinson.
"Some 35 OECD (Organisation for Economic Cooperation and Development) countries now supply 23% of the world's officers and 14% of the world's ratings – compared with 28% of officers and 24% of ratings a decade ago. Are we just meant to accept those trends and decide that seafaring is no longer a first world profession?
"A failure to agree on a manning directive has meant a steady flow of social dumping in our ferry trades and now also offshore services," Mr Dickinson told the seminar.
"Globalisation of domestic shipping services simply doesn't work. Regulating the competitive climate for such routes will not only ensure we combat exploitation in our waters, but also encourage operators to compete on quality, not cost, as well as improving the job security of European seafarers and protecting the maritime skills base and thus the EU maritime cluster. It will allow us to set EU standards and thus set a level playing field for all those who wish to trade in our waters."
"Instead of attacking the US Jones Act which promotes and maintains the American Merchant Marine, we should emulate it and understand the strategic economic and defence drivers that have ensured the Act's survival for almost 100 years. Canada, New Zealand and Australia have, in the past few weeks alone, taken significant steps to limit the numbers of foreign seafarers employed on ships in their coastal waters." Mr Dickinson concluded that the Maritime Labour Convention was an important set of minimum standards but was, "conceived as a journey, not a destination and we need an industry strategy to continuously improve those minimum standards and drive a race to the top not a race to the bottom."
Source: Nautilus International
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(6) Baltic Exchange, 15 February 2017

Chinese Shipping Association of London, supported by the Baltic Exchange

Message from the newly established Chinese Shipping Association of London:
We are pleased to announce the founding of the
Chinese Shipping Association of London, supported by The Baltic Exchange.
The Association's mission is to promote the interests of
Chinese shipping professionals in the UK.
The Association has an Executive Committee and an Advisory Committee
The Executive Committee members are
– Henry Guo, Robin King, Jindong Li, Eli Tchoudjinoff, Zhikai Xie,
Jeffrey Yao (Secretary General) and Jin Zhao.
The Advisory Committee members are Simon Yang and Wei Hu.
These are volunteer positions and members are encouraged to
lodge their interests for future consideration to serve on the Executive Committee.
The Association's membership is open to UK shipping professionals
with interest in the Asia Pacific region or by invitation.

If you would like to receive email updates from the
Chinese Shipping Association of London
please email 'Subscribe' to info@csalondon.org

With best regards, Executive Committee, Chinese Shipping Association of London
Supported by The Baltic Exchange
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(7) Hellenic Shipping News, 1 March 2017/ Maritime Strategies International

Rates rebound and firmer demand deliver much needed boost to embattled containership sector

The latest Container Shipping Forecaster from Maritime Strategies International reports that almost two months into 2017, the liner sector finds itself in positive territory. Each of the industry's drivers – demand, supply and earnings – have started the year in healthy shape and MSI expects the sector to move into the next quarter with a reinforcement of this encouraging trend.
In terms of demand, MSI notes that the global economy is operating on auto-pilot and left to its own devices it is on a trajectory which should support continued trade and earnings growth. Demand trends are fundamentally positive in the US and the EU, and improved commodity prices will likely support an improvement in non-mainlane volumes.
Taken in isolation, January's supply-side data would be genuine cause for relief across much of the industry. Demolition volumes set a new monthly record, deliveries were minimal and ordering was restrained. If scrapping continues at its current pace – in line with the MSI Base Case forecast – this will go some way toward reducing oversupply.
Despite the apparent good news, some perspective is necessary on the sector's apparent recovery, says James Frew, Senior Analyst at MSI.
"If 2016 marked the nadir for the market's fortunes, 2017 appears much healthier, but there are important caveats. In terms of demand, dependable year on year growth of between 2-4% on the Asia-Europe and Transpacific trades would be welcome, but realistically constitutes the absolute minimum needed to absorb continued overcapacity. In terms of supply, deliveries of ultra-large vessels are soon set to increase, and we expect the fleet as a whole resume growth from Q2 onwards.
The above analysis leaves the sector's rates and earnings outlook finely balanced. Freight rates data from January were strong, even accounting for the impact of an early Chinese New Year and MSI expects liner operators to continue to restrict capacity, leaving rates at similar levels as we move into Q2. It also forecasts that T/C rates will pick up on the back of supply reductions and improved optimism. Post-Panamax rates could reach $9,000/day in Q3 and Panamaxes could reach $6,000/day over the same period.
In line with recent trends, MSI concludes that the most optimistic outlook for trades is those involving the US. This does, given the political climate, leave its demand forecast somewhat hostage to fortune, but absent a major shock or policy error Transpacific headhaul growth should continue at 2-3% and Transatlantic around 3%. We expect Asia-Europe growth of 2% year on year over each of the next quarters, on the assumption of steady Eurozone expansion and an absence of a political shock in France.
Source: Maritime Strategies International
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(8) Lloyd's List, 28 February 2017

Yard Talk | Can China really kill off yards?

- by Cichen Shen

Reducing Chinese shipbuilding capacity might be more difficult than thought

THERE have been many discussions over how to reduce overcapacity in the shipbuilding industry. Yet closing yards permanently is easier said than done, especially in China, the world's largest shipbuilding nation.

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The country needs to slash yard capacity by a further 30%, or about 20m dwt, to tackle the current oversupply — a message delivered by the Ministry of Industry and Information Technology at a shipbuilding seminar late last year. But Beijing is not as determined as it might appear.

In order to hit the target, policymakers would need to subsidise yards to scrap docks, cranes and other building facilities, as well as settling lay-offs and compensating creditors who might suffer losses from the liquidation of the yards, said Li Sheng, president of Shanghai-based shipbroker HIT Marine. This is the only sure way to permanently remove the capacity from the market.

"If the capacity is just idled, not physically scrapped, it will be reactivated quickly when the market recovers. It's not very optimistic for shipping given that the speed for constructing a vessel is also getting faster," Dr Li said.

However, such subsidies — like the Yuan100bn ($14.5bn) incentives already seen in the oversupplied coal mining and steel making sectors — remain absent in the country's shipbuilding industry.

But maybe the absence comes for a reason. Beijing seems to believe that much of the suspended capacity today can be used tomorrow, if only its shipbuilders can move up a rung and construct more value-added products.

That is perhaps why, in the recent shipbuilding five-year plan for 2016-2020, technological innovation and industrial upgrade took up much more space than overcapacity. At the same time, targets were set up for a continued global market share expansion, especially in building offshore and high-tech vessels.

The plan was jointly published by six government bodies, including the MIIT, China's central bank and the State Administration of Science Technology and Industry for National Defense.

State blessing for central government-owned builders

It is quite clear that any significant cut in production capacity or scrapping of building facilities is unlikely to start with the major players that are directly owned by the central government — mainly yards under China Shipbuilding Industry Corp, China State Shipbuilding Corp and China Cosco Shipping's shipbuilding segment.

According to Clarksons data, Chinese yards at national government level accounted for more than half of the country's total orderbook backlog in cgt terms as of February 1.

Most of the "innovations" and "upgrades" mentioned above are, unsurprisingly, only expected to be undertaken by the three giants.

The five-year plan clearly pointed out the needs to "foster world-class builders" in the country for "large mainstream or high-tech ships, offshore projects and vessel engines", areas in which the trio have grabbed the commanding heights over other compatriot rivals.

Meanwhile, Chinese bankers approached by Lloyd's List said they had been increasingly concentrating their loans and refund guarantees on subsidiary yards of the shipbuilding conglomerates in the public sector.

These market participants, in addition to the privilege in obtaining favourable policies and financing, might well also lack the incentive to trim production capability for fear of losing ground to their non-state owned competitors.

Speaking recently to Chinese newspaper The 21st Century Business Herald, CSSC's Waigaoqiao Shipbuilding chairman Wang Qi likened the capacity at private yards to "cancer", as both are hard to kill and can easily reoccur.

Private yards have survival strategies

Some private yards have already perished, however.

In the so called Yizheng Shipbuilding Industry Park in Jiangsu province, there were 28 shipyards along a shoreline 14 km long, Dr Li said. "These are gone now."

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But not enough, of course. The hope seems to be that if the order dearth goes on, more private players, lacking support from financial institutions and local authorities, will be wiped out thoroughly this time.

Banks have cut off lending and refund guarantees to most non-state owned shipyards (and even some local government-owned ones) from 2014. The stringent bank lending reached its climax in 2015-2016 and is expected to keep going this year, said a Shanghai-based shipping banker.

There are, however, exceptions. For large players such as Yangzijiang Shipbuilding and New Times Shipbuilding, which are still major tax and employment contributors in their home cities or provinces, the governments and lenders will certainly remain supportive.

Yangfan Group, a main shipbuilder based in Zhoushan City of Zhejiang province, received Yuan500m low-interest loans from local banks last year to replenish its working capital, according to a person close to the company.

Even the once mighty Rongsheng Heavy Industries has yet to be liquidated, with yard facilities being preserved for new investors, because bank creditors are reluctant to write off the massive bad loans.

Now it seems the small medium-sized private yards are the only ones left to be eradicated. Many of them, however, have their own strategy for for survival.

One key lifeline is the rising domestic demand. Yards can at least eke out a living by taking contracts from local owners to build small cargo carriers, sometimes dredgers or even fishing boats, said both Dr Li and the shipping banker.

Dr Li noted that Jiantiao Shipyard, a little-known yard in Zhejiang province engaged in such business, had almost reached a newbuilding deal for a 51,000 dwt dry bulker with a Norwegian owner in late 2013 and has the capacity to build vessels up to 80,000 dwt.

The deal did not succeed because the two parties could not agree on a current exchange rate clause.

“There are many of them in China,” he said. “If the dry bulker markets rebound, I believe they are capable of coming back.”

Maybe yard overcapacity is a spurious proposition. In the short term, capacity is declining, yet in the long term, who knows?

The only certainty, from past experience, is that wherever there is demand supply will follow, and the market has always tended to overcorrect before reaching its equilibrium.
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