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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.

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Editorial comments

- A statistical summary of ***how global shipping evolved*** during 2016 in the main sectors is shown in item 1. Charter earnings in the tanker and bulker markets were down, but weak freight rates greatly deterred investment in new ships, which should eventually assist market corrections.
- Comments on a new ***analysis of world shipping sectors*** are included in item 3. Although this publication provides much useful material on how the main sectors could develop over the next year or two, some of the ideas on the outlook over the longer term seem contentious.
- Last year saw widely varying performances in ***China's container ports*** (item 5), where about one-third of the world's container movements are handled. But throughput growth in the top three mainland ports – Shanghai, Shenzhen and Ningbo – slowed sharply during 2016.
- Some ***bold predictions for the shipping industry in 2017*** are contained in item 2. A refreshing realism is expressed. Predictions of trends over the twelve months ahead can be compared with forecasting the British weather over a similar period: mainly guesswork and often proving wrong.
- After a distressing year, ***container liner service operators*** may be able to look forward to a gradual recovery, but there are still severe problems to be overcome (item 7). Many newbuilding deliveries scheduled for the next twelve months are an obstacle to any market improvement.

Richard Scott MA MCIT FICS
editor (email: bulkshipan@aol.com)

(1) Clarksons Research, 6 January 2017

2016 Review: Lots Of Records But Not All Welcome!

There have been plenty of record breaking facts and figures to report across 2016, unfortunately mostly of a gloomy nature! From a record low for the Baltic Dry Index in February to a post-1990 low for the ClarkSea Index in August, there have certainly been plenty of challenges. That hasn't stopped investors however (S&P not newbuilds) so let's hope for less record breakers (except demolition!?) in 2017

Unwelcome Records….
Our first record to report came in August when the ClarkSea Index hit a post-1990 low of $7,073/day. Its average for the year was $9,441/day, down 35% y-o-y and also beating the previous cyclical lows in 2010 and 1999. With OPEX for the same basket of ships at $6,394/day, margins were thin or non-existent.

Challenges Abound….
Across sectors, average tanker earnings for the year were "OK" but still wound down by 40%, albeit from an excellent 2015. Despite a good start and end to the year, the wet markets were hit hard by a weak summer when production outages impacted. The early part of the year also brought us another unwelcome milestone: the Baltic Dry Index falling to an all time low of 291. Heavy demolition in the first half and better than expected Chinese trade helped later in the year – fundamentals may be starting to turn but perhaps taking time to play out with bumps on the way. The container market (see next week) had another tough year, including its first major corporate casualty for 30 years in Hanjin. LPG had a "hard" landing after a stellar 2015, LNG showed small improvements and specialised products started to ease back. As reported in our mid-year review, every "dog has its day" and in 2016, this was Ro-Ro and Ferry, with earnings 50% above the trend since 2009. Also spare a thought for the offshore sector, arguably facing an even more extreme scenario than shipping.

Buy, Buy, Buy….
In our review of 2015, we speculated that buyers might be "eyeing up a bottoming out dry cycle" in 2016 and a 24% increase in bulker tonnage bought and sold suggests a lot of owners agreed. Indeed, 44m dwt represents another all time record for bulker S&P, with prices increasing marginally after the first quarter and brokers regularly reporting numerous parties willing to inspect vessels coming for sale. Tanker investors were much more circumspect and volumes and prices both fell by a third. Greeks again topped the buyer charts, followed by the Chinese. Demo eased in 2H but (incl. containers) total volumes were up 14% (44m dwt).

Order Drought….
Depending on your perspective, an overall 71% drop in ordering (total orders also hit a 35 year record low) is either cause for optimism or for further gloom! In fact, only 113 yards took orders (for vessels 1,000+ GT) in the year, compared to 345 in 2013, with tanker orders down 83% and bulkers down 46%. There was little ordering in any sector, except Cruise (a record 2.5m GT and $15.6bn), Ferry and Ro-Ro (all niche business however and of little help to volume yards).

Final Record….
Finally a couple more records – global fleet growth of 3% to 1.8bn dwt (up 50% since the financial crisis with tankers at 555m dwt and bulkers at 794m dwt) and trade growth of 2.6% to 11.1bn tonnes (up 3bn tonnes since the financial crisis) mean we still finish with the largest fleet and trade volumes of all time! Plenty of challenges again in 2017 but let's hope we aren't reporting as many gloomy records next year. Have a nice New Year!

(table on next page)

Source: Clarksons

2016 At A Glance

Dwt	Built	2015	2016	+/- %
1. ClarkSea Index				
Index ($/day, average)		14,410	9,441	-34.5%
2. World Trade, m. tonnes				
Oil		2,885	3,003	4.1%
Gas		328	344	4.8%
Dry Bulk		4,820	4,884	1.3%
Containers		1,668	1,726	3.4%
Others		1,122	1,145	2.0%
Total		10,823	11,101	2.6%
3. Tonnage Supply, M. Dwt				
Bulk Fleet (end)				
Tankers		523.8	554.6	5.9%
Bulkcarriers		776.6	794.0	2.2%
Subtotal		1300.4	1348.6	3.7%
Orderbook (end)				
Tankers		104.3	75.8	-27.3%
Bulkcarriers		131.5	85.6	-34.9%
Subtotal		235.8	161.4	-31.5%
Scrapping				
Tankers		2.4	2.6	6.9%
Bulkcarriers		30.5	28.9	-5.2%
Subtotal		32.9	31.5	-4.4%
Scrap Prices, $/ldt (end)				
Tankers		290.0	290.0	0.0%
Bulkers		282.0	290.0	2.8%
4. Revenue, Average Earnings, $/day				
Oil Tankers				
VLCC	c.2010	64,846	41,888	-35.4%
Suezmax	c.2010	46,713	27,567	-41.0%
Aframax	c.2010	37,977	22,965	-39.5%
Products (C)		21,444	12,124	-43.5%
Weighted Average (nos)		31,036	17,917	-42.3%
Bulk Carriers				
Capesize	c.2010	9,060	8,208	-9.4%
Panamax	c.2010	7,205	6,712	-6.8%
Supramax		6,578	5,839	-11.2%
Weighted Average (nos)		7,092	6,218	-12.3%
5. Asset Values, end period				
Newbuilding, $m				
VLCC		93.5	84.5	-9.6%
Suezmax		63.0	54.5	-13.5%
Aframax		52.0	44.5	-14.4%
MR		35.5	32.5	-8.5%
5 Yr old Vessel, $m				
VLCC		80.0	60.0	-25.0%
Suezmax		60.0	40.0	-33.3%
Aframax		46.0	29.0	-37.0%
MR		29.0	22.0	-24.1%
Newbuilding, $m				
Capesize		46.0	42.0	-8.7%
Kamsarmax		26.5	24.5	-7.5%
Ultramax		24.3	22.3	-8.2%
5 Yr old Vessel, $m				
Capesize		25.0	24.0	-4.0%
Panamax		14.0	14.0	0.0%
Supramax		13.5	14.0	3.7%
6. Turnover, Volume M. Dwt				
New Orders				
Tankers		53.2	9.2	-82.8%
Bulkcarriers		24.9	13.4	-46.0%
Subtotal		78.1	22.6	-71.1%
Secondhand				
Tankers		27.8	17.9	-35.8%
Bulkcarriers		35.1	43.5	24.0%
Subtotal		62.9	61.4	-2.5%

Figures subject to revision.

(2) Moore Stephens, 5 January 2017

Shipping will find new ways to ride out protracted downturn

The shipping industry will use a mixture of experience and innovation to navigate what is likely to be another volatile year for the industry in 2017.
Making predictions about the shipping industry is as volatile an undertaking as the business of shipping itself. Who, for example, predicted that the Baltic Exchange would be sold to Singapore? The same people, presumably, who foretold that Donald Trump would be elected president of the United States, that Britain would vote to leave the European Union, and that Leicester City would win the English Premier League. Yet it all happened in 2016.
Predicting shipping's fortunes in 2017 is as precise a science as foretelling the English weather. But some things are at least more likely to happen than not. Oil prices should continue on an upward trend on the strength of the recent OPEC production cuts. Calls for higher levels of ship demolition will increase significantly, although not ship demolition itself. The cost of meeting regulatory requirements will become clearer as the industry and its financiers grapple with the financial consequences of having to burn lower-sulphur bunker fuel whilst ensuring that their ballast water management systems are fit-for-purpose.
In common with other industries, shipping will be waiting to see whether Brexit really does mean Brexit. Orders will be placed for new ships. If they are not, a number of shipyards will go to the wall. For many, freight rates will continue to struggle to reach the levels required to ensure commercial viability, while consolidation will remain the buzzword in the liner trades.
If operating costs do not increase, concern will spread about whether quality and safety are being sacrificed. Both traditional and innovative sources of funding will remain accessible to those with sound business plans. And cyber security will move nearer the top of shipping's list of things to address.
Confidence in shipping increased steadily for most of 2016, underlining just how robust the industry can be in difficult times. The inherent volatility of the industry will continue throughout 2017, during which time shipping will resort to tried and trusted methods and to fresh innovation alike in an effort to keep its head above water. Shipping will find a way.
Things that will not happen in 2017 include another major fall in oil prices, and a big increase in hull insurance rates. Leicester City will not win the Premier League.
Source: Moore Stephens
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(3) Note for SOLENT GMWD by Richard Scott, *GMWD editor*

A useful new analysis of world shipping markets

***SHIPPING MARKET REVIEW*, December 2016, p**ublished by Danish Ship Finance (Danmarks Skibskredit A/S), 15 December 2016. It can be downloaded from the website, on the link below, but you will be asked to register before downloading:
http://www.shipfinance.dk/shipping-research/shipping-market-review/

Just before Christmas a **valuable analysis of global shipping markets** was published. This report is published regularly at six-monthly intervals and is available for free. The following chapters are included: General Review and Outlook, Shipbuilding, Container, Dry Bulk, Crude Tanker, Product Tanker. LPG (but there is no coverage of LNG)

Most of the DSF report comprises conventional analyses of the various sectors. The chapters look at how the global freight market has been evolving in each sector, and the factors determining what has happened – seaborne trade and other influences affecting demand for shipping capacity; and how the fleet of ships has been developing. In the shipbuilding chapter, shipyard capacity and newbuilding contracting are analysed. Then, in each chapter, there is a short section offering some pointers to the future, over the next couple of years ahead.

A longer-term view of possible shipping market trends and prospects, stretching ahead over the next 10 to 20 years, is contained in the *General Review & Outlook* chapter of the report. Arguably, this chapter offers a much more controversial assessment.

The central theme of the DSF longer-term outlook is that freight markets need to embrace a new reality already beginning to unfold. The new reality is that the supply side of shipping markets – fleet capacity and its productivity – needs to adjust to much slower seaborne trade growth than typically has been seen in the past. The report urges readers to "consider some of the structural challenges that we (DSF), among others, believe are transforming the long-term outlook for many parts of the shipping industry".

In particular the analysis focuses on what is labelled as the 'fourth industrial revolution', representing such elements as artificial intelligence, robotics, the internet of things, 3D (additive) printing and digitalisation. Huge changes in consumer demand for goods and services could result from the new technologies. These changes are expected to have mainly negative effects on sea trade, restraining import demand for many cargoes: consumer demand becomes less trade-intensive. This revolution is regarded as disrupting, altering the basic mechanisms that facilitated huge expansion of global seaborne trade over recent decades.

The anticipated upheaval, caused by the fourth industrial revolution, could be combined with slower growth in the global economy and slower population growth. As a consequence much slower or even minimal annual increases in global seaborne trade are envisaged in future years. But the composition of the world fleet of ships and how it is evolving is judged (by DSF) to be not well aligned with this expected outcome. Based on the perceived misalignment, the DSF analysts conclude that the "general outlook for the shipping industry is therefore bleak".

For those of us with extended involvement or interest in or with shipping, that conclusion is profoundly depressing. But it raises an obvious question. Is an outcome as unfavourable as that for shipping markets inescapable?

We may, perhaps, conclude that a great amount of what happened in the past decade or more, which fundamentally shaped and altered the international shipping markets, was either not predicted at all, or the full impact was not foreseen. If so, why should the next decade necessarily prove any more predictable than the past period?

A degree of caution in relying on such prognostications seems justifiable. But lessons of past lack of predictability or forecasting disasters never seem to deter some analysts (and some other observers) from striving to attain the almost unattainable. Typically long-term forecasting is purely speculative, mainly based upon either extrapolation of observed patterns, or based on assumptions which may (or usually may not) prove realistic, or both. Nevertheless, the DSF report is a useful contribution to the debate and does provide thought-provoking ideas. To be fair, it also at least acknowledges in an explanatory comment that 'we may not have envisioned the future as it will eventually play out'.

We can see that over-capacity is certainly a prominent feature of many sectors, and further agonising adjustments probably will be necessary before a better market balance is achieved. These adjustments may extend over several years ahead. However, arguments suggesting that this painful phase will be a more or less permanent feature in the future are not altogether convincing. Changing circumstances and market players' actions and reactions, mostly unpredictable, will shape the outcome.

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(4) Hellenic Shipping News, 19 December 2016/ Global Risk Insights

The evolving role of maritime straits

Maritime freight is one of the key elements of today's economy. Fluidity in international markets continues to depend upon the opportunity to transport resources through key regions,which in turn buoys the level of interdependence between different countries.
Perhaps the most important of these remains the Suez Canal, which connects South and South East Asian markets to Europe and the West and currently absorbs 19% of global traffic in terms of volume and 25% in terms of number of routes. The ports that are involved in these routes are temporary homes to over two billion tonnes of cargo annually. The 30 largest ports have handled 47.8 million TEU in 2015 (twenty-foot equivalent unit, which is basically the value of a standard shipping container). This represented the end of a 425% increase from 1995's 9.1 million TEU.

The Suez Canal
Maritime traffic in the artificial strait has increased by 120% between 2000 and 2014. Most recently, Egyptian state revenues related to freight between July 2014 and March 2015 were $4.1 billion, a 2.5% increase from the same period a year before. Over the same time span container-based traffic, which represents around half of total traffic, increased by 187%.
The Suez Mediterranean Pipeline (SUMED) is also a key passage for oil originating from the Persian Gulf and gas trade going towards European and American markets. Here too traffic has increased: from 50 million tonnes in 2000 to 178 million tonnes in 2014, which represented an increase of over 250%. According to the US Energy Information Administration, almost 3 million oil barrels a day transited through the SUMED Pipeline in 2012. 7% of oil and 13% of natural gas globally passes through this key channel.
The passage was built as an alternative way to the Suez Canal specifically for the transportation of crude resources. It consists of two parallel pipelines 320 kilometers in length which go from the Gulf of Suez to the Mediterranean Sea, just west of Alexandria.
While the overall transit flow has always been impressive, the widening of the Suez Canal was almost unthinkable until recent years. The rise in cargo and sharp fall in transit time has bolstered the strategic function of routes leveraging the passageway.
This is demonstrated by the fact that Chinese strategic activity in the Mediterranean has increased. Chinese import-export flows towards the Southern Mediterranean grew from 5.5 billion euros in 2001 to 56 billion euros in 2015. China has thus become the second largest commercial partner of the "South Med" region. While the United States continue to maintain a lead, Chinese outlays are growing at a much faster pace.
Chinese interests in the Mediterranean have also surfaced through the acquisition of the Pireo Port by government-owned Cosco, one of China's largest freight companies. 67% of ownership of the structure is now held by the Chinese government, which ensured the country a reliable maritime freight base in the Mediterranean.
Cosco has recently merged with another large player, China Shipping Container Lines, and will guarantee over 350 million euros worth of investment towards the facility over the next decade. Through this move, Chinese commercial abilities to reach European and North American markets has been significantly strengthened, shaping the local economies along the way.

The Panama Canal
This artificial maritime pathway, which is 77 kilometers long, is proving itself as the largest new global hub. This is especially true for the United States. The recent enlargement of the canal has bolstered US commercial activity in the Atlantic coast. The 2016 renovation work doubled the capacity, allowing not

only for megaship transit, but also for a new type of freight ships focused on LPG Liquefied Petroleum Gas (LPG) and Liquefied Natural Gas (LNG).
The Panama Canal is most used by American ships to reach Asia, rather than the other way around. In 2015 140 million tonnes worth of cargo went from the Atlantic to the Pacific Ocean, while 90 million moved the other way. More than 13,000 ships transited through the waterway.

Other straits
The Bosporus and the Dardanelles separate Asia from Europe. The Bosporus is a natural passage 17 miles long that connects the Black Sea to the Sea of Marmara and the Aegean. This is home to the transit of petroleum resources moving to European and Mediterranean markets originating from Russia, with over three million barrels a day.
Finally, the Strait of Gibraltar continues to play a critical role given its critical position between the Mediterranean Sea and the Atlantic Ocean. Over 100,000 ships transit through Gibraltar every year for commercial purposes, with more than 300 a day transporting heavy cargo.
Asian developments in mega-ship construction
The key trend in maritime freight is the increased construction of mega-ships through commercial alliances between leading market operators. These joint ventures enable the rationalization of key routes and facilitate economies of scales. The enlargement of the Suez and Panama canals are very much the result of this dynamic, rather than the cause.
The leading players are South Korean Hyundai, Samsung, and Daewoo. Close behind come Japanese IHI-Kure, Mitsubishi, and Kawasaki.
By 2019 it is estimated that around 275 megaships will be navigating the world, with cargo loads varying from 13,000 to 21,000 TEU.
In order to maintain and manage mega-ships you need capable shipyards able to allow for docking, maneuverability, and access to specialized equipment. In the Mediterranean, it is Spain and Egypt that are adapting their sites most rapidly to receive incoming traffic. In the Atlantic Ocean, Germany, France, and the Netherlands with Rotterdam most of all have made strides to continue to strengthen their positioning by vastly expanding their port capacity.

The security of maritime straits
These waterways should also be considered for their potential vulnerability.
On paper, Suez is located in an ideal position given it is entirely embedded within a single sovereign state and is not directly bordering contested territory. However, it’s position in a highly unstable geopolitical area makes it subject to potential attacks through land or maritime platforms. Suez can also be obstructed in a number of points, through the destruction of the Suez Canal Bridge or even the el Ferdan Railway Bridge.
As far as recent political events are concerned, it does not seem like the revolutionary efforts that began in 2011 led to a significant decrease in oil and gas traffic in Suez. However, threats deriving from terrorist activity in the Sinai Peninsula have increased. Egyptian authorities have recently strengthened security measures after reports of attacks on vessels.
The peninsula is home to Bedouins, Palestinian refugees, and foreign fighters. The latter have been involved for some years in low-intensity with the Egyptian forces. Despite the absence of a conventional security threat to transit through the canal, Suez remains a vulnerable waterway.
The same is true for the Bosporus and the Dardanelles. These straits belong to a single sovereign state, but are to be considered problematic due to navigation challenges and state-imposed restrictions on transit. The physical formation of the straits render these hard to navigate due to visibility challenges, leading to frequent accidents and collisions.
The Bosporus is the narrowest strait out of highly strategic waterways and it is affected by strong currents. Between 1953 and 2002 the passage witnessed 461 accidents, the majority of which were caused by collisions. Because of this, the Turkish government imposes restrictions on navigation, even though commercial transit is usually unhindered during peacetime.
Turkey is a strategic location not only because of oil transit but also for natural gas, as it connects the second largest market, Europe, with Middle Eastern and Central Asian reserves. For this reason, the straits have become increasingly important and have witnessed a rise in traffic, which in turn has worsened navigation conditions. The geopolitical risk of conflict that would cease traffic is minimal, but that of obstruction due to new accidents has to be taken under consideration.

Gibraltar does not appear at risk. Its territory in the Iberian Peninsula is under British jurisdiction since it was ceded by Spain in 1713 as part of the Treaty of Utrecht. Some basic questions with regards to its administration have remained unresolved, but these should not negatively affect bilateral relations or traffic in any significant way.
However, in 2013 some tensions between Spain and the United Kingdom emerged. This happened following the Spanish government's announcement of its intention to levy a tax on the passage of every vessel going through the strait. Furthermore, Spain has occasionally threatened to close its airspace without notifying the UK. This was most likely a response to the UK's initiative to create an artificial maritime barrier to limit fishing by Spanish boats in those waters.
These are only some of the factors affecting the strategic role of maritime straits in global markets and politics. They cannot be substituted, and as such are fundamental for global markets. However, their vulnerability renders them strategically and economically fragile.
Source: Global Risk Insights
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(5) Clarksons Research, 20 December 2016

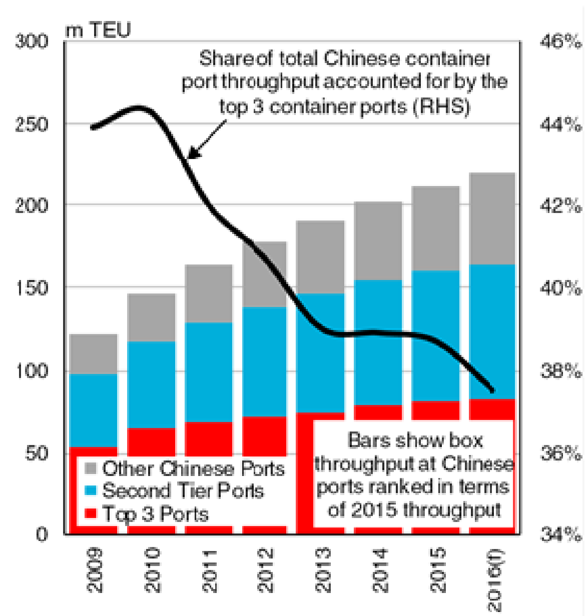
Lifting The Lid On Trends In China's Box Throughput

Robust growth in the Chinese economy drove a rapid increase in container exports from the country following its entry into the WTO in 2001. At an aggregate level, the pace of this expansion has slowed in recent years, contributing to softer box throughput growth at mainland Chinese ports, but there has been a significant difference in trends in throughput between China's large and small container ports.

Graph of the Month

Chinese Container Throughput: Little & Large Diverge

The bars on the graph show container throughput at mainland Chinese ports (excluding Hong Kong) split by the top 3 ports (Shanghai, Shenzhen, Ningbo), 'second tier' ports (other ports in the top 10) and other Chinese ports (LHS). The ports are ranked according to throughput recorded in 2015. 2016 data projected based on the year to date growth rate applied to throughput in full year 2015. The line shows the proportion of total Chinese container port throughput accounted for by the top three ports (RHS).



Source : Clarksons Research

Uplift In Throughput Slows
China is home to some of the world's busiest container ports, with Chinese box throughput totalling 211.6m TEU in 2015, 32% of global volumes. However, growth in lifts at mainland Chinese ports has eased from 8.5% p.a. on average in 2011-14, to 4.5% in 2015. This reflects slower growth in Chinese

exports, with box throughput growth slowing further to 3.7% y-o-y in the first ten months of 2016. However, trends have differed between the largest and smaller ports
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Top Ports Under Pressure
Growth in lifts at China's top three mainland container ports, Shanghai, Shenzhen and Ningbo, has eased from 5.0%p.a. on average in 2011-14, to 3.9% in 2015 and 0.5% in January-October 2016. Shenzhen has taken the biggest hit, with lifts down 0.6% in 2016 so far, following average growth of 1.5% p.a. in 2011-15. These trends have been driven by greater competition from other ports in the Pearl River Delta, and the relocation of manufacturing from the region to inner provinces. Overall, the share of China's lifts accounted for by the top three ports fell to 39% in 2015, from 44% in 2009.
At the 'second tier' ports (others within China's top ten), box lifts rose on average by 9.8% p.a. in 2011-14, outpacing that at the top three ports. This reflects both the diversification in manufacturing locations, and rapid upsizing in the boxship sector. Operators have deployed newly delivered large ships at more-established ports, which in turn appears to have led to the deployment of other vessels at 'second tier' ports. For instance, the introduction of additional direct services and the development of the Nansha port area has supported lifts at Guangzhou, with some operators now replacing calls at Shenzhen with Nansha and other ports.

Competition Heating Up
Meanwhile, total throughput at Chinese ports outside of the top ten has continued to rise firmly, growing by 13% p.a. in 2011-14 and 9.3% in 2015. There were 10 Chinese ports with lifts above 2m TEU in 2009, but this number had risen to 18 by 2015. Lifts at ports outside of China's top ten have been supported by ongoing infrastructure development, and greater competition between ports. While previously many cargoes from inner provinces were shipped through the large coastal ports, some operators have now begun direct services from inland river ports.
So, the share of Chinese box throughput accounted for by the top three ports has come under pressure in recent years, with the smaller ports representing the fastest growing element of China's total container lifts. Asian container trade, including domestic Chinese volumes, now appears to be picking up pace again, but the contrast between trends in China's large and smaller ports might continue for a while yet.
Source: Clarkson Research Services Limited
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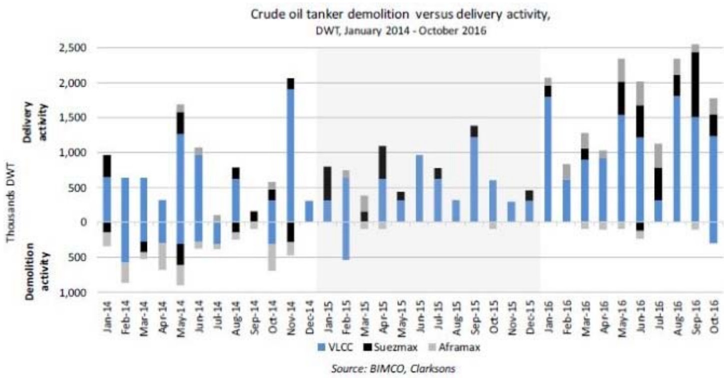
(6) BIMCO, 27 December 2016

Fleet growth squeezes crude oil tanker market

From January 2014 – October 2016 the crude oil tanker segment composing of VLCC, suexmax and aframax ships, had a net-fleet growth of 7.3%, which is equal to 24.3 million (m) DWT. The VLCC segment, with 20.7m DWT or a net fleet growth rate of 11% took the lion's share, followed by the suezmax segment with 4.4m DWT or 5.5%. Whereas the aframax segment decreased by -0.8m DWT or 1%, in relation to the fleet size of the specific ship segment. This analysis explains the recent history, updates you on the current state and displays future changes for crude oil tankers.

BIMCO's Chief Shipping Analyst Peter Sand says: "The recent crude oil tanker fleet growth becomes increasingly troubling, and worsen the balance between supply and demand strongly, if demolition does not pick up. In the past two years, specifically, less than 2.3m DWT of crude oil tanker capacity has been demolished, which in comparison to the 358m DWT of the current crude oil tanker fleet is a vanishingly small proportion. But there may be changes just around the corner. The demolition of the 1994-built VLCC "Progress" with 297,237 DWT by mid-October indicates a resumption of demolition activity for the crude oil tanker segment. In October 2016, this ship was the first trading VLCC since the 1995-built "Hebei Mountain" in October 2014 with 307,050 DWT was scrapped."
Per GMS reports in-between these two years only two other VLCC's were demolished. However, either these have already stopped trading or have been converted for other use. Most recently in November 2016, another VLCC with 281,434 DWT was demolished, thus indicating a new trend in demolition activity.

Please note: this publication is intended for academic use only, not for commercial purposes

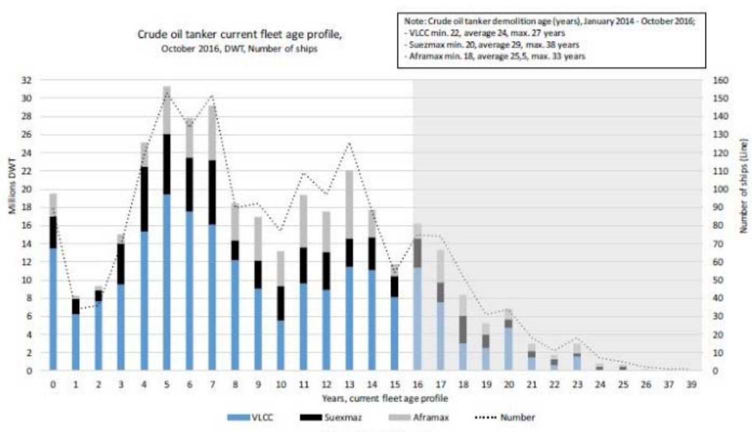


Newbuilt deliveries in the crude oil tanker segment doubled from 0.9m DWT in January 2014 to 1.8m DWT in October 2016. Accumulating in the reference period to a total of 35m DWT. In this period, 25.7m DWT or 73.4% were VLCCs, 6.1m DWT or 17.3% were suezmaxes and 3.2m DWT or 9.3% of gross delivered capacity was aframaxes.

At the same time, ship demolition ceased to exist between January 2014 – October 2016 as the freight markets improved significantly, bringing profitability back to the industry. Just 7.3m DWT of crude oil tanker capacity was demolished. The VLCC and aframax segment accounted for 85% or 6.2m DWT of the total crude oil tanker demolition, while the suezmax segment saw demolition of 1.1m DWT or 15% of total crude oil tanker scrapping.

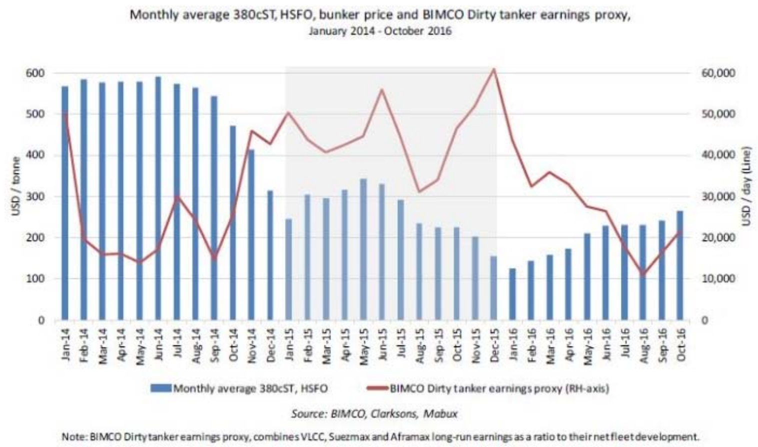
Future demolition candidates

Between January 2014 – October 2016 crude oil tanker demolition only affected ships older than 15 years. The current crude oil tanker fleet holds 59.3m DWT or 18% of ships aged more than 15 years, which are the most likely candidates to be sold for demolition. The VLCC fleet contains 32.5m DWT or 15% of the current VLCC fleet older than 15 years, while the suezmax fleet has 12.9m DWT or 21% and the aframax fleet 13.9m DWT or 22% of these older ships.



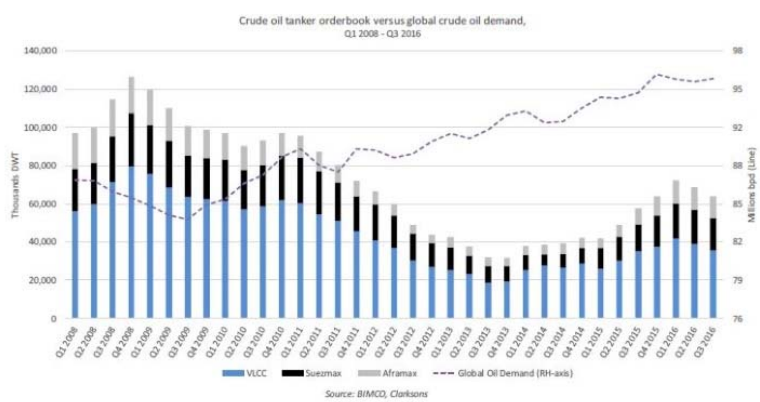
Demolition influencing factors

The key factor influencing the low demolition levels was solid earnings throughout the year in 2015. The decrease of the BIMCO dirty tanker earnings by -51% from January 2016 – October 2016 however, might have a reverse effect on future demolition activity. Moreover, low bunker prices, which decreased from January 2014 – October 2016 by -53% or USD 301 per tonne, eased the pressure on fuel efficiency for the older ships.



Furthermore, the ship demolition price decreased from Q1 2014 – Q3 2016 on a compounded quarterly rate for VLCCs by -4.0%, suezmaxes by -3.7% and aframaxes by -4.1%. For a VLCC, the price dropped from 19.4m USD to 12.3m USD for an average ship of 42,000 ldt. In correlation, current fleet age profiles, earnings, bunker prices and ship demolition value – are influencing demolition activity in the crude oil tanker segment.

Steady increasing orderbook
The orderbook-to-fleet ratio of 16% in Q3 2016 provides evidence for future fleet growth. However, if the fleet in future expands by more than the growing need, it will contribute to an imbalance between supply and demand, therefore resulting in decreased earnings. This should trigger higher demolition activity in the crude oil tanker segment.



Peter Sand adds, “Decreased earnings of crude oil tankers since the start of 2016 is a clear sign of the mismatch between demand and supply. Something which is not fundamentally changed by the seasonal upswing in Q4-2016 as seen for VLCCs. In addition to freight market uncertainties, the enforcement of the ratified ballast water treatment legislation and the IMO global sulphur cap at 0.5% in 2020, will be a stimulus for demolition of inefficient ships and therefore could serve as a catalyst for an improving freight market”. Showing leadership to the global shipping industry, in 2017 BIMCO will continue its unique series of analysis on the “Road to Recovery” for the crude oil tanker market, following the analysis published in 2016 on what is needed for the dry bulk sector to recover
Source: Peter Sand, Chief Shipping Analyst; BIMCO
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(7) Hellenic Shipping News, 4 January 2017/ Maritime Strategies International

For liner operators, light at the end of a tunnel, for owners, just another train

The latest phase of mass consolidation continues to see the container shipping industry sailing in uncharted waters and has emphasized the extent to which liner companies are having to restructure their business models in order to survive.

In its latest quarterly Container Market Report* MSI concludes that the actions taken by liner companies, both in terms of consolidating service provision and also redelivering chartered tonnage, mean that the worst of the downturn is over for the globally competitive operators.

Unfortunately, much of the self-help being undertaken by the liner industry is piling pressure onto the already beleaguered charter owners. The recovery in freight rates has been in part a result of the redelivery and subsequent idling of vessels under charter owner control, whilst the consolidation of liner capacity implies the potential for greater operating efficiency and a concomitant reduction in demand for vessels.

“Overlaid on this negative backdrop is, in our view at least, a greater commitment to action with banks increasingly prepared to take haircuts to get values to reasonable levels,” says MSI Senior Analyst James Frew. “Owners have now been pushed past simply using hope as a strategy for recovery and instead are looking at alternatives. Even the more conservative tonnage providers are being prodded into action, with Costamare’s recent announcement of an equity raise a notable shift in attitude.”

This restructuring and recapitalisation of the industry is being complemented by the textbook approach of heavy scrapping and scarce new orders. In this respect the industry appears to be doing what it can to help itself, but it remains to be seen whether this will be sufficient. Ultimately, the industry requires trade growth to dig itself out of the hole, but in the short term the dynamics favour liner companies over charter owners.

“If maintained and if accompanied by a sustained recovery in demand, this trend will lay the foundations for a gradual recovery in earnings post-2017,” adds Frew. “However, behind the headline trends persistent obstacles to reducing supply remain in place, whilst 2017 scheduled deliveries remain a major roadblock to a swifter recovery.”

Meanwhile, the liner industry is being reshaped, with consolidation having major repercussions on the mainlane alliance trades and across the global network. The reformation of the industry is not only taking place against the backdrop of slow trade growth; it is being driven by it. Since supply side adjustments are the only mechanism the industry has within its control to improve fleet utilisation, it is a lever the industry is grasping with increasing desperation.

Source: Maritime Strategies International

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(8) Clarksons Research, 22 December 2016

Wider World View Highlights Some Highs, And The Lows…

In 2016, market conditions across most sectors of the shipping industry have been highly challenging. The ClarkSea Index, which illustrates the fortunes of earnings for the major commercial ship types makes fairly clear the fate of the volume shipping sectors, but how is the wider global fleet covered by World Fleet Monitor faring now, in comparison to the post-downturn period as a whole?

Bulky Issues

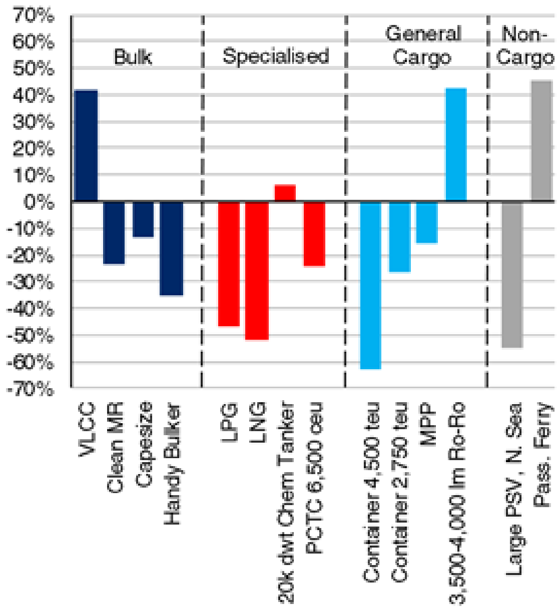
The ClarkSea Index, an average of earnings for tankers, bulkers, boxships and gas carriers, averaged $10,574/day in November 2016, down 11% on the average since the start of 2009, a handy marker for the onset of the downturn. In the dry bulk sector, the market has been under significant pressure for some time, and in November 2016, Capesize spot earnings stood 14% below the average since 2009.

Meanwhile, oil tanker earnings have fallen this year, from a strong 2015, despite robust trade growth. Firm fleet growth in both the crude and product tanker sectors has placed pressure on the tanker markets, with clean MR average spot earnings in November 23% below the average since start 2009. To see how the wider shipping fleet is faring, the graph shows the same comparison for a broad range of sectors.

Graph of The Month

Vessel Earnings: Anything New From A Wider View?

The graph shows the percentage difference in vessel earnings in November 2016 compared to the average since start 2009, across a wide range of shipping sectors. Bulk vessel earnings are basis average spot voyage earnings. Comparison for specialised and general cargo sectors is basis timecharter rates. Chemical tanker rate is comparison with average since April 2012. PSV is basis North Sea spot dayrate. For passenger ferries, the graph indicates the difference between the one year timecharter rate in November 2016 and the lowest rate since the start of 2015.



Source : Clarksons Research

Not So Special?
Clearly, the specialised shipping sectors are faring little better. LPG market conditions have deteriorated acutely this year, reflecting the impact of rapid fleet growth, taking the one year VLGC timecharter rate from over $70,000/day in mid-2015 to just $17,466/day in November 2016. LNG market conditions have remained challenging, but may have now bottomed out. The PCTC market has also come under pressure, with the rate for a 6,500 ceu vessel averaging $16,000/day in November, down 24% on the average since start 2009. In the general cargo sector, the boxship charter market has been notably depressed, with rates at bottom of the cycle levels. The 6-12 month charter rate for a 2,750 TEU boxship stood at $6,050/day in November, 26% lower than the average since start 2009.

Better In General, Or Not?
However, in some of the niche general cargo areas, things look a little better; timecharter rates for Ro-Ro vessels have firmed this year, with the rate for a 4,000 lm vessel standing at €18,000/day in November, up 43% on the average since 2009. Into the 'non-cargo' sectors, conditions in the offshore sector remain under extreme stress as the industry grapples with low oil prices and cuts in E&P budgets. The North Sea spot dayrate for a large PSV fell to £4,994/day in November, 55% below the average since the start of 2009. But again some niches are performing more strongly, with passenger ferry charter rates in November up 46% on their start 2015 level, and the cruise sector in full-on expansion mode.

Widespread Hopes
In general, comparing today to the downturn period as a whole, things in many sectors appear to be as bad as they have ever been. In the wider fleet some niche sectors have seen better earnings, but even so, most shipowners will surely be hoping that 2017 brings with it a significant change in fortunes.
Source: Clarkson Research Services
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