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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- Following the recent UK maritime trade mission to Shanghai, a ***'China Day'*** is planned at the forthcoming London International Shipping Week (item 4).

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(1) Clarksons Research, 31 March 2017

Shipping: Setting A Course Towards A Cleaner Future

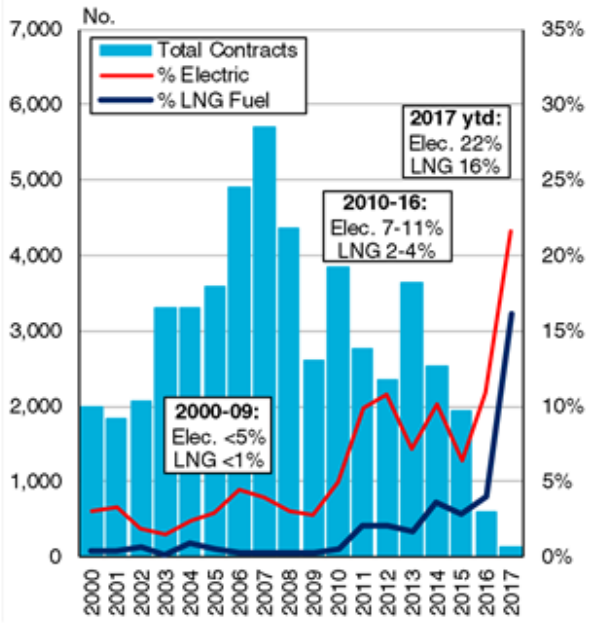
The introduction of new environmental regulations is leading the shipping industry to look for ways of reducing its emissions of harmful gases. This week we focus on two separate but related issues: the way in which vessels are powered, and the type of fuel that they use. New technologies are being adopted, with certain ship types leading the way…

Electric Therapy

The majority (96%) of active merchant vessels are powered by mechanical systems in which a form of fuel oil powers a main engine (usually a 2 or 4-stroke diesel) which is connected to the propeller. Most other vessels are "diesel-electric", in which the power generated by the (4-stroke) main engine(s) is converted to electricity before being transferred to propeller(s) or thruster(s) via electric motors.

Graph of the Week

More Fresh Orders Getting Ready To Clean Up



The graph shows annual new-building contracts (bars, LHS) alongside the percentage of total contracts with 1) electrically driven propulsion (red line, RHS) and 2) main engines capable of using LNG fuel (blue line, RHS). The boxes show the share of total new orders for electrically-driven and LNG-fuelled vessels in each period. Source: Clarksons Research's *World Fleet Register*.

Source : Clarksons Research

By optimising the loading of the engines, diesel-electric systems can lower fuel consumption and emissions. These systems are well established in sectors such as offshore, tugs and passenger, where manoeuvrability, variation in power demand and engine noise are important considerations. For larger cargo vessels, where demand for power is generally higher and more consistent, conventional mechanical systems remain more efficient and cost-effective. Our Graph of the Week shows that against a backdrop of reduced contracting in the larger cargo sectors, electrically-driven ships have assumed a greater share of the newbuilding market, accounting for 22% of reported newbuilding contracts so far this year.

Battery Charged

The next step for electric power may be more widespread adoption of batteries in main propulsion systems. There are 22 vessels in service and 14 on order that use batteries, mostly alongside either conventional diesel or dual-fuel generating sets. As well as reducing emissions when using battery power, these can enhance efficiency by optimising engine loads and transferring surplus power to or from the batteries as required. For smaller ferries intended for short routes, all-electric propulsion systems are feasible.

Gas Treatment
LNG has been identified as a cleaner fuel capable of reducing vessel emissions in line with new regulations. Clarksons Research's World Fleet Register currently identifies 542 merchant ships in the fleet and on order capable of using LNG fuel. 351 of these are LNG carriers, which can use cargo boil-off to fuel a choice of turbine, dual-fuel diesel electric or dual-fuel 2-stroke main engines. In other sectors LNG fuel has taken longer to gain market share, but there are signs that where ship designs and the supply of bunkers allow, it is becoming more popular. Out of the 130 contracts recorded so far in 2017, 21 are for vessels capable of using LNG fuel. These include 4 Aframax tankers, the largest vessels other than LNG carriers to adopt dual-fuel 2-stroke engines.
More efficient power systems and cleaner fuels are two examples of how the shipping industry is responding to the challenges set by new environmental regulations. Alongside other developments in vessel design and operating practices, shipping is steering towards a more efficient and cleaner future.
Have a nice day!
Source: Clarksons
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(2) Hellenic Shipping News, 5 April 2017/ Ashfords

Cutting Carbon Emissions in Shipping: The IMO and the EU in Competing Positions

The cutting of carbon emissions across all industries has increasingly become the focus of legislation in recent years. Conventions such as the Paris Agreement, ratified in October 2016, seek to bring the global community together for this purpose. Measures that are due to be introduced include the purchase of carbon credits on the international or domestic markets to offset emissions and more emphasis on renewable projects. The goals of these agreements are wide in scope and set the bar very high – for example the agreeing Paris nations must peak their carbon emissions as soon as possible with "rapid reductions" thereafter.
The estimated total CO2 emissions by the shipping industry in 2012 accounted for 2.2% of all emissions for that year. Although this is, in fact, a reduction in emissions from the pre-2008 industry peak, it is still clear that shipping is a major emitter of greenhouse gases. Any legislation that seeks to control and reduce the amount of emissions must therefore include shipping as a key part of their considerations in doing this.
The IMO has been working with the industry and with individual states to formulate its own carbon reduction strategy. The IMO's Marine Environmental Protection Committee (MEPC) has approved a "Roadmap" for the reduction of greenhouse gas emissions, with a reduction strategy to be adopted in 2018. Considering the worldwide reach of the IMO and the commitments shown in the Roadmap, it had been thought that the industry may be left to regulate itself in these matters. Not so, according to the European Union.
In spite of the commitments of the IMO, there are some within the European Union who are expressing impatience that the shipping industry has not already set itself global reductions targets. This anxiety has been expressed, for example, by the European Commission's Climate Actions Directorate (ECCAD). It is not enough, according to them, for the IMO to call for a strategy, but the industry must be given a target. As a sign of the seriousness with which it takes its position, the European Parliament recently voted to include shipping in the EU emissions trading scheme from 2023, in the absence of an acceptable alternative proposal from the IMO by 2021.
This has caused consternation, even exasperation, by many in the shipping industry, including not least the European Community Shipowners' Association (ECSA). The industry's reaction via bodies such as ECSA is that the EU is seeking to force the hand of the IMO in its strategy, when it is already committed to regulation. ECSA has stated the European Parliament's vote "ignores and undermines" the Roadmap put in place by the MEPC, which had in general met with widespread approval in the industry. It has also been seen as counterproductive to the global dialogue institutions such as the IMO and the European Union should have in these matters.

To counter this, the ECCAD has stated that, far from undermining the IMO's efforts, it should seize the opportunity and take advantage of its own commitments by now committing to a firm target next year. In spite of what has been seen as an attack on the IMO's supposed lack of initiative on this issue, they believe that now is the time for these institutions to cooperate. This dialogue may take some time to develop, however – the European Parliament vote has still to be ratified by the European Commission and European Council.
Whatever the outcome of this fraught negotiation, it is clear that there is always a definite political angle when it comes to environmental matters. This is especially so in the shipping industry, where there are so many interested and competing bodies looking to have a say. Although the UK has decided to leave the EU, as it is still our major trading partner, the outcome will still most likely have a significant impact our shipping industry as well.
Source: Ashfords
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(3) **Editorial comment by Richard Scott, GMWD editor**

Three Years of China's New Silk Roads

Alice Ekman et al, published by IFRI, February 2017

https://www.ifri.org/sites/default/files/atoms/files/ekman_et_al_china_new_silk_roads_2017.pdf

China's *One Belt, One Road* (OBOR) megaproject, conceived over three years ago, 'remains vague and unclear in many respects', according to the authors of a research report published by the Institut Francais des relations internationales (Ifri), an independent think-tank. But this new report, available free-of-charge, clarifies many aspects of the concept, enabling readers to firmly grasp the essential features.

OBOR consists of two parts. The 'Belt' is the Silk Road Economic Belt. The 'Road' is the 21st Century Maritime Silk Road sea routes, which is the part of most interest to shipping industry people. Some Belt and Road elements are linked by ports. Alternatively, OBOR is known as the Belt and Road Initiative.

During the period since the initiative was proposed by President Xi Jinping in autumn 2013, there have been numerous developments and the grand plan has been progressively taking shape. It is referred to by the Chinese as an initiative, not a strategy. And yet a strategy is what seems to be emerging, albeit with a flexible approach in terms of both activities contained and geographical area covered.

Of most direct interest from a shipping viewpoint are the port projects for new or refurbished facilities. There has been little or no mention in the maritime silk road context of actual shipping services, perhaps because these are already extensive in all sections of the routes identified, operated by China-owned and foreign shipowners and operators.

Another notable feature is that the OBOR is a long-term plan. It is 'designed to serve the domestic economic interests of China' according to Ifri's report, although other aims - improving connectivity and assisting developing countries to advance - are evident. The report points out that many foreign observers regard the initiative as primarily contributing to China's aim of building its sphere of influence.

Aside from these interpretational aspects, what is much clearer is actual achievements. These have been numerous, evolving into a pattern. Among these are major port expansion and improvement projects in several southeast Asian countries – Pakistan, Sri Lanka and Bangladesh – as well as, at the other end of the maritime silk road, in Piraeus.

The Ifri report discusses key OBOR aspects in a concise and readable narrative. The first three of six chapters are especially useful: (1) China's new silk roads: a flexible implementation process; (2) The economics of OBOR: putting Chinese interests first; and (3) OBOR and energy: China's evolving internationalization strategy.
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(4) Maritime UK, 6 April 2017

Maritime industry to hold ‘China Day’ during LISW17

Maritime UK will draw on the successes of its very recent trade mission to Shanghai by organising a ‘China Day’ during the forthcoming London International Shipping Week 2017 (LISW17), due to be held in Britain’s capital from 11th to 15th September.

The ‘China Day’ event will focus on issues related to trade with China and give participants an opportunity to understand more fully, market trends and business opportunities.

UK Government and Maritime UK used the Shanghai trip to invite a delegation of 30 Chinese government and industry officials to attend LISW17, including the Governor of Pudong, Hang Yingwei, who received an official and personal invitation from the UK Trade Minister, Mark Garnier.

Visiting delegates are likely to come from the Shanghai Municipal Bureau of Human Resources’ Maritime Professional Division; the region of Pudong; as well as representatives from the Maritime Finance & Excellence Centre in Shanghai.

The very successful three-day Shanghai trade mission focused on opportunities for the UK in China and for Chinese investment in the UK. The Institute of Chartered Shipbrokers used the opportunity to sign an agreement with the Chinese Transport Ministry to provide training.

Speaking at the event, David Dingle (pictured), Chairman of Maritime UK and Carnival UK and a member of the LISW Board of Advisors, referred to the deepening trade and investment relationship between the UK and China, “not least because of both countries’ commitment to delivering a ‘Golden Era’ in Sino-UK relations. Maritime UK fully endorses a closer relationship with China, which serves the mutual interests of both countries.”

He added: “China and Britain are both global maritime and trading powers with a global outlook. We are working together to solve global issues, build economies of the future, and develop our strong trade, investment and people links. We are leaders and strong believers in truly global trade.

“UK exports to China grew 63% from 2010 to 2015, and China is expected to be the UK’s second largest foreign investor by 2020. The maritime sector has a crucial role to play at the heart of this – in facilitating trade between our countries, but also through the export of our own innovative world-leading products and services, and through attracting inward investment.”

Speaking just as the UK triggered Article 50, Mr Dingle said: “As Britain goes out into the world, determined to increase exports and sign ambitious trade deals, we have a unique responsibility to make ‘Global Britain’ a reality, and our being here today demonstrates our commitment to doing so.

“Leaving the European Union, the UK will have the opportunity to forge new trade deals with countries around the world, including some of the most exciting, dynamic, and fastest growing economies. The fact that we stand here today demonstrates our commitment to strengthening the UK-China relationship as we prepare to leave the European Union.”

LISW17 will be the must-attend event of the global maritime calendar with more than 140 industry functions and unique networking opportunities.

Source: Maritime UK

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(5) Maritime UK, 24 March 2017

Britain’s global maritime sector can make Global Britain a reality

Sometimes it’s worth re-emphasising: Britain is an island nation. For centuries, Britain has reached out across the oceans to connect with and trade with nations around the globe. And pre or post Brexit, Britain’s fundamental strengths and traditions as a maritime nation remain constant.

Our island status was inevitably the catalyst for making those connections in the first place. Britain’s shipping heritage in turn provided the strong foundations for the world-leading international maritime sector we have today, encompassing trading, chartering, shipbroking, insurance, law, arbitration, finance,

IT, training & education, research, marine engineering and manufacturing, logistics and a whole host of related activities.

The UK maritime sector supports more than 500,000 jobs, contributes £22.2bn to UK GDP, and drives exports and inward investment. Britain's ports handle ships and cargoes heading to and from thousands of destinations around the world. And across the sector we continue to invest and innovate.

The UK maritime sector is already established as a leading player on the world stage. Now it will play a critical role in ensuring that the UK makes a success of Brexit – and the work has already begun.

At the end of this month, Maritime UK will team up with the Department of International Trade to lead a three-day trade mission to China to promote the UK's products, services and investment opportunities – in short, to highlight the 'complete package' that the UK, as the world's maritime centre, can offer to global maritime business.

The timing of the mission is certainly symbolic; Article 50 will be formally triggered on Day Two. The event will also coincide with the visit to Shanghai of an iconic British ship, the RMS Queen Mary 2. The vessel will be used to promote UK excellence across shipping, ports, marine and business services and will play host to pioneering companies from across the maritime sector, a number of which will be visiting China for the first time.

Senior industry and government leaders from both the UK and China will be attending the mission, including the UK's Shipping and Ports Minister, John Hayes, and Trade Minister Mark Garnier.

As the UK triggers Article 50 and looks to a future outside the European Union, there are numerous potential trade deals to be negotiated. The UK's highly competitive, efficient ports are key to the swift, efficient flow of goods, and port operators continue to invest.

The Port of Dover has embarked on its largest single investment ever – the Dover Western Docks Revival Project will create a purpose-built cargo and logistics facility and the first stage, with a contract value of £115m, is due for completion at the end of next year (2018).

On the Thames, DP World London Gateway will soon open its third deepwater container berth and substantial new logistics facilities are being built. The Port of Tilbury is progressing with its 'Tilbury 2' expansion, having bought the 152-acre former Tilbury Power Station site, with its deepwater jetties, and Amazon's 2.2. million sq ft fulfilment centre, the largest warehouse ever to be built in the UK, is due to open mid-2017.

At Felixstowe, Hutchison Ports UK completed its deepwater Berth 9 extension at the end of 2015 and is reaping the rewards of its significant investment in rail operations, while at Southampton, ABP has a five-year plan to invest £170m across the port. An £8.3m upgrade of the port's fresh produce terminal was officially opened in November last year. In Liverpool, the UK's major transatlantic port, Peel Ports' £400m Liverpool2 deepwater container terminal came online in November 2016, and on the Humber, ABP is investing £50 million to more than double the capacity of its two container terminals at Hull and Immingham.

A staggering 95% of our imported goods arrive by sea – and it is now time to focus on exports too, with the new opportunities delivered by Brexit. The 'Made in Britain' label is highly sought-after across the globe and as the UK forges new trade deals with many nations, including some of the fastest-growing economies in the world, the opportunities to grow our exports are tremendous.

Shipbuilding is another area of huge optimism – and, thanks to Boaty McBoatface, the renaissance in UK shipbuilding hasn't gone unnoticed amongst the general public. The UK's new £200 million polar research ship, the RRS Sir David Attenborough, is under construction at Cammell Laird on Merseyside. This 120-metre vessel (with its memorably named autonomous submarine) is due to be operational by 2019.

Luxury yacht manufacturer Princess Yachts International, which employs about 2,000 staff at its headquarters in Plymouth, has seen a boom in orders and announced plans to recruit 100 more workers and invest £55m in new boat models. MBNA Thames Clippers has two new 170 capacity passenger boats under construction at the Wight Shipyard Co on the Isle of Wight, and these will join London's growing river transport network this year. And eight Type 26 frigates are to be built at BAE's Govan and Scotstoun yards on the River Clyde in Glasgow.

Brexit could free up the UK from EU procurement and State Aid rules, which would prove another boost to UK shipbuilding and marine engineering.

The maritime industry has a unique opportunity to make 'Global Britain' a reality, and it is ready to do so.

The trade and investment relationship between the UK and China has deepened over recent years and, during the trade mission to Shanghai, Maritime UK and the DIT will be working with the Pudong New Area to identify new maritime trade and investment opportunities for both countries. A significant number of

British companies are already working with China – we can look forward to opening new chapters in these relationships, and beginning others.
Nearer to home, the sheer strength of the UK as a global maritime hub will be illustrated at London International Shipping Week (LISW), which takes place this year on September 11-15. Featuring more than 160 industry functions and networking opportunities, LISW will be attended by leaders from across all sectors of the international shipping industry. This is where the big issues and opportunities are discussed and debated, on a world stage.
Chinese industry leaders will be receiving personal invitations to LISW and the organisers will be hosting a 'Business Lounge' to continue to develop relationships created during the Shanghai mission and with other countries. It is worth noting that Brexit will allow a review of the rules around residency, too, which could make the UK a more attractive place to live and operate a business.
The maritime sector, the engine of global trade, will be central to the success of a post-Brexit world.
We have only just begun.
Source: Maritime UK
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(6) Hellenic Shipping News, 5 April 2017/ Euronav

What Is The Effective Size Of The Operational World Tanker Fleet?

With the oil price looking capped by the potential for export of U.S. shale oil, and with industry opinion formers and analysts predicting steady demand growth over the coming three to five years (IEA forecast demand growth 1.4 million barrels per day 2017, 1.2m barrels per day per annum 2018-22), the freight market will in all likelihood be a supply driven market.

When looking at the supply side most analysts will quite rightly focus on three main areas: the orders for new ships that have been placed at the shipyard with emphasis on the expected deliveries and then the projected or likely scrapping of existing older tonnage

Fit to sail?
The utilization of the existing world fleet, the vessels on the water, varies from time to time. The fleet is subject to requirements to be 'in class', which is part of a regime of regulations for sea worthiness and incorporates a survey cycle including periodic dry-docking. Any ship, which is not in class, is not available for service, nor is any ship that is undergoing periodic dry-dock, to complete repair, maintenance and survey for the purpose of staying in class. This system provides the minimum required standard to operate as a commercial ship and is common to all types of vessel. For tankers this is only the start of inspections that make up the reviews of quality assurance necessary to trade.

The operator/manager of a ship will need to have a certified management system in compliance with the International Maritime Organization's (IMO) International Safety Management Code requirements, called ISM, with a Document of Compliance (DOC) issued for the company and a Safety Management Certificate (SMC) issued for each of the vessels it operates and manages. These certificates are issued by a recognized Classification Society ("class society") acting on behalf of a flag state. The inspection authorities that derive their authority through legally constituted bodies are the flag state, which may authorize class societies to issue on their behalf certificates required under IMO rules for international navigation.

Both have a permanent interest in the vessel as long as its owner keeps it registered under their flag or entered with their class society. There is a second group of interested parties who, on the other hand have an interest limited to the performance of particular voyages. These are the Port State Authorities, the cargo terminal operators, the charterers and cargo interests – in short the customers or their agents.

Fit for cargo?
In respect of the parties related to the cargo their interest is limited in time to the period that the vessel is in their employ, carries their cargo or is in their port or at their terminal, they need to be assured prior to loading or arrival that the ship's operation and performance will meet their requirements. This provides considerable problems due to the nature of shipping as a dynamic business affected by the human element, the perils of the sea and weather, and last but not least, the cyclicality of the markets. How can the cargo interest be assured of the required quality during the relevant time when there is so much potential for change and so little opportunity to check through physical inspection?

Oil companies originally operated their own fleets and to some extent this continues. However, as the companies broke up their logistical integration one of the first parts to be outsourced was ship operation. The process then began of trying to be sure that the service had not only been well performed but would also be well performed in the future. Lessons were learned from the other end of the oil business in the exploration and production industry where outsourcing became the norm for offshore expertise and drilling and many lessons were also learned about quality assurance.

Fitness check up
The initial point was written maintenance and operation manuals, which resulted in Guidelines issued by Oil Companies International Maritime Forum (OCIMF) and constitutes the basis for a vessel's acceptability and which were instituted into an international requirement for Chartering. The next critical point was inspecting against those manuals to ensure that they were followed and that adherence was evidenced in the records of the ship. This is known as vetting, which in its early stages meant an employee or direct subcontractor of the customer visiting the ship, whilst in port, to meet the crew and review the ship and its records. Vetting immediately threw up two problems.

For the inspecting company the ship and its crew may appear to be performing in an acceptable manner, but in not rejecting were they approving? If they were approving, who could rely on the approval and for how long? Inspection must take place before the company contracts for the business that is contemplated, otherwise it is not an approval for future business. If a voyage (particularly for a large tanker) takes three months and the vessel needs preapproving at a port, then the period of six months looks like a bare minimum that could be workable for effectiveness of the approval period. Owners would like it to be much longer as repeated inspection is burdensome for the ships' crew, but shipping is dynamic and the crew changes continuously with service on board being for periods anywhere between three and nine months for each crew member.

There was also the issue of man power for staffing vetting, with risk of cost duplication if all oil companies had their own vetting staff. This combined with periodic review that was necessary for the Safety Management System (SMS) meant that more efficient solutions were sought. For the SMS review OCIMF issued the Tanker Management Self Assessment (TMSA) program in 2004 'as a tool to help operators measure, assess and improve their safety management systems. Each tanker operator must report to OCIMF the results of their own assessment of their SMS based on a number of KPIs and Best Practices with four levels of compliance for each one. Oil Companies can then perform periodical assessment usually every three years of the operators' SMS, to confirm that the scoring declared by the operator is verified and to suggest areas in need of attention or correction. The vetting system itself, was also developed overtime under the guidance of OCIMF. This resulted in the current system, which it is fair to say is under continuous review and change. The following is a description of how OCIMF describe the Ship Inspection Report Evaluation program (SIRE).

What is it?
The Ship Inspection Report Evaluation program, or SIRE system, is a very large database of up-to-date information about tankers. Essentially, SIRE has focused tanker industry awareness on the importance of meeting satisfactory tanker quality and ship safety standards. Since its introduction, the SIRE program has received industry-wide acceptance and participation by both OCIMF members, program recipients and by ship operators. Since its introduction, more than 180,000 inspection reports have been submitted to SIRE. Currently there are over 22,500 reports on over 8,000 vessels for inspections that have been

conducted in the last 12 months. On average program recipients access the SIRE database at a rate of more than 8,000 reports per month.

How does it work?

The SIRE program uses a uniform inspection protocol using:

- Vessel Inspection Questionnaire (VIQ)
- Uniform SIRE Inspection Report
- Vessels Particulars Questionnaire (VPQ)

These make the program uniform and provide a level of transparency.

SIRE has established itself as a major source of crew, technical and operational information to prospective charterers and other program users. Its increasing use corresponds with oil industry efforts to better ascertain whether vessels are well managed and maintained. It is a risk assessment tool for the charterers. OCIMF is in no doubt that better informed vetting decisions are leading to improvements in the quality of ships, accelerating its continuing drive for safer ships and cleaner seas. Inspection reports are maintained on the index for a period of 12 months from the date of receipt and are maintained on the database for two years. SIRE access is available, at a nominal cost, to OCIMF members, bulk oil terminal operators, port authorities, canal authorities, oil, power, industrial or oil trader companies which charter tankers as a normal part of their business. It is also available to governmental bodies which supervise safety and/or pollution prevention in respect of oil tankers/barges (e.g. Port State Control Authorities, MOUs, etc.)

What impact has it had?

This system combined with the requirement for tankers to have a double hull has had a significant impact on operational performance and on oil spills. It has been a success. It has some important negatives for staff on board. Whilst it reduces the number of inspections through data sharing via the SIRE database between several parties it does not establish an approval. So, one customer's acceptable report may be another customer's unacceptable level of deficiency. It also has no period of validity with the customers expressing a view through the market place that they require a report to have been filed within six months of using the vessel. As described above, this inclines an owner to want it to be constantly up to date, effectively requiring inspection at every port. The inspections occur when the crew is at its busiest and draws resources to give assurance that the ship is properly run at the very time when the ship wants all resources available to run properly.

Incidentally, inspections by Port State Authorities are on the rise independently of SIRE, notwithstanding their ability to access SIRE and this seems to be an unnecessary additional burden. Inspection has a business side to it so from an owner's perspective less inspections with more sharing of results is welcomed. For owners the biggest change has been from an old style of relationship building with the customer where repeated performance, built trust as to future performance, to a system where service is assured through data sharing and the relationship has become commoditized. The slight problem with this approach is that despite all efforts from OCIMF the quality of inspections may vary with the individual performing the inspection. Uniformity is important and each customer will have specific limitations of which two nearly always crop up.

The first and most well-known is the age of the vessel. Most charterers will not use vessels over 15 years of age to carry their cargo and in addition most Atlantic Basin terminals will not accept vessels over 18 years of age. The same is true for some refiners in China and Northwestern Europe. The second is less well known but is based on the crew 'matrix'. This is based around the period of experience of the officers of a tanker (usually top 4 in seniority) in the tanker type, the rank or responsibility and the amount of time employed by the owner. The differences, in individual company requirements, present the owners with some complicated calculations in determining with whom they are at any time qualified to do business. The business challenge is to be qualified to do business with everyone all of the time. If this means more inspections, more crew changes to meet 'matrix' requirements, and the selling of older ships to have a young fleet, so be it, provided that it delivers a better business model and adequate financial returns to justify the additional expense.

What is the sanction for not complying?
A ship may find it more difficult to be chartered if the requisite approvals are not in place. In theory this will reduce the efficiency of the ship causing it to earn less as it will have less choice in business and be unable to optimize its utilization. Whilst the point about optimization is true, nevertheless the ship operates in a dynamic commoditized market. Ironically if 11 cargoes look for 10 ships the undersupply only becomes obvious on the last fixture, so the least favored ship may be faced with the best market conditions, one ship and two customers with no choice. The volatility of the freight market, because it is a commodity market, means that the lost efficiency, due to unfavored approval status, can be easily compensated by the surge pricing caused by the 'last in the shop' position. It is an unintended consequence but very real.

The role that acceptability of ships through inspection plays on the market is important. It dominates the working day of the chartering desks (sales point) of every ship owner and every customer. The 'world fleet' on a graph showing the ships built that have not yet been scrapped is not the world's 'workable fleet' but no one has yet been able to graph that. However, this is what constitutes supply! It is the missing x factor that ruins the predictions of analysts when they foresee an oversupplied market and then contrary to all forecastable data there is a surge in the market price due to a shortage which is not apparent to a market observer, who does not actively participate! If the status of tankers, as approved, could be publicized, it would identify and should stabilize the world's workable fleet, reduce supply, increasing freight but guaranteeing by funding, full and thorough compliance thus improving quality assurance and performance. Rather like the mice wanting to put a bell around the neck of the cat, the industry can see it is a good idea but cannot see how it can be done. The system has achieved a first primary goal, an overall significant reduction in oil spills, so the excellent should not be in opposition to the good and all ship owners should embrace the system, and then work to improve it.

The future
Other shipping sectors, most notably gas and chemicals, have a similar system but with a single inspectorate called CDI, which is independent and funded by the industry – owners and charterers that would confer an approval in a manner not dissimilar to a temporary license to trade. This would encourage uniformity of inspection as well as clarity of rules over age of vessel, and qualifications and experience of officers. The inspectorate would be answerable in terms of its remit to the members but have separate liability independent from them.

This would allow the inspection results to be more widely available and consequently minimize uncertainty and disruption in the market place. A single regime would surely then suffice for all interested parties, terminal operators, Port State Authorities, cargo interests and governmental organizations. Three other factors may reduce the available fleet: storage (temporary or permanent); newly delivered ships (which are untried and have not been operationally inspected); and exdry-dock ships (which may have operational problems with equipment disassembled or repaired or replaced during the docking).
All of these developments impact on one simple fact. The world's operational tanker fleet is smaller than it may appear.
Source: Euronav
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(7) Lloyd's List, 23 March 2017

Dead man walking?

Digitalisation forces shipbrokers to evolve or die

“MY job is at stake,” said a Geneva-based shipbroker upon learning of BHP Billiton’s new online freight platform. “It is a bit scary.”
Since its launch in late January, the auction system for transporting the world’s largest miner’s cargoes has prompted concern over the possible demise of brokers in a digitalised world.

Electronic platforms for shipping deals have emerged from time to time, occasionally from brokers themselves, but such an endeavour from a charterer of BHP Billiton’s scale is unprecedented.

In the consolidated commodities sector, mining giants exert strong influence over shipping, and the main fear among brokers is the possibility that more could follow suit to save costs — the number one priority for the miners to ride out of the commodities downturn.

“I think the industry is ready to change, if they can earn a few extra bucks,” said a Singapore-based broker.

BHP Billiton has explicitly stated that the platform would enable it to bypass the middleman — shipbrokers — to negotiate directly with vessel owners and operators on freight rates in secure online transactions.

“I think history… has created a certain level of entitlement in the [shipbroking] industry,” said the Anglo-Australian conglomerate’s vice-president for freight, Rashpal Bhatti. “That is something that needs to change.”

Writing on the wall?
The centuries-old shipbroking industry, in which many remain proud of facilitating deals over the phone, surfed a wave of consolidation earlier this decade. That created brokerage giants like Clarksons, Braemar ACM and Howe Robinson Partners, with wide global reach and comprehensive services, putting smaller players without a niche at a strong disadvantage.
The industry is now at a breaking point with too many brokers are chasing limited business, while revenues have dwindled amid weak freight earnings and vessel prices.

Former head of Lorentzen & Stemoco’s Athens operation, Lars Juul Jorgensen, who left the position at the end of February, described the market as “over-brokered”.

“There are too many brokers of too low quality,” Mr Jorgensen said. “Many principals are overloaded with calls with brokers on the same ships. We all know how it works.”

Against the background, a digitalised world of vessel trading, even in BHP Billiton’s current limited version, is seen as a threat to many brokers.

So far, the miner only holds an auction for shipping 170,000 tonnes of iron ore from West Australia to China in standard contracts every one or two weeks. It has stated that it does not have a set plan for cargo types and volumes on the platform “at this point”.

But West Australia is the world’s largest iron ore exporting region, and iron ore is the most shipped commodity in the dry bulk spectrum. That has made the West Australia-China cape trade one of the most liquid freight markets.

So far owners, generally the ones that need to pay commissions in brokered deals, have not found any reason to reject the platform.

Norden chief executive Jan Rindbo said that the miner’s attempt “makes sense”, while SwissMarine managing director Peter Weernink, whose company won the first four auctions, said: “I do not see any reason why it won’t work.”

Efficiency gains
BHP's online auction results have been mixed. The first two deals are believed to have been done at below spot levels, the third and fourth above. BHP Billiton and SwissMarine declined to comment on pricings.
But such a platform offers other benefits. One of them is that market participants might have an easier time fetching the best deals in a more straightforward way, compared with shouting and yelling via the phone through middlemen.

“I am not certain that a digital platform necessarily will lead to lower freight, but it will lead to efficiency gains in the sector,” said Klaveness head of research Peter Lindstrom.

Also there are fewer opportunities for corruption, according to Panos Patsadas, managing director of brokerage Target Maritime Transport.

“Backhanders and under-the-table money are unfortunately still part of unsound shipbroking practice, and the bigger accounts and volumes involved, the more likely the existence of such incidents,” Mr Patsadas said.

BHP Billiton said the platform allowed it to better control counterparty risk. Shipping costs, after all, usually account for less than 10% of the total cargo value in commodities trade.

Mr Bhatti said that his company had strict criteria for vendors. “First is safety record, second is financial record and stability, and third is associated with… the business they run.”

“We will do whatever we need to do to have the lowest costs in the freight market, but not at the expense of safety.”

Brokers still play a role

Digitalisation might yet not sound a death knell for shipbrokers, who still play a strategic part in reducing overall transaction costs — especially in the smaller, non-standardised trades.

Aside from the expenses involved in building electronic trading systems, finding the right counterparties in direct deals has been a time- and money-consuming exercise.

In BHP Billiton's case, Mr Bhatti said it took “the good part of a year” to find the vendors, and his company, being one of the world’s largest charterers, had had countless experiences in dealing with owners and had garnered rich information about them before the latest initiative.

As for vessel operators, the documentation and preparatory works required to join a platform like BHP Billiton’s may actually justify the existence of brokers, according to Mr Patsadas.

“The more paperwork and administration is created in the dealing process, the more likely an owner, particularly a traditional one, is likely to delegate some of it to a trusted middleman,” he said.

Moreover, brokers have traditionally invested in building relationships between charterers and owners and are paid only when the deals are successful. In their absence, charterers and owners will need to devote their own resources for those relationships, said Mr Jorgensen, and not all deals will go through in the end.

“The estimated savings [in commission] from an auction platform may only be marginal in the end,” Mr Jorgensen added.

And in the highly variant bulker trades, brokers still have abundant opportunities to prove their worth. The owners Lloyd’s List has spoken to unanimously pointed out that smaller, irregular trades without standardised contracts would be difficult to carry out on electronic platforms.

The issue is also that different shipping routes emerge often in dry bulk trades, and there is a lack of standard benchmark pricing for them, according to a top-five miner’s shipping executive. “When applying on numerous dry bulk commodities, the BHP platform would be a big failure,” he said on condition of anonymity.

Even Mr Bhatti, seen as the mastermind behind the platform, admitted that the intention was never about denying the broker’s role, but allowing those with the best knowledge and relationships to thrive.

“That will then drive industry standards and efficiencies, which is exactly where we want the industry to be,” Mr Bhatti said.

Platforms that welcome brokers

But brokers may not need to fear digitalisation. In fact, they can focus on using the latest information technology to help their business, many industry officials say.

Independent online freight platforms have emerged in recent quarters. Among them, UK-based OpenSea and Singapore-based Ocean Freight Exchange, both set up by shipping veterans with chartering experiences, are gaining the most traction.

The two platforms have welcomed BHP Billiton's latest move due to its recognition of online transactions, but said that brokers would have an important role in their digital vision of the future.

OpenSea founder and chief executive Vasiliy Kotylevskiy questioned whether it would be economical for all owners and charterers to follow the miner's lead and build their own platforms. An ideal marketplace should be a "common" one, where all market players, including brokers, can maximise their benefits, he said.

"A [successful] marketplace should produce value for all types of clients," Mr Kotylevskiy said. The number of OpenSea users has grown fivefold over the past six months to nearly 2,000, of them nearly half are brokers.

According to John Hahn, OFE's co-founder and chief executive, who previously worked for Louis Dreyfus Commodities and Noble Group, what technology can do is enable greater efficiencies for all parties involved in trading, rather than replace brokers.

"I started this company because of my personal frustration with the inefficiencies in trading physical freight," said Mr Hahn, referring to difficulties in matching the best deals.

"Nearly every day, we left money on the table on both the cargo and vessel sides, and wasted much time doing so."

Digital future for shipbroking

The better known example of brokers establishing their own digital marketplaces is LevelSeas, an e-commerce firm backed by Clarksons, RS Platou, BP, Cargill and some other big names during the dotcom bubble in the early 2000s.

The venture collapsed as its online platform failed to gain market penetration, and in 2003 Clarksons bought the rump of its software that was phased out in a few years.

But there are also many other ways for brokers to survive in a digital environment, according to Michael Smith, a senior shipping advisor of Turnbull Smith.

As shipbroking giants evolve from industry consolidation, they are better positioned to develop the IT infrastructure of databases, work on software applications, use cloud technology to share information or adopt blockchain to control counterparty risks. "They have evolved to become innovators and knowledge providers," Mr Smith said.

In fact, even though many feel the process has been slow, shipbroking has been adopting new IT technology for years.

"The digitalisation of shipping is not a new issue," said Mark Jackson, chief executive of the Baltic Exchange, which was the world's main marketplace when modern merchant shipping first emerged.

"Whether through the development of their own systems or through working with third-party suppliers, shipbrokers have continued to invest in systems and procedures to add value to their clients," Mr Jackson said.

And despite the past experience, Clarksons now has an IT department with some 40 staff, led by an IT director, to develop various digital products.

"We welcome competition and innovation in our industry, since by this process, it enables us to deliver even better services to our clients," the brokerage's head of Asia Martine Rowe said.

Mr Smith even predicted that major brokerages would likely roll out their own freight portals in the near future, with more market players accepting online transactions these days.

"The future will probably be a hybrid of proprietary platforms, operated by the likes of BHP Billiton, complemented by portals from the traditional shipbroking firms and new start-up freight portals."

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