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

- Ongoing difficulties in the depressed global **bulk carrier market,** and concerns that the current phase may not be a 'normal' cyclical phenomenon are, naturally, stimulating much discussion about longer-term market prospects.
- International shipping association BIMCO has just published its detailed views on what changes are likely and **how the dry bulk market could evolve** over many years ahead (item 3). Key aspects of this analysis, looking at shipowners, are the potential for ownership consolidation, a greater focus on risk management and increased finance costs. The future role of shipbrokers is also examined closely. This is a valuable contribution to the debate but parts of the analysis, and several of the changes envisaged, seem somewhat implausible.
- Further large volumes of **ship recycling** are widely seen as an element of the solution to over-capacity in a number of sectors. In item 5 the scope for more demolition is discussed.
- Problems encountered by British seafarers **switching to shore-based employment** are being analysed by an industry study group which will publish a new report next week (item 4).
- A major **realignment of global container shipping services** is under way as a result of huge surplus capacity, and the recent sudden downfall of the major South Korean operator Hanjin is accelerating this process (item 1).

Richard Scott MA MCIT FICS
editor (email: bulkshipan@aol.com)
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(1) Clarksons Research, 30 September 2016

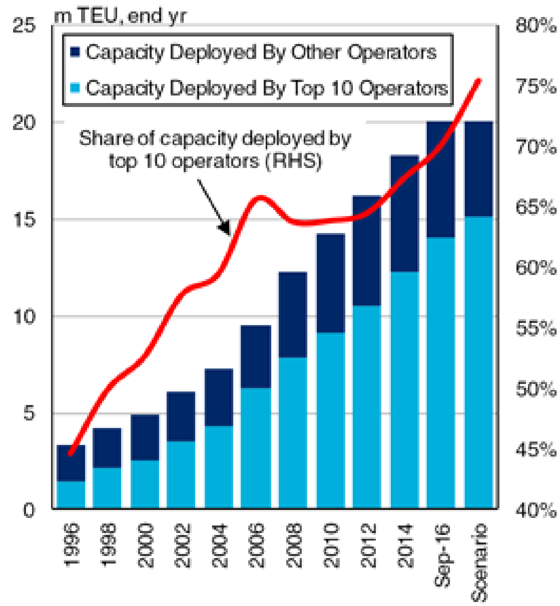
Major News Reflects The Biggest Of Trends

The collapse of Korean container shipping line Hanjin has provided some of the biggest headlines that the container, or any other, shipping sector has seen over the last few decades. There's of course significant debate about the ramifications, but what does the story illustrate in terms of the journey undergone by the liner sector in modern times?

Graph of the Month

Still Big News: Liner Sector Consolidation

The bars on the graph show containership fleet capacity split between that deployed by the top 10 operators and that deployed by other operators at the end of the years shown, as well as at start September 2016. The 'Scenario' at the end of the graphs shows how today's containership fleet split would look following UASC's merger with Hapag-Lloyd and if Hanjin's deployed capacity is absorbed by the remaining top 10 operators. The red line shows the share of capacity deployed by the top 10 operators. Historical data based on a range of industry sources and estimates.



Source : Clarksons Research

The Big News

Container shipping's September headlines were dominated by the downfall of Korean liner company Hanjin. Following financial collapse, Hanjin has sought court protection in a number of jurisdictions but rehabilitation of the company appears impossible. At the start of September, Hanjin was the 8th largest containership operator by capacity deployed, operating around 100 ships and 600,000 TEU. Hanjin's fleet at that point was about 40% owned tonnage and 60% chartered in, and constituted 3% of global capacity, with a 7% share on the key Transpacific trade lane. Quickly Hanjin vessels became stranded waiting outside ports, with others arrested amidst much debate over the legal position. Rates on the Transpacific spiked, but have since flattened. Cargo delays have ensued; reports suggest that there may have been up to $14bn of cargo stuck on Hanjin vessels. Charter owners are reportedly owed over $1bn, and increasing uncertainty has enveloped the boxship sector.

Liners Re-Aligning

But what's the underlying story? Hanjin has fallen victim to extremely difficult freight market conditions. Freight rates have been under severe pressure in recent years and the industry is still dealing with the aftermath of the global financial crisis, when container trade slumped by 9% in one year, creating a huge chunk of surplus shipping capacity. This has driven a raft of liner company merger and consolidation activity in recent times, as well as further re-alignment of the major liner4 companies into a few key alliances. In fact, 5 of the top 20 boxship operators in late 2014 are now out of the (or on the way out of) the list (CSAV, CSCL, NOL-APL, USAC and Hanjin). Today the top 20 operators deploy 88% of the world's capacity and the top 10's share is 70%.

It's A Long Story
Taking a longer view, despite the fact that the liner sector has been one of the less fragmented parts of shipping, the recent round of consolidation is also part of a long-term industry trend. The story of the liner sector has always been one of co-operation, alliances and consolidation across a wide range of carriers, eventually forming into groupings and companies better positioned to take advantage of opportunities available in the industry. Back in 1996, the top 10 liner companies deployed 45% of capacity; soon, if Hanjin's capacity is absorbed, and with UASC merging with Hapag-Lloyd, the figure could be 75% (see graph).
Tomorrow's News Too
So, no doubt the collapse of one the world's major liner companies is going to have significant ramifications in the here and now, both operational and commercial. However, the latest news is also one more chapter in the long story of consolidation in the liner business.
Source: Clarksons (By Mr Trevor Crowe)
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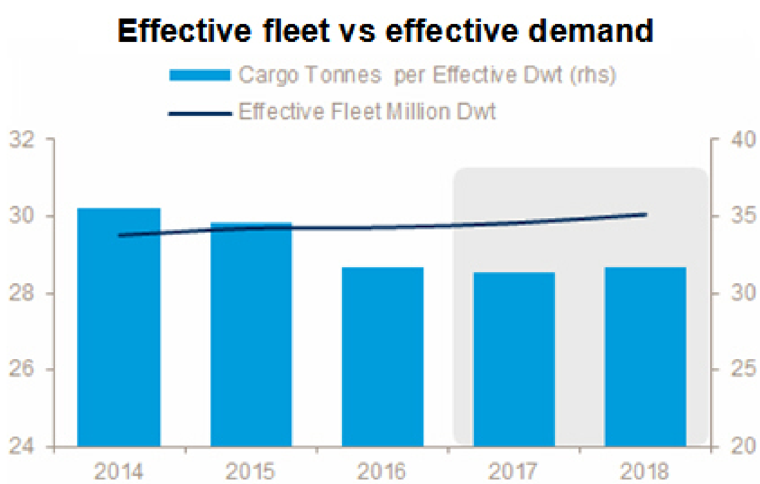
(2) Hellenic Shipping News, 7 October 2016/ Drewry Maritime Research

No reprieve for multipurpose shipping until 2018

The last three months have been some of the worst the multipurpose and project carrier sector has endured in living memory. The breakbulk and project cargo sector remain weak, with little suggestion that volumes will improve significantly until the end of 2017, according to the latest Multipurpose Shipping Market Review and Forecaster report published by global shipping consultancy Drewry.
Rates have continued to slide to barely cover operating expenses, as the competing sectors of container ships and bulk carriers have weakened the MPV market ever further in their search for market share. The container lines lost billions of dollars as they filled slots no matter what, whilst the Handy bulk carriers struggled with the Baltic Dry Index (BDI) reaching record lows of below 300 index points on the back of continued oversupply and weak demand.



Source: Drewry Maritime Research

Towards the end of the third quarter came news of one of the container lines heading to the bankruptcy courts, whilst heavy lift carriers Thorco and UHL joined forces to "offer a full range of services". It is clear that with rates barely above operating costs for many owners, the need to find efficiencies is paramount. Whilst a financially stable company is needed in the long term, it is also true that a seaworthy ship is needed in the short term. Owners that are being paid less than operating costs are forced to make economies somewhere and that is often on the maintenance budget. Shippers have to decide whether their main driver is price or quality, especially when they are putting high value cargo on these ships.

“We are more pessimistic about the near term outlook than we were 6 months ago but we can see recovery for this sector, albeit some way off. It is not our view that there will be a run of (or even any more) big carrier bankruptcies in the near term, however, those who hold the purse strings might well be inclined to restrict finance to some of the smaller owners”, comments Susan Oatway, lead analyst for multipurpose shipping at Drewry.
Whilst there has been a brief upturn in container rates, it is likely to be short lived and not significant enough to take the lines away from the breakbulk sector. However the BDI is on the turn and moved back over 1000 points (albeit briefly) at the end of August. Drewry does see an upturn in dry cargo trade over the forecast period and dry bulk trade in particular. Indeed, although over 2015 to 2020 the MPV market share is expected to decrease by around 1% per year, it is forecast to reach a floor in 2017 and return to positive growth thereafter.
“While our optimism for the sector remains muted, there are some pockets of growth. With oil prices forecast to rise back above $55 per barrel next year the project sector is expected to see some renewed interest. There is also some potential spend in the Middle East and Africa. And there has been renewed interest in renewables, particularly wind in the US. The main problem remains the competing sectors, particularly container shipping where aggressive pricing is drawing cargo away from MPV ships”, added Oatway.
Source: Drewry Maritime Research
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(3) Hellenic Shipping News, 7 October 2016/ BIMCO

BIMCO: How will the crisis impact the future of the dry bulk shipping industry?

Huge changes around the corner
While this report deals specifically with the dry bulk shipping industry, many of the outcomes will be the same for the tanker and container industries.
BIMCO recently published analysis on the “road to recovery” for the dry bulk shipping industry. The report highlighted the severity of the current crisis – and the likelihood that the sector will only return to profitability in 2019 if shipowners deliver “zero supply side growth”, year on year. This is where ship demolition is equal to or greater than deliveries. This is not an easy task, as the dry bulk shipping industry has only achieved zero supply side growth in three of the last 35 years (link to road to recovery article).
Total dry bulk trade has grown by 40% since 2007, this was largely driven by developing nations in Asia. The demand for dry bulk commodities has peaked in advanced economies, for instance demand from Europe, North America and Japan has not returned to pre-crisis levels and is unlikely to in the future. The question is: how close to the peak are the larger developing nations in Asia that have driven dry bulk demand over the last 8 years? It is clear that the future potential for growth is focused on a few key countries.
Dry bulk shipping relies strongly on heavy industrial activity and the use of fossil fuels. The future growth of the related cargoes appears limited and uncertain. While China’s economic growth has slowed, its focus is moving away from infrastructure, housing and heavy industry towards a consumer and service driven economy. This transition has already hit China’s import of dry bulk commodities and will continue to play out in coming years.
Various countries have announced their will to end the use of fossil fuels and have started to close coal-fired power plants due to their declining political and social acceptability. It was recently reported that energy from coal hit zero for half a day in the UK for the first time since it opened its first coal-fired generator in 1882. Thermal coal imports to the UK were reported down 80% year on year in the first half of 2016.
As if this was not enough, the shipping industry as a whole is being required to invest heavily in equipment to satisfy up-coming environmental regulations on ballast water treatment, and NOX, SOX and greenhouse gas emissions. The new ballast water convention will enter into force in 2017 and will require more than 50,000 ships to be retrofitted with ballast water management systems costing up to USD 5 million per ship. This is another blow to the dry bulk shipping industry at a time when it can least afford it,

and will force many owners to scrap their ships prematurely.
While this will have a negative financial impact for many individual owners, it will be a positive move towards rebalancing the supply side of the market and hasten freight rate recovery in general.
What changes will the current multi-year crisis bring around for the dry bulk shipping industry?
This prolonged crisis is likely to have a significant impact on how dry bulk shipping business is conducted in the future, and many of the changes are likely to spill over to other shipping sectors as well.

"Fragmented ownership": the current industry model for dry bulk shipping

The current industry model in dry bulk shipping is characterised by very fragmented ownership of the 10,800 ships in the global fleet. There are only four companies owning more than 100 dry bulk ships and on a DWT basis, the largest owned fleet represents less than 4% of the total fleet. This means that each individual owner has very little influence and bargaining power with its customers and is often reflected in low levels of mutual trust.
Many shipowners in dry bulk shipping today have highly leveraged fleets and are focused on the asset play (buy low, sell high) rather than acting as logistics providers focused on return on capital employed. The asset play is a high risk business model especially when it is combined with a high proportion of ships on the spot market.
There are owners who are more conservative and had a strategy of running many of their ships on long term charter. They have been caught out by the length and severity of the downturn with most, if not all, of their long term charters now expired. Today, when the dry bulk shipping market is scraping the bottom, locking ships into loss making time charters is not an attractive option for the owner.
There is consolidation going on amongst the dry bulk shipping customers, many of whom are already very large global players. So while the dry bulk shipowners remain highly fragmented, their customers are ever-increasing in their influence and bargaining power. Right now many dry bulk customers are spoilt for choice in the shipping market: there are too many ships to choose from and, as a result, freight rates are firmly in the gutter. Dry bulk shipping is in fact a good example of what economists call an oligopsony: a market with a limited number of buyers and a large number of sellers.
Due to the small size of many owners' businesses, today a very large part of dry bulk chartering continues to be done via brokers. This means that the relationship with the shipping customer is effectively owned by the broker, further weakening the negotiating capability of the owner.
Since 2011, 34 giant valemax ships have been launched (380,000 DWT or more). It was announced in March 2016 that a further 30 valemax ships have been ordered for delivery in 2018 by three Chinese owners for a combined $2.5 billion with back-to-back 25 plus year contract of affreightments (COA) with Brazilian mining giant Vale. Once these orders have been delivered, the valemax fleet will be able to carry over 50% of Brazil's current iron ore export volume, eating into the business currently carried by the existing capesize fleet.
Today the financing of ships comes largely from banks – with the bank able to dictate the terms to the small ship owner. European banks have cooled their interest in increasing their exposure to the shipping industry. At the same time, more finance is now entering the industry from Asian banks. Global ship financing was heavily reliant on banks before 2008 and, according to Petrofin Research, this reliance has dropped markedly since then as the proportion of non-bank finance sources has grown. The gap is made up by alternatives such as export credit agencies, bonds, public and private equity. Further declines in bank financing are likely as existing and future banking regulation will make lending to shipping more expensive.
Currently there is far too much ship building capacity. Government backed export credit agencies financing new buildings has contributed to the unsustainable level of new ships hitting the water. State support for the yards could be for a number of diverse reasons, such as to create/retain employment in some countries and/or attain leadership in the global transport system.

Consolidation and risk management: the new industry model for dry bulk shipowners

Consolidation is the natural consequence of a prolonged and deep shipping recession. Less well capitalised owners will be forced to sell their ships, and some owners will wish to withdraw their capital from the dry bulk sector. Their ships will be bought at bargain prices by better capitalised competitors and new entrants to the market.
While the existing business model is set up to service the requirements of the smaller shipowner, there are a number of significant benefits from size and scale for larger shipowning companies:

• Larger owners will seek to develop long term direct relationships with major customers without the requirement of an intermediary or broker. They will have the resources and capability to deliver creative, flexible and value-adding logistics solutions. The larger owners will eventually develop more balanced and trusting long term relationships with these customers and, as a result, have more power at the negotiating table.
• At the same time, major shipping customers will want to work directly with fewer shipowners, each of which can provide a significant part of their shipping transport requirements. This is seen in the Brazil China iron ore trade with Vale recently signing long term COAs with Coscocs, China Merchant Group and ICBC.

The key stakeholders in large shipowning companies, both debt and equity providers, will require a more sophisticated business model with a greater focus on risk management. We will see them adopt risk management in a number of ways:

• Through the availability of better quality information, with a deeper knowledge of the market and improved forecasting capability. This will help companies achieve a deeper understanding of customers and the market, and ultimately support better resource allocation and asset purchase/disposal decisions.
• Putting a charter portfolio strategy in place. Owner companies will wish to have a large part of their fleet on longer term charters to ensure a steady cash flow to maintain the business through down cycles. They will also want to ensure there is not too large an exposure to any one single customer.
• Shipowners will seek to control their commercial risk better via forward freight agreements, currency and bunkers hedging, and counterpart checking among others.
• Larger owners may also wish to reduce risk and capital requirements by operating a fleet of pooled ships alongside their owned fleet.

What is the optimal size of a shipowning company? During the TradeWinds Shipowners Forum in Posidonia a number of owners stated that running an efficient shipping company requires a certain number of ships under its control. Some said around eighty to a hundred ships although there was little coherent justification for limiting the size to a hundred ships. It should be noted that on a pure ownership basis, there are only eleven companies that currently own eighty or more ships.

In summary, in the future there will be many larger dry bulk shipowning companies whose business will be as logistics providers to the commodity giants with a focus on risk management and Return on Capital Employed (ROCE). The asset play will be a subsidiary benefit to these businesses rather than the number one business goal.

What will this mean for the dry bulk shipping sector as a whole? It will be a demand-driven industry with most ships purchased against long term charters by large and sophisticated businesses that are better able to forecast future market demand. This will ensure that supply and demand are much more closely linked in a mature market where large and unforeseen trade fluctuations are rare. Ultimately this will mean a less cyclical industry where the peaks and troughs are dampened, leading to steadier and more predictable ROCE for the larger companies.

This is a real risk for the small shipowner, many of which are family run businesses, as the business model will become less attractive over time for many reasons:

• Finance will be harder to find, requiring a higher proportion of equity, and be more expensive than their larger rivals who are able to demonstrate a lower risk business model.
• As a stand-alone company, small owners will not be able to participate on the major routes for the major commodity sectors. They will mostly be limited to niche trades arranged through brokers, alternatively they may place their ships in a pool operated by a larger shipowning company.
• The large and frequent shipping cycles that made the asset play so profitable in the past will be dampened in intensity and reduced in frequency. This will make the asset play a less attractive business model in the future.

Dry bulk shipping has the least sophisticated ships requiring low levels of crew specialisation. This means there is a low barrier to market entry and therefore small dry bulk shipowners generally struggle to benefit from their experience and reputation.

All these changes are not expected to happen overnight but will accelerate over time, particularly if the current recovery is delayed. There are already some larger shipowning companies acting as logistics providers to the commodity giants with a focus on risk management and ROCE.

Broader range of services: the new industry model for shipbrokers

Brokers are already facing challenging conditions due to the supply demand imbalance across almost all shipping sectors and the resultant low levels of charter rates, spot freight rates, resale values and newbuilding prices.

Consolidation will mean bigger shipowners in all the major shipping sectors. Owners of big dry bulk fleets will want to deal directly with larger customers for major commodities on the major trade routes. They will want to own the customer relationship and reduce the cost of doing business by eliminating broking commissions. The larger organisations will have the scale and resources to manage their key customer relationships directly. Maybe these larger owners will also have the resources to deal directly with shipyards and ship breakers in the future too?

There is also pressure from the shipping customers to eliminate brokers from their supply chain with Vale having recently put in place very long term COAs for over 50% of the Brazil China iron ore trade from 2018 onwards. It is only a matter of time before there will be similar moves to control the Australian iron ore and coking coal trades.

On standard fixtures it may be difficult for brokers to add value, and that is where digitalisation may gain the first foothold into an otherwise reluctant industry. For instance, where a large exporter frequently ships under standard terms to the same discharge port, a digital portal for tenders and offers may facilitate doing business without the assistance of a broker. Also, it is possible that the resale of ships and ship breaking could be handled through online auctions.

In summary, shipbrokers that add value to a deal will always be in demand in the shipping market and will continue to bring together shipowners and dry bulk shipping customers for niche trades and for minor trade routes. Whilst this is the case, the existing model for shipbrokers is already under severe strain, and consolidation of shipowners and digitalisation will add further pressure.

Shipbrokers are already broadening their commercial offering to what they describe as their full service client offer, seeing themselves more and more as advisers. Brokers are offering services such as consultancy and data provision to a broader range of clients and will need to continue to expand these offerings to survive. For example, a leading broker has recently announced a strategic investment in a company focused on leveraging knowledge.

Basel drives up the cost of finance for shipping

While banks are expected to continue to provide the majority of finance for ships across all the major shipping sectors in the coming years, there will be a need for alternatives such as export credit agencies, bonds, and both public and private equity.

The cost of finance for shipping from banks will undoubtedly continue to increase as a result of the raised quantity and quality of capital levels required by banks due to the Basel III regulations being phased in from 2013 through to 2019. There are further regulations being discussed by the Basel Committee, termed Basel IV. These proposed regulations focus on customer credit risk which, if adopted in their current form, will further increase the cost of bank finance for shipping.

There will undoubtedly be a much greater focus by banks on customer credit risk. A leading European bank recently stated that in future they prefer to provide finance to customers with a larger fleet size. Top tier companies will get all the financing they want, while smaller companies (say ten to fifteen ships) could get access to money but it will be more difficult for them and at a higher price. In general, it must be expected that banks will provide lower cost financing and higher debt to equity ratios to businesses that demonstrate scale, have a solid business risk management system in place, and a robust business model able to withstand future down-cycles in shipping.

Smaller ship owning companies without an established relationship with a bank will struggle to raise bank finance for the purchase of ships. If successful, the finance will be expensive and the owner will be required to fund a higher proportion of the purchase price with equity. Smaller owners may be forced to seek alternative forms of ship finance; private equity might be an ideal solution, both for shipping companies who need money, and for investors who need a return.

Diversification: the new industry model for shipyards

The fundamental business model for shipyards may not change as much as so many jobs are supported by ship building and therefore state sponsorship is unlikely to entirely go away. Overall capacity could be expected to be reduced as governments recognise that shipping across all sectors is forecast to grow at a much slower rate in the future.

Many yards will close through bankruptcy or state-sponsored rationalisation. Others will seek alternative or specialist work. On a brighter note, there will be a need for substantial yard capacity to retro-fit equipment required by environmental regulations including ballast water systems, and possibly SOX scrubbers once the global SOX cap is enacted.
Over the next few years, it is essential that shipowners and other investors shy away from “early- bird discounts” and other “attractive” offers from the shipyards – otherwise the road to recovery may never be found. The result will be a much reduced ship building capacity and a more consolidated industry with intense on-going competition between China, South Korea and Japan.

And then what?
This report focuses on what is likely to happen as a result of the prolonged and deep recession that is currently gripping the dry bulk shipping industry. The predicted outcomes are realistic and based on experience in other shipping related markets.
The underlying model for BIMCO’s Road to Recovery Report returns the industry to profitability in 2019 assuming 2% per annum trade growth. This growth prediction may well be too optimistic meaning that the recovery could be delayed well into the 2020s. The shipping economist Olaf
Merk, in his well-known blog, talks about the three reasons why global maritime trade will reach its peak. These are:
1. peak in consumption
2. peak in trade and
3. peak in fossil fuels.
Merk summarises: “Shipping and ports both live in a bubble: there is huge overcapacity of ships and terminal capacity. It might take a decade or more to reach a more balanced situation. The possibility of the three simultaneous peaks highlighted here should make anyone wary to add even more capacity”.
What has not been considered in this report nor fully understood by all shipping stakeholders are the disruptive prospects of the Sharing Economy (where the utilisation rate of physical assets increase) and the Circular Economy (where more resources are recycled).
Even if trade growth of 2% is achieved, shipowners must scrap ships in far greater numbers than has been seen to date. The other key metric to the recovery in 2019 is “zero supply side growth” which if not achieved will delay the recovery into the 2020’s.
Danish Ship Finance in their recent shipping market review made a prophetic comment: ”Based on past experience, some seem to view low secondhand prices as a good investment opportunity. In some segments, however, we argue that the low secondhand prices are just as likely to represent an industry in transition in which overcapacity needs to be addressed and value creation needs to be re-thought.”

Conclusion
It is difficult to have an optimistic outlook for the coming years in dry bulk shipping. The industry is in charge of its own destiny, each and every shipowner must take tough decisions to help deliver, at a minimum, year on year “zero supply side growth”. This is where shipowners stop ordering new tonnage, and there are at least as many ships demolished as delivered, something achieved in the dry bulk industry only three times in the last 35 years.
Not only must the dry bulk shipowners resolve the supply situation, they must also face up to the substantial changes needed to their business in a rapidly evolving macro-economic environment affecting future demand. This may well be intimidating for those involved, and many may choose to take their dwindling capital elsewhere.
Source: BIMCO
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(4) Hellenic Shipping News, 11 October 2016/ Maritime UK

Transitioning from ship to shore – how the industry is helping

Fena Boyle, Training and Careers Co-ordinator for the MNTB, takes a look at how the industry is helping, and the future work required, for British Merchant Navy officers to make a successful transition from ship to shore.

Seafarers often get asked whether they still consider themselves to be seafarers once they swallow the anchor and move ashore. The answer to this, for many, is a simple 'yes' as they have been, and always will be, a seafarer. For some though the answer becomes a tangled web of confusion and emotion as they try to work out if they are still 'seafarers' all the while attempting to navigate through a new world of office politics and showing commitment to their new career.

The decision to move ashore is as important to a seafarer as their initial decision to go to sea. The seafarer has to consider if they are actually ready to give up their sea legs, stop carrying out the work they have trained for years to understand and the lose the comfort of knowing that they have a career for life whilst swapping it for a career driven office job, working 9-5.

The prospect of moving into an unknown environment ashore can be daunting for a seafarer. There's a whole new job to learn, different procedures to adhere to and strict deadlines to meet. When they are ready to take the plunge, a seafarer then has a number of challenges to face and will most probably ask themselves where the jobs are located, how their income will be affected and whether their skills will be suitable for the job they are applying for.

Lack of information and clarity surrounding the maritime industry and the blurred pathways between the sectors can make this transition even harder.

Advertised jobs often require certain qualifications and seafarers feel as though they are unable to apply for the role as they do not believe they have transferable qualifications or skills to do so.

A wider understanding of the knowledge and skills our British seafarers possess and how these can be transferable to shore based roles can help our maritime future gain the talent that is required to support and grow the industry as a whole, and forms the basis of the soon to be released Project Ulysses Report.

The project, which has been undertaken by Merchant Navy Training Board, Marine Society, Maritime London, Nautilus and Trinity House aims also to address recommendation 8 of the Maritime Growth Study considering the current and future need for wider skills and qualifications across the UK maritime sector as a whole.

The report which will be launched at a seminar, Chaired by HRH Princess Royal on 17 October at Trinity House. 'Ship to Shore: What's Missing for the Seafarer?' will focus on developing the training and skills needed by UK merchant navy officers to make a successful career transition from ship to shore and sustain the UK as the leading maritime centre into the future.

This report is the product of numerous interviews with a variety of companies involved in the maritime industry and aims to smooth the path from ship to shore for once and all.

Source: Maritime UK

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(5) Clarksons Research, 7 October 2016

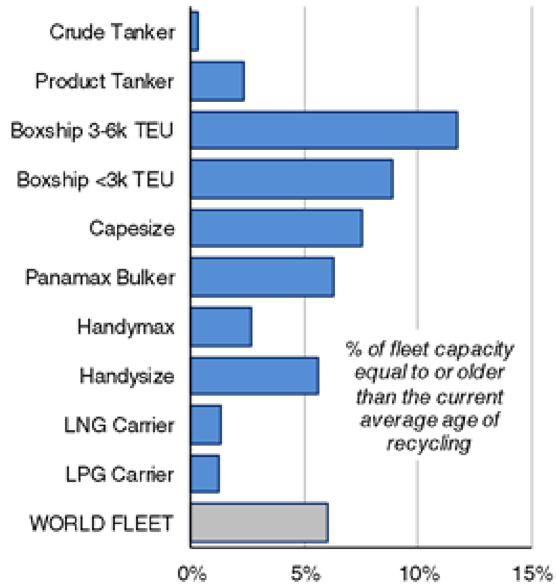
Can Shipping Keep Its Big Break Going?

As snooker players know, it's hard to keep a good break going. In today's conditions, the shipping industry needs supply-side re-positioning to help the markets back to improved health, and increased recycling in recent years has been a clear part of this. However, there's still some way to go to better times, so it's worth taking a look at how today's 'big break' might leave the future potential scrapping profile.

Graph of the Week

Who's In Position For Another Good Break?

The graph shows the share of fleet capacity (in GT terms) equal to or older than the average age of recycling in 2016 to date (age basis year of build and average age rounded to nearest whole year). Data basis start September 2016. Product tanker includes vessels 10,000 dwt & above. World fleet statistic based on 'bottom-up' estimate from sectors featured on the graph and an aggregate for the remainder of the fleet. Note that the statistics in some sectors can be impacted by average scrapping ages where the volume of scrapping in the year to date has been relatively low.



Source : Clarksons Research

The Big Break!

Since the start of 2009, a total of 206.6m GT of shipping capacity has been sold for recycling, compared to an aggregate of 63.1m GT in the previous seven years. This total includes 94.7m GT of bulkcarrier tonnage and 29.1m GT of containerships, helping to address oversupply in the volume shipping markets. But given such a prolific run of demolition activity, what does the future potential scrapping profile look like? Well, there are many measures that can be used to investigate this, including the metric featured in the graph. If the average age of scrapping is taken as a useful indicator of the current state of conditions facing owners in each market, then calculating the amount of tonnage remaining in the fleet at today's average age of scrapping or higher might tell us something interesting, especially if ongoing market conditions persist.

What's Left On The Table?

In the tanker sector, which up until fairly recently was backed by stronger market conditions, the average age of scrapping in the year to date remains relatively high, at 25 years for crude tankers and 27 for product tankers (bear in mind that not many tankers have been sold for scrap recently, and the average age may fall). Given that a lot of older single hulled tanker tonnage was phased out in the 2000s, the amount of tonnage above the average age today is limited. In the bulker and containership sectors, both under severe market pressure for some time now, the statistics are a little more revealing. Despite heavy recycling in recent times, the share of tonnage above the current average age of scrapping is 8% for Capesizes and 6% for Panamaxes. For boxships sub-3,000 TEU the figure is 10% and for those 3-6,000 TEU 12%. Of course if the average age of scrapping falls, then the picture changes again. In the 3-6,000 TEU boxship sector, the youngest ship sold for scrap this year was just 10 years old; around 50% of tonnage today is that age or older.

Cue More Demo?

What does this tell us overall? Well, using the sector breakdown shown in the graph, the statistics tell us that around 75m GT in the fleet is above the current average age of scrapping, 6% of the world fleet. At 2016's rate of demolition, that's another 2.4 years' worth. And given the age profile of the world fleet, after another 2 years an additional 21m GT will have crossed the current average age mark and after 5 years another 77m GT.

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

Break Not Over?
So, what chance does the industry have of keeping the demolition pressure on? Well, obviously freight and scrap market conditions and regulatory influences will have a big say. However, it looks like, in today's terms at least, the industry might be in a good position to keep the break going. Have a nice day.
Source: Clarksons
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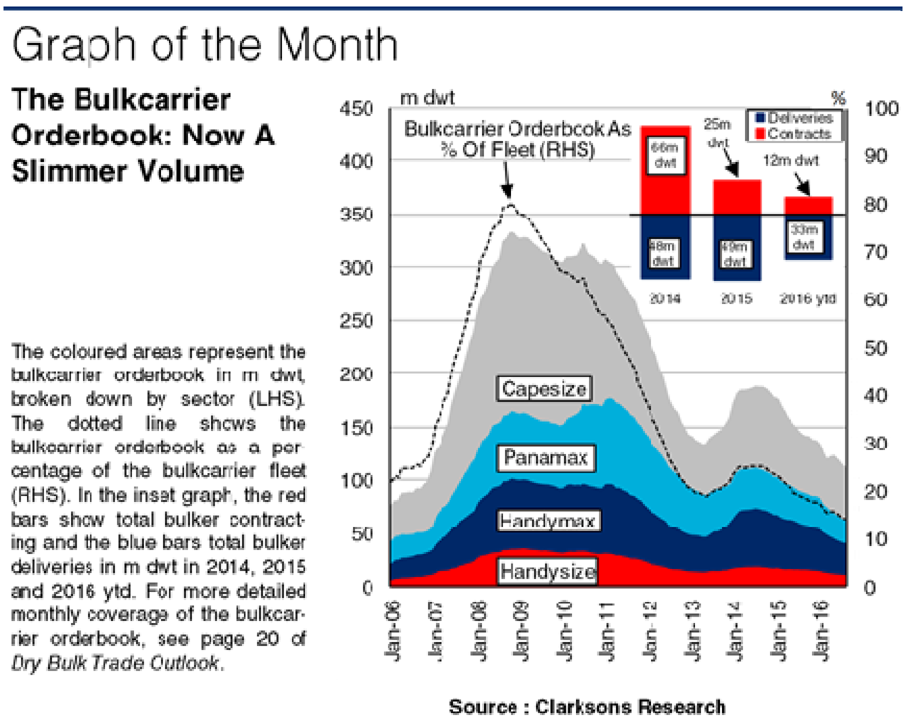
(6) Clarksons Research, 28 September 2016

The Bulkcarrier Orderbook: Long Story, Short Tale?

Depressed dry bulk market conditions have put severe financial pressure on owners in recent times, triggering a slump in bulkcarrier contracting. This has helped drive a significant contraction in the bulkcarrier orderbook, which hit a nine year low at the start of September. On the back of the newly slim orderbook, bulkcarrier fleet expansion is expected to ease in the coming years…



A Dry Foreword
A dearth in ordering has seen the bulkcarrier orderbook shrink fairly consistently since mid-2014. By September 2016, the bulker orderbook had shrunk to 108.4m dwt, down 19% since the start of the year. This was equivalent to 13.8% of the fleet, down from 17.2% at the start of 2016. Overall, the bulker orderbook is at its slimmest for almost a decade (see graph), despite a 'non-delivery' rate of over 50% in the year to date. Let us take a closer look at the full story.

A Concise Chapter
Capesize contracting had been in fairly steady decline since the start of 2014, until 30 'Valemax' 400,000 dwt orders were placed in early 2016; these units currently account for 11% of the total bulker orderbook in terms of capacity. Nevertheless, by the start of September 2016 the Capesize orderbook had contracted to a three year low of 47.1m dwt, also supported by a 10% y-o-y rise in Capesize deliveries in January-August 2016.

Writer’s Block
Meanwhile, by the start of September, the Panamax orderbook shrank to a nine year low of 21.4m dwt, driven by the consistent slide in contracting activity in the sector, including for Kamsarmax designs, in recent years. In 2015, Panamax ordering totalled 6.6m dwt, down 49% y-o-y. This was followed by a near total collapse in reported Panamax orders in the first eight months of 2016. Similarly, newbuild contracting activity has slumped in the smaller Handymax and Handysize sectors, in recent years, before dropping to an almost standstill in January-August 2016. This saw the Handymax and Handysize orderbooks shrink to 28.4m and 11.5m dwt respectively by the start of September 2016, representing a 10 year low in both cases.

A Shorter Ending
A closer look at the latest reported bulkcarrier delivery schedule also indicates how much thinner the orderbook now looks for the coming years. At the start of September, only 60m dwt, or 55% of the bulkcarrier orderbook, was scheduled to be delivered after the close of the current calendar year. This compares to 67% in September 2015. The slim orderbook is currently expected to contribute to bulker fleet growth of 2.0% in full year 2016 followed by around 0.8% in 2017; this compares to average annual growth of around 9% in the period 2010-15.
So, it appears that ongoing supply-side trends, not just in terms of demolition but also in terms of the orderbook, contracting and deliveries, are helping to reduce the potential for bulkcarrier fleet expansion. That’s all part of the ‘market mechanism’ trying to re-balance supply with demand. However, it all takes time, so don’t forget to keep reading the story…
Source: Clarksons
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