Southampton SOLENT University

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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- Another example of how ***political problems*** can directly and dramatically affect global shipping is provided by the current Middle East dispute, between Qatar and neighbouring countries (item 4). Qatar is the world's largest supplier of LNG (liquefied natural gas) and an oil exporter.
- A ratio of ***seaborne transportation v ships' asset values*** shows the number of tonne-miles performed each year by each dollar of ship value (item 1). The results suggest that the underlying economic contribution is a remarkable achievement.
- Full commitment by the shipping industry to ***protecting the marine environment*** is emphasised in a message, prepared for the UN Ocean Conference, by shipowners' representative body the International Chamber of Shipping (item 2).The issue of carbon emissions is at the forefront, together with the sulphur content of bunker fuel.
- Potential for ***rearranging or reshaping global shipping patterns*** is implicit in China's Belt and Road Initiative, but what does this actually mean? An analysis prepared by the GMWD editor published last week seeks to clarify some of the elements which, although becoming clearer are 'still a bit hazy', probably inevitably in such a large and evolving scheme.**
- While criticism of ***ship recycling practices*** in a number of countries is widespread, there is progress in some demolition yards towards higher safety and environmental standards (item 6).

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** An extended version of this article, fully referenced with an additional section on some major port projects, is available. Please contact the editor on the above email address. Your comments, critical or otherwise, are welcomed.

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

(1) Clarksons Research, 2 June 2017

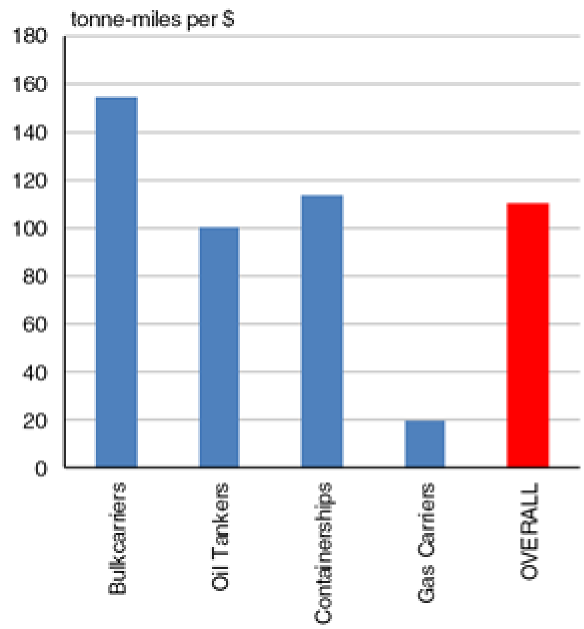
Shipping Money Makes The World Go Round…

The vast majority of the world's trade in goods is moved by sea, and it has long been recognised how shipping is a critical element of the global economy, providing the connection between producers and consumers all over the planet. However, what is less frequently mentioned is the tremendous 'value for money' with which it does so; this is clearly worth a closer look…

Graph of the Week

Seaborne Transport: Now That's What I Call Good Value!

The graph shows the estimated tonne-miles of trade per US$ of estimated current asset value for the bulkcarrier, oil tanker, containership and gas carrier fleets (about $470 billion across around 28,300 ships overall), based on start May 2017 fleet data and projected full year 2017 tonne-mile trade in dry bulk, crude oil and oil products trade, containers and LNG and LPG (about 51,500 billion tonne-miles overall).



Source : Clarksons Research

Bargain Of The Century?

One US dollar doesn't get you much in today's world. On the basis of latest prices it would buy 0.025 grams of gold or 2% of a barrel of crude oil. Based on Walmart's latest online pricing it would buy about half a litre of milk. That's not a lot whichever way you look at it, in a world economy that is 75 trillion dollars large. But in shipping one dollar still gets you something very substantial. One way of looking at this is to take the movement of cargo in tonne-mile terms and divide it by the estimated value of the fleet. Here, to try to do this in like-for-like terms, the calculation includes crude and oil products, dry bulk, container and gas trade, and the ships that primarily carry those cargoes. On this basis, one dollar of 'world fleet value' at the start of May 2017 would have bought 110 tonne-miles in a year, based on 2017 trade projections. What an amazing bargain! One tonne of cargo moved more than 100 miles, per year, all for one little greenback!

What's In A Number?

What drives this number? Well the essence of the value of course lies in the huge economies of scale generated by moving cargo by sea in vast quantities at one time over significant distances. The average haul of one tonne in the scope of the cargoes listed above is estimated at 5,016 miles and the average ship size at 58,706 dwt. Of course the amount of tonne-miles per dollar can vary over time, depending on changes in asset market conditions, the underlying cost and complexity of building ships and vessel productivity, speed and utilisation (rates of fleet and trade growth aren't perfectly aligned most of the time). Across sectors the statistics can vary significantly too.

Buy In Bulk
One dollar of bulkcarrier and oil tanker tonnage accounts for 154 and 101 tonne-miles of trade per year respectively. For more complex, expensive ships the figure is lower: 20 for gas carriers. For boxships, despite their higher speed, the figure stands at 114. Vessel size (economies of scale in building) and cargo density (this analysis is in tonnes) play a role too in these relative statistics (which also don't always capture the full range of cargo carried by each ship type).

Value For All Time
Nevertheless, whatever the precise numbers and changes over time, 110 tonne miles of trade each year for one dollar of asset expenditure just sounds like mighty good value at a time when a dollar doesn't go very far. This underpins shipping's ability to carry an estimated 84% of the world's trade in tonnes and act as the glue holding the globalised economy together. Shipping's famous volatility retains the ability to make and lose fortunes for asset players but the underlying economic contribution of each dollar invested may just be one of the greatest bargains of all time. Have a nice day.
Source: Clarksons
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(2) International Chamber of Shipping, 5 June 2017

'Shipping Committed To Green Growth' ICS To Tell UN Ocean Conference

The high level United Nations Ocean Conference (5-9 June), organised by the UN General Assembly, opens today in New York.
On Tuesday 6 June, the International Chamber of Shipping (ICS) will explain that the global shipping industry is fully committed to the UN Sustainable Development Goal for the protection of the Ocean.
ICS says that the decision by President Trump to withdraw the U.S. from the Paris Agreement on climate change will have no impact on the shipping industry's strong commitment to reducing its CO2 emissions.
Speaking at a session on the prevention of ocean acidification, ICS will present some ambitious 'aspirational objectives' on CO2 reduction which the industry – responsible for moving about 90% of global trade – wants its regulator to adopt on behalf of the international shipping sector, in the same way that governments under the Paris Agreement, have adopted CO2 reduction commitments on behalf of their national economies.
The industry has proposed that the UN International Maritime Organization (IMO) should agree an objective of keeping total CO2 emissions from the shipping sector below 2008 levels and then cut annual total CO2 emissions from the sector by 2050, by a percentage to be agreed by IMO.
This is in addition to an existing industry commitment to cut CO2 emissions per tonne of cargo carried one kilometre by 50% by 2050, compared to 2008.

ICS Director of Policy, Simon Bennett, will explain to the world's governments attending the UN Ocean Conference that:
"Shipping, because of its great size, is currently responsible for about 2.2% of annual anthropogenic CO2 emissions. According to IMO, shipping has reduced its total CO2 emissions by more than 13% between 2008 and 2012, despite increased maritime trade, but there is a perception that shipping, whose emissions cannot be attributed to individual nations, may have somehow 'escaped' the Paris Agreement."
In three weeks' time, in London, the IMO will open the first of a series of meetings to develop a strategy for further reducing CO2 from ships, in order to match the ambition of the Paris Agreement. The industry has proposed that IMO should adopt some ambitious aspirational objectives on behalf of the international shipping sector as a whole.
The shipping industry has made these proposals to the next session of the IMO Marine Environment Protection Committee, which meets in London at the end of June.

Throughout the UN Ocean Conference, ICS will also make the case that shipping has an impressive environmental performance and is a driver of 'green growth'. In addition to reducing CO2, the industry is

committed to the implementation in 2020 of the global cap on the sulphur content of marine fuel, at an anticipated collective cost of around US$ 100 billion per annum.
ICS will also press for government regulators to give equal priority to each of the three pillars of sustainable development identified by the UN: economic, social and environmental.
ICS argues that understanding the importance of economic factors in achieving sustainable development is especially important in view of shipping's role in the continuing spread of global prosperity and the movement of about 90% of trade in goods, energy and raw materials.
Speaking at an IMO side event at the UN in New York, Mr Bennett explained:
"The shipping industry is committed to the delivery of further environmental improvements in the interests of sustainable development. But sustainable development requires a global shipping industry that is economically sustainable too."

This message has been presented in a brochure International Shipping: Protecting the Ocean, Committed to CO2 Reduction, which is being distributed at the UN Ocean Conference.
Source: ICS
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(3) Lloyd's List, 5 June 2017

Putting human rights on the agenda

- by David Hammond, *chief executive at charity Human Rights at Sea*

The shipping industry must seriously take note of business and human rights

LAST WEEK, at the heart of the Nor-Shipping conference centre in Oslo attended by in-excess of 10,000 people per day, it was right and proper that the issue of fundamental human rights was put on the official agenda as a panel discussion discussing modern slavery.

Reassuringly, in Norway, the increasing inclusion of human rights considerations in maritime business activities is being driven by a number of leading industry voices.

These forward-thinking individuals come from across the shipowner, investor and banking sectors, with an increasing number of voices now clearly articulating the need for better human rights protections and ethical considerations that go beyond just a corporate social responsibility box-ticking exercise in annual reports.

The resounding message from some quarters was that explicit human rights protections and provisions should be integrated and embedded as part of long-term sustainability plans as a matter of course.

Further, some of Norway's shipping community appears genuinely open to listening and appear to want to lead change alongside independent NGOs as they have done on the issue of shipbreaking, for example. They do not appear to turn their back with disdain, or shrug dismissively when those apparently 'toxic' words of 'human rights' are introduced into the debate.

This is an *invigorating* approach from a country that has a global reputation for fairness, human rights protections and humanitarian standards. It is also an *emerging approach* that should be carefully noted across the maritime sector, with flag states and governments alike.

The introduction by Ben Bailey of the Mission to Seafarers highlighted the need for the discussion, and the need for the shipping industry to seriously take note of business and human rights. It is noteworthy that the Mission is now advocating more actively and loudly on this subject following up on a discussion championed by Human rights at Sea for the last three years.

The session was introduced and chaired by Jostein Kobbeltvedt, the Director of the RAFTO Foundation, with his introductory questions framed around 'why the need for business and human rights?' An experienced panel from the Institute of Human Rights and Business, the OECD Norwegian point of contact and Human Rights at Sea then debated the host of emerging human rights issues, though to a virtually empty room.

The near absence of attendance by mainstream commercial shipping individuals from any part of the sector spoke volumes, even if it was a Friday. Nonetheless, strong attendance by the Kenyan Maritime Authority concerned about the need for better seafarer protections than current international conventions afford was uplifting and insightful, particularly from a government body that wants better.

Lack of attendance in any numbers yet again highlighted the continued uphill struggle that the subject of ‘human rights’ has in order to be mainstreamed as an essential theme within the shipping community; crucially, one to be factored into day-to-day business dealings through the likes of tailored contractual clauses, human rights impact assessments, transparency in terms of public disclosure of human rights policies and openness to objective external challenge.

Let us now look at the positives.

The subject of the need for concerted engagement by maritime business with the plethora of human rights considerations that exist (abandonment, non-payment of wages, violence towards crew, access to justice, access to competent legal representation, unofficial crew blacklisting, right to family life, protection of privacy etc), was finally on an open forum agenda of a major shipping event, and not behind closed doors.

The panel event was a start. It was not perfect, but the fact that a main shipping conference readily provided a platform for open discussion was inspired and for which Nor-Shipping should be congratulated for their foresight.

The bottom line

As a collective global body the shipping industry is woefully lacking in proper engagement with the topic of business and human rights, human rights protections and effective remedies in general. The MLC 2006 is not the golden bullet as unpopular as that perspective is treated in some quarters.

Phil bloomer, chief executive of the Business and Human Rights Resource Centre, highlighted the issue at last September’s International Maritime Human rights conference in London. Human Rights at Sea has also been saying the same. Others are now recognising the business need. This is not a new issue.

In conclusion, it is a matter of fact that the shipping industry is being left behind by other global industries who themselves have rapidly adjusted their business models to included greater transparency, public awareness, internal education and rapid intervention concerning emergent issues of worker abuse in the supply chain.

It is time to become engaged with human rights in business and stop ignoring the issue.
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(4) Hellenic Shipping News, 9 June 2017/ ICIS

Qatar crisis: limited LNG price impact, focus on shipping

The world’s largest LNG supplier, Qatar, on Wednesday sought to downplay the trade impact of this week’s diplomatic incident with Saudi Arabia, the UAE, Bahrain and Egypt.
Spot LNG prices have so far not reacted, although the market has focused on whether LNG trade between Qatar and Egypt, the UAE will be affected, as well as potential shipping disruption to Qatari vessels.
The effect so far on LNG has been insignificant compared to the logistical issues affecting diverted flights and a halt in food deliveries to a country highly dependent on imports.
ICIS here considers the key areas of impact within the LNG market.

Vessels leave Fujairah

The most immediate impact on the Qatari fleet was the removal of vessels from the east coast of Fujairah, a key bunkering location. Qatari vessels also wait there at offshore anchorage before loading at Ras Laffan.

Three ballast Qatari vessels left Fujairah shortly after the news broke on Monday, according to LNG Edge. These are now waiting close to Ras Laffan instead.

All vessels carrying Qatari cargoes, including those chartered by non-Qatari companies, will be banned from bunkering at Fujairah, according to a ship broker on Wednesday.

However, the UAE has since limited its ban to vessels carrying the Qatari flag and vessels owned or operated by Qatar, removing a reference to vessels arriving from or destined to Qatar, according to local media.

Bunkering is typically carried out twice every three months, the source said.

Gibraltar, Singapore and Oman could offer alternate bunkering locations. But this could add extra time and cost to the operation depending on the route taken by the vessel.

Some shipping sources believe the diplomatic incident could support charter rates.

A total of 17 laden and ballast vessels are currently sitting outside Ras Laffan and some sources have questioned if the movement away from Fujairah will lead to congestion near the LNG production complex.

Fact Box: Qatar’s LNG and gas contracts with affected Gulf States

- Egypt: State-buyer EGAS has no direct LNG supply contract with Qatar but has a range of short-term deals with companies that buy from Qatar. Almost 70% of LNG supplied to Egypt since January 2016 was sourced from Qatar
- UAE: Dubai’s DUSUP had a 0.75mtpa LNG supply contract with Shell from Qatargas 4 train 7 but this was removed from the latest annual GIIGNL report. Two Qatari-sourced cargoes have delivered into Jebel Ali this year
- UAE: Qatar supplies gas through the 33 billion cubic metre/year Dolphin pipeline to the UAE. The supply covers about 25% of the UAE’s gas demand. This also supports UAE LNG exports. Sources says flows through Dolphin continue
- Bahrain, Saudi Arabia, Yemen, Maldives, Libya have no Qatari imports. Bahrain is expected to start importing LNG next year

Suez – protected by convention

Access through the Suez Canal is vital for Qatar to deliver cargoes into Europe and the Atlantic basin.

Initial reports that Egypt may attempt to block the route appear overblown, as the canal is protected by the Constantinople Convention of 1888 which states it must always be open to any vessel, regardless of flag, and even during a state of war.

It is beyond the remit of the Egyptian government to close the canal.

But Egypt could reduce the canal-fee discount offered to LNG ships which would make transit for Qatari vessels more expensive, according to a research note from the Oxford Institute of Energy Studies.

More locally, Qatari vessels can gain access past the UAE and even Oman by using the Strait of Hormuz in Iran’s territorial waters.

Deliveries to Egypt

Of the countries to sever ties with Qatar, Egypt is by far the most significant importer of Qatari LNG.

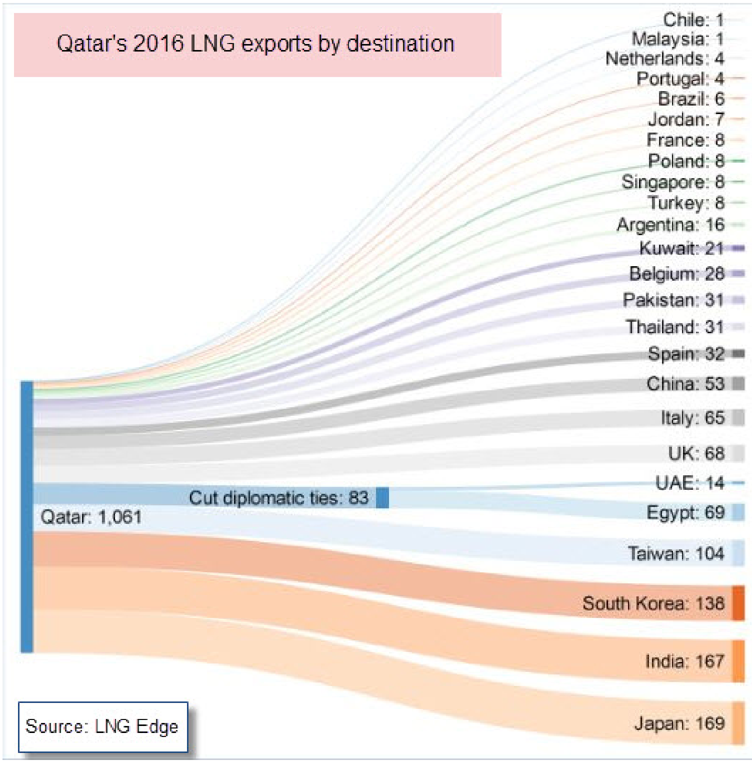
Over 2 million tonnes of Qatari LNG have already been delivered to Egypt this year, sold by intermediary traders that charter their own vessels and lift cargoes from Ras Laffan rather than by a direct supply agreement between the two countries.

One trader working for a company that supplies cargoes to Egypt said he did not expect disruption to Qatari-sourced volumes.

The last delivery of a Qatari-sourced cargo to Egypt was on 2 June. LNG Edge shows that three vessels carrying Qatari cargoes could berth at Ain Sukhna in the next week based on current positioning and charterers.

Egypt has been taking in at least one Qatar-sourced cargo per week in recent months so it should soon become obvious if the diplomatic incident has changed this relationship.

Increasing domestic pipeline gas means Egypt is less reliant on imports. The country's domestic fertiliser producers are reporting full operating rates and state buyer EGAS has already deferred planned LNG deliveries



Impact on Europe

Qatari supplies continue to transit the Suez Canal with the Q-Flex Al Ruwais close to exiting the canal on Wednesday afternoon and scheduled to deliver under long-term contract to Poland's PGNiG on 19 June, according to LNG Edge.

That journey is a northerly transit through Suez. On Tuesday, the 149,000cbm Al Daayen made the route south through Suez after delivering a cargo into the Italian terminal at Rovigo.

The scale of the Qatari LNG portfolio means it is not feasible to draw a connection between a possible reduction in cargo supply into one region with an increase elsewhere.

In the absence of any physical barriers to supply, Qatari cargoes will continue to flow into Europe under both a contract and flexible basis.

Qatari vessels have at times headed round the Cape of Good Hope instead of passing through Suez. This route would add an extra 10 days to a cargo route from Ras Laffan to the UK's South Hook terminal and take 25 days rather than 15 days, according to the LNG Edge shipping calculator.

Shipping Fact Box: Diplomatic row could support charter rates

- The severance of diplomatic ties between Gulf States could forge new shipping routes in the Middle East which would be bullish for LNG charter rates
- The closure of the port of Fujairah in the UAE on 5 June to Qatari-flagged vessels means that LNG vessels will have to do their bunkering elsewhere – possibly in Gibraltar or Singapore
- If the UAE or Egypt no longer source their cargoes from Qatar then the US, Trinidad and Nigeria could provide alternate supply which all entail longer shipping distances than Qatar
- Alternatively, existing suppliers to Egypt could split a single voyage into two by transporting Qatari LNG to Europe or India, where it is reloaded or put into storage, then transported to Egypt

- Lengthier voyages or split voyages would tie vessels up for longer, creating scarcity that would support charter rates
- Vessels making voyages from Ras Laffan to Asia and doing backhauls will be affected by the bunkering issue most of all because of higher costs

Long-term consequences
Some large oil and gas companies have said they do not see an impact on the global LNG market. Most notable was US ExxonMobil, a major stakeholder in Qatari gas and LNG projects.
It is too early to make a judgement on any long-term impact on Qatar's role in the LNG market but foreign investment could be at risk if diplomatic conditions do not improve.
"There are some concerns over how a company would manage its relationship with Saudi Arabia and the UAE as they are both larger oil producers than Qatar," said Andy Flower, an independent LNG consultant.
The investment process for Qatar's planned debottlenecking of its LNG infrastructure, announced at the end of May, has not yet started but is a sign that Qatar intends to compete for global market share as new US and Australian projects come online.
Source: ICIS, By Ed Cox
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(5) Hellenic Shipping News, 7 June 2017/ Maritime Strategies International

Offshore rig market must drill deeper to achieve a lasting turnaround, says MSI

Analyst begins quarterly sector coverage by contrasting recent market optimism with the impact of rig utilisation rates on near-term earnings
London, June 6, 2017. Maritime Strategies International (MSI), a leading independent research and consultancy, has forecast a challenging earnings environment for the offshore rig market during the next two years.
In the first of its new quarterly sector reports, MSI compares the current market to the slump of the 1980s. Its data model shows the rig market to be in an even deeper hole than 30 years ago, with fleet utilisation and the supply/demand balance a cause for caution on the earnings outlook.
This is despite a palpable shift of sentiment in the jackup rig market, with recent deals such as Borr Drilling's takeout of the Transocean jackup fleet and two modern Hercules jackups establishing solid price expectations and for many marking a bottom to the market.
"The question we have considered is whether this recent activity heralds the beginnings of a broad-based industry turnaround and our conclusion is not just yet – at least for some market sectors," says MSI Senior Analyst James Frew. "This is not least because rig earnings are not simply a function of the oil price but also the fleet utilisation. Factoring in the supply/demand balance provides further evidence of why MSI are more cautious."
In 1986, earnings for a third generation semi-submersible slipped below $50,000/day (and had been falling since their 1981 peak at around $90,000/day) while earnings remained below the $50,000/day mark for the remainder of the decade. Like today, there were shards of optimism amongst the pain – dayrates went up by 10% in 1989 – but overall it remained a bleak market.
Today, global floater utilisation is currently below 50%, whereas in the 1980s the utilisation rate only dipped below 70% for two years. Even excluding cold-stacked rigs from the analysis, utilisation rates in the floater market for 2017/18 remain below the levels seen in 1987/88.
If demand increases, the pool of ready-stacked rigs is intimidating even if cold-stacked rigs are excluded (15% of floaters are cold-stacked, whilst nearly a third are ready stacked).
Jack-up rigs are also suffering, but have slightly more favourable dynamics largely because their biggest market – the Middle East – has scarcely seen any reduction in rig activity. Jack-up utilisation has held up better at around 60%, whilst cold stacked jack-ups represent only 12% of the fleet.
"Overall MSI believes that the rig market is not yet out of the woods," adds Frew. "We expect dayrates for a Sixth Generation semi-submersible to average around $170,00/day in 2017 – down about 5% relative to

2016 levels – rising to a shade under $190,000/day on average in 2018. More positively, by 2020 our projection show dayrates rising to over $300,000/day."
Modern jack-ups will outperform floaters over the next three years, as they are propped up by demand from NOCs in the Middle East and SE Asia, but will also see earnings at disappointing levels.
Source: Maritime Strategies International
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(6) Hellenic Shipping News, 6 June 2017/ GMS Dubai

"The Evolving Face of Alang"

Over the years there has been much controversy raised around the ship recycling industry and its practices at a global level. NGOs from the economically 'developed' countries of the Western world have been dictating that responsible ship recycling can only be sustainable at ship recycling facilities based in Europe, Turkey and China, ruling out this way the majority of the ship recycling yards which are based in South Asian countries, namely India, Bangladesh and Pakistan. The main argument of the NGOs is that the method of beaching – as it is widely known – that is being implemented at the ship recycling yards in South Asia, is polluting the intertidal zone and consequently the environment, plus, the working conditions in these countries are of much lower standards than those in the favorable countries mentioned above. Another argument raised is that there is a lack of a waste management system, which means that hazardous wastes generated from the recycling process cannot be safely disposed of, because there is no central infrastructure built to support this function. This is a valid point for the ship recycling scenery set today in Bangladesh and Pakistan, but not for India that operates a central waste management system specifically for the ship recycling industry.
In the past few years there have been some dramatic improvements witnessed at the recycling yards of Alang, the wide coastal line in the district of Bhavnagar in the State of Gujarat, India, that had been infamous for its ship recycling activities over the past three decades. It is the place where supertankers, containerships, car carriers and other major floating structures are laid to rest, supplying almost 80% of the local economy with steel plates and reusable parts such as furniture, machinery and spare parts which are being sold in the local flea markets. Meanwhile, Alang is home to almost 100 active yards today, employing around 18,000 people.
In 2009, the International Maritime Organization (IMO), which is a Specialized Agency of the United Nations focusing on maritime affairs, adopted the Hong Kong International Convention for the Safe and Environmentally Sound Recycling of Ships (also known as "the HKC"). This Convention was developed with an aim to provide the globally agreed minimum standards for the recycling of ships, while safeguarding the workers' health, safety and environmental protection. Although the Convention is not yet in force, there is an increasing number of countries that have acceded to it, with the latest entry being Turkey who signed it only last month.
The last five years have seen a growing interest from the yard owners based in Alang in the adoption and implementation of the HKC guidelines, which has translated into significant investments being made in the infrastructure for the upgrading of several ship recycling facilities, in order to reach an approved level of compliance with HKC and receive a Statement of Compliance (SOC) by an international Classification Society. Today, out of a total of 52 yards who have been active in implementing improvements in line with the international standards established by HKC, 27 have received a SOC with HKC from either Japan's ClassNK, Italy's RINA and India's IRQS, while the rest 25 yards are in advanced stages of development to acquire a SOC. One detail that needs to be pointed out here is that the vast majority of these yards who have made and/or keep investing in the modernization of their infrastructure, do not own their plots: the land belongs to the government or private land owners who rent it out to them under 10 or 20 year leases.
According to Dr. Nikos Mikelis, former senior officer of the IMO who was responsible for the development of the Hong Kong Convention: "…There are encouraging signs that we are getting closer to the entry into force of Hong Kong Convention. However, there is still some way to go, as the ship recycling industry in South Asia is evolving slowly but steadily…no doubt India is driving significant change and ground-breaking progress in this vital sector since it is the only South Asian country with a central waste management system in place, regulated by the authorities. Today, we are witnessing important

developments in ship recycling, as there is a growing support towards the adoption and implementation of best practices in the industry, in support of sustainable recycling and in alignment with the Hong Kong Convention guidelines. This is proof that the mentality in the ship recycling industry has turned around and government and industry stakeholders now acknowledge the necessity of law reform and the upgrading of the existing infrastructure for safer and environmentally sustainable business practices…" Lately, around USD 180 million has been made available for facility upgrades through a partnership between the Japanese International Cooperation Agency (JICA) and the Gujarat Maritime Board. A USD 4.4 million grant towards training is also set to boost worker health and safety as part of the Indian government's Sagarmala Project. There is a growing momentum for Alang at the moment as India is leading the developments in the ship recycling industry of South Asia, also, heading towards its accession to the Hong Kong Convention, possibly by the end of 2017. Next stop will be Bangladesh and the big question mark of whether the local yards and the government are going to move ahead with the setting up of an infrastructure that will promote workers' health, safety and protection of the environment.
Source: By Christine Mavromichalis, LL.M., Business Development & Marketing, GMS Dubai (Originally Published in Steel360)
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(7) Hellenic Shipping News, 6 June 2017/ article by Richard Scott

China's *Belt and Road Initiative*: rearranging global shipping?

Interest in China's *Belt and Road Initiative*, now the preferred name for the One Belt, One Road scheme introduced by President Xi Jinping over three years ago, has intensified. An international gathering in Beijing last month sharpened the focus. This grand concept has two components, both of which are potentially of great significance for the global shipping industry.

The Silk Road Economic Belt of land routes, and 21st Century Maritime Silk Road of sea routes have been proposed as programmes to link China with Asian, Middle East, African and European countries more efficiently. While the Maritime Silk Road naturally seems of most direct interest for international shipping, the Belt also has huge implications for shipping activities. Infrastructure building or upgrading in numerous countries on these routes, facilitating trade movements and strengthening economic activity more broadly, is likely to prove influential.

Since its inception, the Belt and Road Initiative has often seemed rather vague, although individual projects discussed and arranged have provided some clarification. The rationale has been revealed, even if the precise motivations for China's enthusiasm were open to varying interpretations. Reasons for pursuing the scheme apparently are complex. Potential benefits for international shipping, as commented in a recent editorial in Hellenic Shipping News Worldwide, are 'still a bit hazy', although positive expectations are widespread.

Additional attention to progress was attracted by the May 2017 Beijing forum focusing on the Initiative, attended by leaders from many countries. There were no momentous announcements, apart from China's pledge to invest $124 billion. But fresh impetus for projects could be derived. A momentum boost may be needed: based on some measures, investment in the BRI declined last year.

What is being reshaped?
An overarching question has arisen: is the scheme reshaping global trade? The answer probably depends on what is meant by reshaping. Volumes and patterns of trade affected, and also the timescale of changes, are relevant aspects.

Reshaping, in this context, can be assumed to mean large changes or prospective changes in geographical patterns of international trade and in trade volumes moving. Given the prominence of some individual projects within the Belt and Road Initiative framework, and the increasing frequency of news items about current and future projects, it could be concluded that a reshaping is indeed happening. But is that conclusion realistic and accurate?

It is abundantly clear that a number of new international trade routes are being opened up, while others are being improved and upgraded. These are having an impact on both the Belt and the Road portions. The changes are significant and may become much more so over the years ahead. However, it can be argued that evidence for labelling this process as a 'reshaping' of global trade is not, or at least not yet, entirely convincing.

An alternative characterisation might be suggested. One of the most prominent aspects of the Belt and Road Initiative is a change (possibly a reshaping) in the pattern of global ownership and control of infrastructure which facilitates trade movements. Investment or management, or both, by Chinese companies is typically a defining element of projects, often involving Chinese construction and equipment

Infrastructure ownership and control by China is not always complete, but greater influence provides benefits and enhances the security of imports into and exports from China. This aspect is certainly changing the dynamics of global trade patterns and trends.

Broad implications for sea trade
The Chinese authorities often emphasise what they regard as the Initiative's altruistic nature. Its most visible manifestation is promoting activities strengthening international commercial trade, which are frequently described as 'win-win' ventures. All participants are expected to benefit from this project.

Nevertheless, the underlying rationale for the Belt and Road Initiative is heavily focused on China's imports and exports, although other international trades may be affected indirectly. Most emphasis is on the Belt portion, overland routes and connections. Some are accompanied by port projects, which are considered part of the Maritime Silk Road.

Closer examination of the Initiative's, and in particular the Maritime Silk Road's, evolving impact on global seaborne trade highlights one feature in particular. Many principal sea trade flows to and from China, as well as elsewhere, on high volume routes, seem likely to be unaffected or only slightly affected by BRI developments.

Examples of the largest volume trades, where a nil or minimal direct impact from Belt and Road projects is currently envisaged, are listed below. Over a longer period there could be a larger impact, indirectly, as economic activity in some importing countries strengthens.

- **Dry bulk sector** Iron ore exports from Australia, Brazil, South Africa, Canada; coal exports from Australia, Indonesia, Russia, Colombia, South Africa, USA; grain/soya exports from USA, Canada, Australia, Black Sea, Brazil, Argentina; and many minor bulk commodity movements.
- **Tanker sector** Oil and gas movements from Middle East, West Africa, Caribbean. In some sea trades where partial transport by pipeline begins or increases as a result of new or expanded pipeline capacity, total transport cost could rise because of transhipment.

Sea trade impacts: pluses and minuses
Despite a large proportion of global seaborne trade probably seeing little or no impact from the Belt and Road Initiative, numerous positive effects are foreseeable elsewhere. Various projects could strengthen seaborne trade volumes, which determine demand for shipping capacity. By contrast, several actual or potential negative changes have become prominent:

- **Container sector** An expanding overland route between China and Europe has already attracted movements of high value, time-sensitive goods which previously would have been transported by sea.
- **Gas sector** Moving more gas through new or higher capacity gas pipelines to China acts as a restraint on sea trade. Pipelines which carry gas which could have been shipped as LNG (liquefied

natural gas) by tanker, such as the Myanmar/Chongqing gas link, or shorten sea distances, are detrimental.

- **Tanker sector** Some crude oil suppliers exporting to China are introducing new or increased capacity pipelines. The volumes moved potentially replace seaborne cargoes. Other pipelines, such as Kyaukphyu, Myanmar to Chongqing, shorten the sea distance from several supply sources.

These developments show that pipelines and associated port infrastructure resulting from Belt and Road Initiative projects could restrict or possibly even prevent seaborne trade growth in related trades. But it appears unlikely that substitution or curtailment of sea movements will have more than a modest overall impact on the global seaborne trade pattern.

Looking at the positive effects foreseeable, these can be divided into direct and indirect influences. Both types of influence could increase raw materials or semi-finished and finished products quantities moving by sea, on a range of routes.

Perhaps most obviously, infrastructure building on an extensive scale will require increased volumes of construction materials. Transport infrastructure involves new or upgraded roads, railways, pipelines and ports; distribution centres and industrial parks are also part of the vision. Additional bridges and tunnels, harbour breakwaters, quays and cranes, plus warehousing will be required. Together with power stations and electricity grids, and water control installations such as dams, developments are envisaged across a swath of Asian and Middle East territory.

Large volumes of construction project material such as steel products, cement and heavy machinery and equipment probably will be supplied by sea from China, as well as from other sources. When these items are, in turn, produced wholly or partly in China from imported raw materials, a second support for global dry bulk trade arises. Moreover, if new coal-fired power stations are built in some countries under the Belt and Road Initiative to boost electricity supplies, additional seaborne steam coal imports could result.

These direct impacts could be accompanied by an indirect boost. Improvements in connectivity through enhanced transport infrastructure, linking manufacturing industry or agriculture to global markets, could strengthen many countries' economic growth. A more rapidly developing economy usually boosts trade, with favourable implications in particular for container movements and bulk commodity as well. More prosperity generally implies more sea trade.

How positive the seaborne trade trend contribution proves depends greatly on the nature and magnitude (number and size) of projects, and the development work timescale. If all projects together are of relatively modest magnitude, and development work is extended over long periods, short term advantages for cargo movement volumes by sea may not be a notable feature. But cumulative longer term benefits may still be significant.

Infrastructure building in Asian countries: how much is needed?

Potential for future infrastructure building in Asia was highlighted in a report published in February 2017 by the Asian Development Bank. Depending on assumptions adopted, the ADB estimates that Asian countries need to invest between $22,600 billion and $26,200 billion during the period of fifteen years from 2016 to 2030. These totals imply an average $1500bn to $1700bn annual spending on infrastructure. Currently the region is investing an estimated $881bn annually, so a large increase is recommended.

Most of this projected spending represents physical infrastructure in four categories: (a) transport – roads, railways, ports and airports; (b) electrical power – generation, transmission, distribution; (c) telecommunications; (d) water supply and sanitation. The lower end of the range of estimates reflects expenditure which excludes climate change mitigation and adaptation costs, while at the higher end, this item is included. Power and transport are the two sectors with the largest spending requirements, comprising 52 percent and 35 percent of the total respectively based on the range's lower end.

The ADB's analysis, although not specifically related to China's Belt and Road Initiative, supports the argument that there is scope for additional spending on fixed assets. These extra assets can further enhance a country's stock of capital. ADB analysts state that 'the region's infrastructure has improved rapidly, but remains far from adequate'. More and better transport, power supplies and other basic necessities could assist improved economic progress, enabling sustained rapid economic growth to be achieved across the region.

Maritime Silk Road shipping and ports
The shipping services involved have not received much attention. At first glance, this lack of focus on a vital aspect might seem surprising. There is a simple explanation. Sea transportation services provided by the global shipping community, of which Chinese shipowners are a major part, are already supplying adequate capacity for the Maritime Silk Road routes.

Looking ahead, transport capacity and capability is likely to remain sufficient. In many shipping sectors (container ships, bulk carriers, tankers and some specialised segments) global over-supply is a characteristic, and in several markets has been so for some time. Many more new ships are under construction or on order, and there is currently no suggestion that shortages will emerge. Consequently, extra shipping capacity specifically designed for Maritime Silk Road developments has not yet been seen as essential.

For China, involvement in shipping services on the Maritime Silk Road appears destined to expand over the years ahead. Shipowners based in China control one of the world's largest merchant ship fleets, which has been growing rapidly in recent years. These shipowners currently have the largest national volume of new ships on order, implying further strong fleet expansion. Although this feature is only an indicator of China's future participation in specific trades, it reinforces a general impression pointing to sufficient transport availability continuing.

According to a recent UNCTAD report, internationally the Belt and Road Initiative 'may help reduce transport costs, increase trade flows and open new markets to all involved countries'. The report adds that the Initiative's success, from a transport sector perspective 'rests heavily on optimization of the transport infrastructure and services, including shipping and logistics, required to support connectivity in China and beyond'.

Within the Maritime Silk Road framework, port projects are the prominent element. In particular, several Asian countries - Pakistan, Sri Lanka, Myanmar and Malaysia - have been at the forefront. At the other end of the Road, Greece has been a notable feature. Developments are under way or under discussion also in Indonesia, Vietnam and at the western end, Georgia while the feasibility of a new canal across the Kra Isthmus in Thailand is being investigated.

Implied naval benefits?
Another aspect of the Belt and Road Initiative is relevant to freedom of commercial trade and free passage of ships in international waters. Are China's foreign port investments at least partly motivated by possible military (naval) usage, if there is a crisis? One research study saw this outcome as implausible, arguing that China is not building naval port installations, only commercial facilities.

Yet the 'string of pearls' concept, which can be interpreted as having ominous overtones, is a cause of anxiety in some Asian countries, especially in India. This colourful name denotes a network of ports, which could be used by China to protect sea lanes along which a high proportion of its seaborne import and export trade is carried. Crucial sea lanes are the Straits of Malacca and Hormuz.

Some of the ports in this category, it is suggested, could become strategic bases for the Chinese navy as well as their prime commercial function. One contention is that formal naval bases are not so necessary if there is naval access at commercial facilities. Other observers argue that ideas of military usage are unconvincing.

Concluding imponderables
Among Belt and Road Initiative ramifications, some downsides for the global shipping markets have become visible. One prominent negative influence foreseeable is shorter loaded voyage distances in a number of major cargo trade movements. These reductions could have an adverse impact on vessel tonne-mile employment, resulting in a weakening of requirements for sea transport services.

But such modifications seem likely to be more than offset by changes having a beneficial influence on demand for shipping capacity. In particular, additional trade volumes as a direct or indirect consequence of projects stimulated by the Belt and Road scheme could provide a boost. Large quantities of semi-finished of finished products related to construction activity probably will be needed, imported from China or other producers. These, in turn, could strengthen long-haul raw materials movements.

In countries where infrastructure is expanded and improved, economic growth could be enhanced. The mainly emerging market economies benefiting in Asia, the Middle East and elsewhere could see higher seaborne trade volumes – imports, exports or both. But the impact will vary widely, depending on an individual country's specific circumstances. For this reason much more detailed analysis is required to determine the full extent of likely changes and, even then, uncertainties of project magnitude and timing render forecasting a hazardous exercise.

Source: article by Richard Scott, associate, China Centre (Maritime), Solent University and managing director, Bulk Shipping Analysis
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