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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- An improvement in ***quality standards in the world fleet of ships*** is revealed by the latest reports of two bodies monitoring and coordinating port state control regimes (item 1)
- Decreases in ***vessel detentions and deficiencies*** in the Europe and Japan port state control areas are indicators of quality improvements. But there is still a perceived need to further enhance standards, given the numerous problematical issues highlighted by reports.
- Another vexed aspect of maritime policy is the ***ballast water management convention,*** due to become effective globally later this year. Item 3 reviews progress towards implementing this huge change in operational practices in the world fleet of ships trading internationally.
- Growth in the volume of all cargoes entering world seaborne trade was greater than expected last year. Much of the total advance was attributable to a robust increase in ***China's imports***, which comprised almost half of the global increase in sea trade recorded (item 2).
- A prolonged tough period ahead for ***container service operators*** is suggested by a new detailed analysis (item 7). Rationalisation and reorganisation is well under way on a large scale, but further steps seem to be needed to reduce overcapacity and eliminate losses.
- Raising ***standards of ship recycling practices*** are highlighted by the example of progress in Bangladesh, one of the world's largest ship scrapping centres (page 8)

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editor (email: bulkshipan@aol.com)

(1) Hellenic Shipping News, 9 March 2017/ North P&I Club

Port State Control Annual Reports Show Improvements for 2015

Paris and Tokyo MoUs have released their annual reports for 2015. They both show improvements in the number of vessels being detained, and the number of deficiencies being recorded.
The decrease in the number of detentions and deficiencies reported by the MOUs indicates improvements in the overall quality of the world fleet. There is still room for improvement. Many of the deficiencies recorded are common. Knowledge of these common deficiencies should help crews maintain the vessel so as to avoid PSC problems.
The majority of deficiencies reported by both the Tokyo and Paris MoU's for 2015 relate to:

- ISM (both Ship Operations and Resources and Personnel).
- Fire doors / openings in Fire Divisions / Fire Dampers.
- Fire Detection and Alarms.
- Vents and Air Pipes.
- Lifeboats.
- Nautical Publications and Charts.
- Oil Record Book Oil Filtering Equipment and MARPOL.
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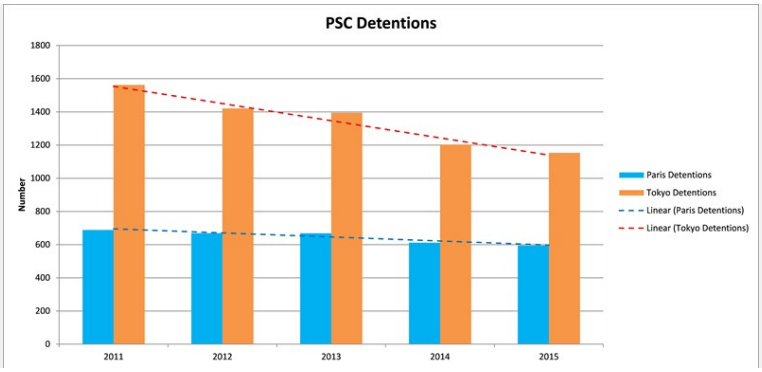

Paris MOU and Tokyo MOU detentions 2011 – 2015.

ISM
A large number of deficiencies and detentions will be recorded as ISM. This can be used as a catch all by inspectors where there are numerous deficiencies.
Common Issues to reported include:

- The vessels certification is not available, well organised or up to date.
- Crew certification and training is invalid.
- Critical and main equipment documents and books are not on board.
- Stability, damage stability and cargo documentation not available.
- Emergency towing manual unavailable.
- Cargo Securing Manual not updated or available.
- Crew not aware of their own responsibilities including in of emergency situations, or in the use of emergency equipment on board.
- Crew not aware of the company Designated Person Ashore and Company Security Officer.
- Crew unaware who the Ships Security Officer is.

- Crew have not completed a shipboard familiarisation induction, or records of this being completed are not available.
- It is evident, or there exists no record of shipboard operations being carried out as per the company SMS. Evidence is usually in the form of checklists that are being completed and recorded.
- The crew have not reviewed the relevant section of the SMS applicable to them.
- The Master has not conducted his review of the SMS.
- Drills are not up to date and a drill matrix is not being maintained.
- Crew do not act correctly during drills conducted in front of the Port State Inspector.
- Planned maintenance is not in accordance with maker's guidance or company procedures.
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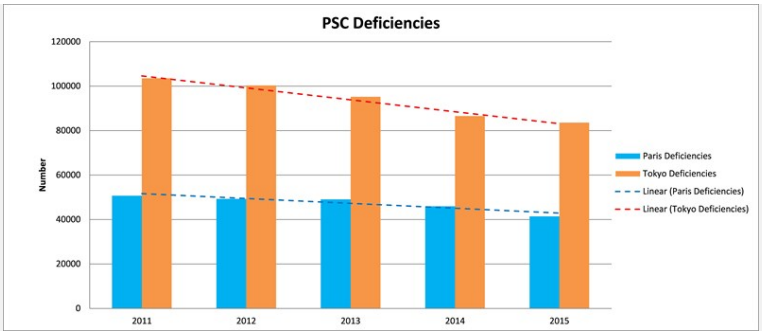

Paris MOU and Tokyo MOU deficiencies 2011 – 2015.

Fire Suppression and Fire Fighting both Passive and Active

Common issues reported include:

- Fire doors do not operate correctly including any automatic closure devices.
- Fire doors held open by non-standard devices.
- Fire doors do not have the correct markings on them.
- Fire door frame gaskets are in poor condition.
- Cable transits are damaged, or not the correct fire class.
- Fire dampers and ventilators do not operate and are not maintained or tested correctly.
- Open and closed positions of dampers and ventilators not correctly marked
- Fire detection system has faults including covered sensors.
- Fire Training Manual not available in the mess rooms.
- Emergency Fire Pump and pipe work in poor condition.
- Vessels fixed fire fighting system inoperative required service overdue.
- FFE equipment service out of date.
- Oil in the engine room bilges presenting a fire hazard.
- Excessive engine and machinery oil leaks, including full save-alls and the use of catchment devices instead of making repairs to stop leaking.
- Engine Room tank sounding pipe self-closers found tied open.

Vents and Air Pipes

Common issues reported include:

- Tank vent pipes and vent heads are in poor condition. There is no evidence of regular maintenance, testing and checking.
- Sounding pipes are in poor condition with caps missing, striking plates are worn and there are signs of corrosion on the pipework.

Life Saving Equipment

Common issues reported include:

- The overall condition of the lifeboat hull and gel coat shows signs of damage.
- The lifeboat hooks and release system are incorrectly set up, and show signs of no maintenance. The hydrostatic diaphragm is out of date or in poor condition.
- LSA service records are out of date.
- On board maintenance overdue or not done.
- Wire ropes, sheaves and blocks are uncertified and in poor condition.
- Harbour pins seized in place or unavailable.
- Hanging off wires still in place or unavailable.
- Free fall simulation equipment is not on board or records show that it is was not used as needed.
- Equipment including pyrotechnics and rations are not present, in poor condition or expired.
- Steering and emergency steering does not operate.
- The engine does not start or the emergency start. The engines do not go ahead and astern correctly.
- Launching and operating instructions are missing or are not in the working language of the ship.
- Davit limit switches inoperable.
- If fitted air and sprinkler systems are inoperable, not serviced or maintained.
- Lifeboat steering stiff or inoperable.
- Issues with GMDSS equipment reserve batteries.
- SOLAS Training Manual not available in the mess rooms.
- Life raft service overdue, davits and / or cradles in poor conditions.
- Life raft hydrostatics not installed correctly or expired.
- MOB bridge marker found seized and unable to be released.
- Bridge pyrotechnics missing or overdue.
- Lifejackets in poor condition, un-serviced and not enough of them.
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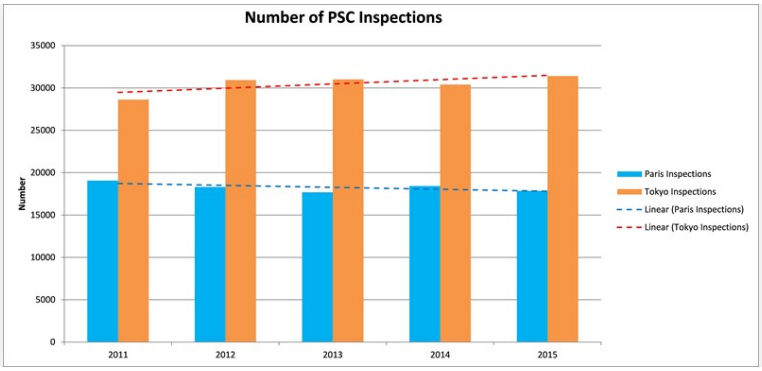

Paris MOU and Tokyo MOU number of PSC Inspections 2011 – 2015.

Nautical Publications Charts

Common issues reported include:

- The vessel is not carrying the correct charts or publications.
- The vessels list of charts and publications is incorrect.
- The charts and publications are not the latest available.
- The vessel is not receiving weekly notice to mariners or alternative.
- The charts and publications are not corrected up to date.
- ECDIS when fitted is not up to date.
- ECDIS when fitted does not have the appropriate regions and charts available.

- Navigating Officers are unable to correctly operate the ECDIS.
- Navigating Officers have not completed ECDIS training.
- The vessel isn't carrying all mandatory publications as per SOLAS.
- The officer in charge of the charts and publications is untrained in the subject.
- Passage plans are inadequate and do not run from berth to berth.

Oil Record Book, Oily Water Separator and MARPOL

Common issues reported include:

- Correct codes are not used for entries.
- Operations are not in date and time order.
- Correct date format is not used.
- Entries are unclear and unreadable.
- Bilge water and sludge transfer operations have not been recorded or are being recorded wrongly.
- Fuel and lubricating oil bunkering not recorded correctly.
- Quantities of water steamed off from sludge are not accurately recorded in oil record book
- Entries not signed by the relevant officer in charge.
- Empty lines have been left between entries.
- Wrong entries are not deleted correctly, (they should be scored out with a single line so the wrong entry can still be read. Then it should be signed and dated with a correction as the next entry).
- The tanks page at the front does not match the IOPP certificate.
- The Master has not signed the pages.
- Oil filtering equipment not functioning correctly including oil content monitor and three way valve.
- Fuel oil sulphur content exceeding limits in emission control areas.
- Incinerator not allowing for sludge incineration in line with its design criteria.
- EIAPP certificates not available for machinery that requires them.
- Garbage Record Book is incorrectly completed and garbage disposal certificates are not available.
- SOPEP / SMPEP books unavailable and not up to date.
- Sewage treatment unit not in working order.

MLC related deficiencies where only recorded for those vessels whose states had ratified the convention, all others were still inspected as per ILO 147. More details on MLC related deficiencies can be expected in future reports.

Source: North P&I Club

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(2) Clarksons Research, 6 March 2017

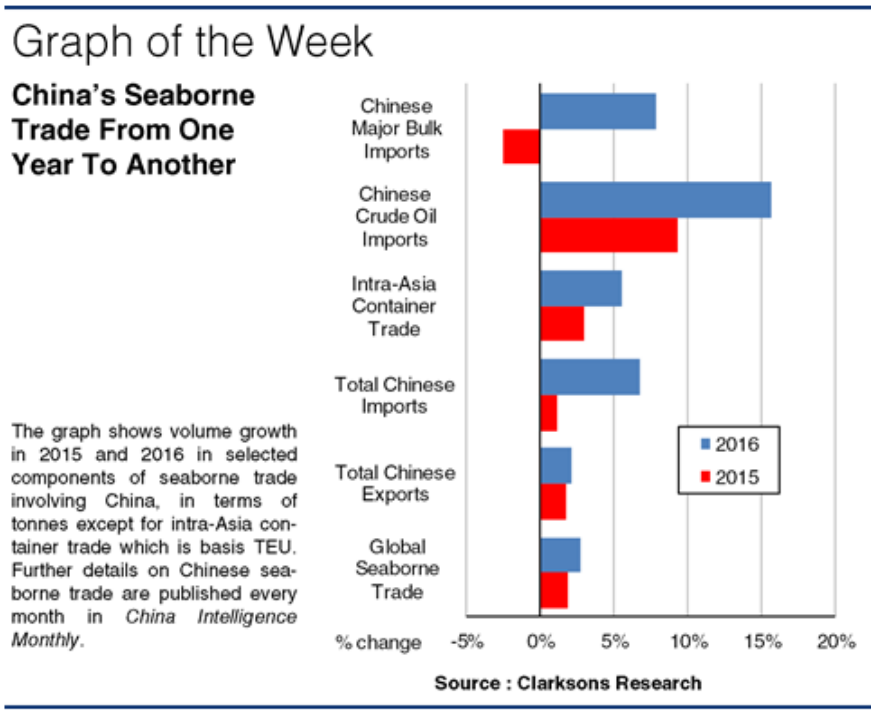
How Will The (Fortune) Cookie Crumble This Year?

We're well into the Year of the Rooster in China now, but trade figures for last year are still coming in and it's interesting to see what a major impact China still had in 2016. Economic growth rates may have slowed, and the focus of global economic development may have diversified to an extent, but China was very much still at the heart of the world's seaborne trade.

Not A Lucky Year

In 2015 the Chinese economy saw both a slowdown in growth and a significant degree of turbulence. GDP growth slowed from 7.3% in 2014 to 6.9%. Steel consumption in China was easing and growth in Chinese iron ore imports slowed from 15% to 3%. Coal imports slumped by an even more dramatic 30%. Container trade was affected badly too. China is the dominant force on many of the world's most important container trade lanes and is involved in over half of the key intra-Asia trade. Uncertainty in the

Chinese economy in 2015 took a heavy toll on this and intra-Asian trade growth slumped to 3% from 6% in 2014. Going into 2016, there was plenty of apprehension about Chinese trade, and its impact on seaborne volumes overall.



Back In Action

However, things turned out to be a lot more positive in 2016 than most observers expected. China once again underpinned growth in bulk trade, with iron ore imports surprising on the upside, registering 7% growth on the back of producer price dynamics, and coal imports bouncing back by 20%. Crude oil imports into China also registered rapid growth of 16%, supported by greater demand for crude from China's 'teapot' refiners.

In containers, growth in intra-Asian trade returned to a robust 6%, and the Chinese mainlane export trades fared better too, with Far East-Europe volumes back into positive growth territory and the Transpacific trade seeming to roar ahead. Overall, total Chinese seaborne imports grew 7% in 2016, up from 1% in 2015, with Chinese imports accounting for around 20% of the global import total. Growth in Chinese exports remained steady at 2%.

Thank Goodness

Despite all this, seaborne trade expanded globally by just 2.7% in 2016. Thank goodness Chinese trade beat expectations. Of the 296mt added to world seaborne trade, 142mt was added by Chinese imports, equal to nearly 50% of the growth. Unfortunately, this was counterbalanced by trends elsewhere, with Europe remaining in the doldrums and developing economies under pressure from diminished commodity prices.

Rooster Booster?

So, 2015 illustrated that a maturing economy and economic turbulence could derail Chinese trade growth. But China is a big place, and 2016 shows it still has the ability to drive seaborne trade and that the world hasn't yet found an alternative to 'Factory Asia'. 2017 might see a focus on other parts of the world too, with hopes for the US economy, India to drive volumes, and developing economies to potentially benefit from improved commodity prices. But amidst all that, China will no doubt still have a big say in the fortunes of world seaborne trade. Have a nice day.

Source: Clarksons

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(3) Hellenic Shipping News, 8 March 2017/ International Chamber of Shipping

Shipping on the right course for the Ballast Water Management Convention

The Ballast Water Management Convention (the Convention), aimed at establishing standards and procedures to prevent the spread of aquatic organisms, enters into force and takes effect on 8 September this year. While it represents a significant environmental milestone for our planet, the Convention also means that the maritime industry has to gear up for a huge operational change.

Under the Convention, ships trading in international waters will need to ensure they are fitted with a ship-specific Ballast Water Management System (BWMS), according to the agreed implementation schedule. The BWMS installed must be approved by the Flag State in accordance with approval process defined by the International Maritime Organization (IMO).

Even vessels from countries which have not acceded to the Convention are required to comply with the standards when entering the ports of IMO Member States that have ratified the Convention.

In addition to meeting the requirements of the Convention, ships entering U.S. waters will also need to meet the stringent standards laid down in the U.S. Ballast Water Regulations and enforced by the U.S. Coast Guard (USCG). The U.S. has not acceded to the Convention but adopted its own ballast-water regulations in 2012.

This disconnect in requirements has left many shipowners wondering if their vessels will be able to operate in U.S. waters when the Convention comes into force. The uncertainty in this area has been compounded by the fact that only three equipment makers – Optimarin, Alfa Laval and Ocean Saver – have systems that are approved and considered fully compliant with both the Convention and US Ballast Water regulations. A fourth system is currently being considered by the USCG for full approval.

With the Convention entering into force in less than 7 months, the pressure is certainly on for shipowners who must find a suitably robust BWMS for their operations and in the case of existing ships have the system installed by the date of their first International Oil Pollution Prevention (IOPP) Renewal Survey after 8 September this year.

Absorbing costs

Industry watchers expect that the global maritime industry will spend upwards of USD75 billion on equipping their vessels with ballast water treatment systems. Depending on the size of the vessel, its ballast water capacity and type of treatment, estimates show that the cost of implementation of the treatment systems can range from half a million to five million USD per vessel with some 40,000 ships to be equipped. This is in addition to other maintenance and operational costs.

Given these costs, there is the consideration that it may be more economically feasible to scrap a substantial number of older ships rather than modify them to meet the Convention's standards. Moreover, individual shipowners will also need to invest in training crew members to handle new equipment, ensuring that appropriate safety protocols are well established, and costs associated with disruptions due to dry-docking and equipment installation are contained.

In the current depressed market, these compliance costs, and other ancillary costs have been of significant concern to shipowners. For many countries, they have even been a barrier to ratification.

Making progress

In spite of the nervousness about the ratification, shipowners are generally confident of meeting the standards in time. Having a firm date for the Convention's implementation provides certainty for timelines and budget.

Furthermore, faced with the pressure of the Convention, equipment manufacturers and engineering companies are innovating to ensure that effective equipment and systems are made commercially available to help shipowners move forward. Currently, there are over 60-type approved systems, some of which make use of UV.

To spur greater trust in ballast water systems, the International Chamber of Shipping (ICS) has also been collaborating with the IMO to ensure a more rigorous type approval process exists and as a result, the IMO adopted the more robust 2016 Guidelines for the Approval of Ballast Water Management Systems (G8) in October 2016.

The IMO also agreed in 2016 that the approval guidelines should be made into a mandatory code and the Convention amended accordingly following its entry into force. As a result, the availability of commercial equipment that can be considered to effectively treat ballast water in conditions normally encountered in the daily operation of ships should grow as systems gain approval in accordance with the latest revision of the approval guidelines (G8). The availability of systems approved in accordance with the 2016 Guidelines (G8) and with USCG approval will fuel confidence in the Convention.

Navigating the way forward

It has taken 13 years to take the Convention from adoption to ratification and while there have been significant concerns and challenges in its ratification, the long-term benefits should outweigh the costs. The risks to aquatic biodiversity and human health arising from the transfer of harmful aquatic organisms in ballast water will be eradicated with the implementation of treatment systems.

As an aside, some in the industry are saying the Convention may address existing vessel over-supply in the market, by encouraging shipowners to consider scrapping vessels that are over 15 years old.

More importantly, compliance with the Convention offers shipowners the opportunity to feedback on the efficacy of treatment systems, to help shape the Convention, and the industry as a whole. Here, the ICS provides a key avenue for shipowners to collaborate with other industry players and the IMO to refine the Convention and help facilitate implementation.

The success of the Convention is ultimately dependent on multi-level collaboration within the global maritime industry. On a macro level, inter-agency coordination amongst the flag States is necessary for effective enforcement of ballast water management strategies. On a micro level, careful planning and coordination is vital if shipowners are to meet the requirements of the Convention while minimising preparatory and compliance-related costs.

This multi-level collaborative approach will also be in action during the Sea Asia 2017 conferences. Held in April in Singapore, Sea Asia 2017 will bring together leaders from across the industry and around the globe to analyse, debate and find solutions to issues confronting the maritime industry.

One of the areas we will discuss is the Convention and its expected impact on the sector. I look forward to continuing the discussion on how we can work together as an industry to navigate these challenges moving forward.

Source: Article Written By By Peter Hinchliffe, Secretary General, International Chamber of Shipping. Mr. Hinchliffe is a speaker for the ‘Navigating Challenges: The Way Forward’ session at Sea Asia 2017.

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(4) Clarksons Research, 2 March 2017

The Product Tanker Orderbook: Slimming Down?

Following an extremely weak year for product tanker contracting in 2016, the product tanker orderbook has declined significantly and at the start of February 2017 was equivalent to 10.2% of fleet capacity, the lowest level in nearly 17 years. While orderbook trends have differed between vessel sizes, the shrinking orderbook is expected to lead to slower overall growth in the product tanker fleet in the coming years.

Sizing It All Up

At the start of February, the product tanker orderbook (10,000+ dwt) stood at 321 ships of 16.0m dwt. This is the lowest number of product tankers on order since 2001, following a sharp decline in the orderbook in 2016. Last year, the product tanker orderbook fell by 9.2m dwt, a drop of 35%. This has left the orderbook equivalent to just 10.2% of total product tanker fleet capacity, a low not seen since August 2000.

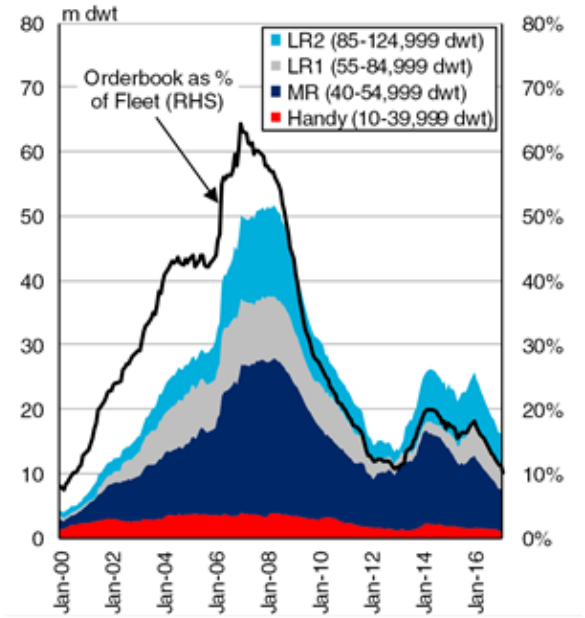
This is a far cry from 2007 when the orderbook was equal to more than 60% of the fleet. In the wake of the global economic crisis, 2009-12 saw subdued product tanker contracting with fewer than 100 orders placed per year. As a result the orderbook fell to 13.5m dwt by late 2012. However, this trough proved to be short-lived as market sentiment turned in 2013 and orders shot up, with 299 product tankers ordered – just 36 shy of the total over the previous four years. Following the oil price drop in 2014, better tanker market conditions supported another surge in orders in 2015 with nearly 200 orders placed. In 2016 however, the tide finally turned and a low of only 20 orders were placed, reflecting the weaker market, previously robust ordering in 2013-15 and limited availability of finance.

The Finer Measurements

Meanwhile, the composition of the product tanker orderbook has changed visibly over the last few years. In 2013, a rise in popularity of MR types (c. 40-54,999 dwt), saw 192 MR orders placed, up 109% y-o-y. By the end of 2013, MRs constituted 66% of the product tanker orderbook in dwt terms. However, MRs have only accounted for 35% of product tanker tonnage ordered since the start of 2014 as emphasis has shifted onto larger ship types. In total, 73 LR1s and 51 LR2s have been ordered since the start of 2014 and by the start of February 2017 MRs only accounted for 39% of the product tanker orderbook in dwt terms.

Graph of the Month

Product Tanker Orderbook: Bulking Up and Shredding Down



The graph shows the product tanker orderbook at the beginning of each month for vessels of 10,000+ dwt, in m. dwt, split by sector (left hand axis). The black line shows the total product tanker orderbook as a percentage of the fleet. At the start of February the total product tanker orderbook also included 4 coated Suezmax vessels of 0.6m dwt.

Source : Clarksons Research

How Do We Grow From Here?

Overall, the heavy newbuilding investment in 2013-15 led to rapid growth in the product tanker fleet of c. 6% in both 2015 and 2016. This year, with the orderbook at the lowest level for a number of years, product tanker deliveries are expected to fall to 7.7m dwt, with fleet growth projected to ease to 4%. However, some segments of the fleet are still expected to grow rapidly, with LR2 fleet expansion projected to exceed 8%. On the basis of vessels already on order, 5.0m dwt of product tankers is expected to be delivered in 2018, taking fleet growth to just 2% next year.

So, the product tanker orderbook has slimmed down to the lowest level for years and is now more evenly balanced between the sectors. Overall, it seems that the product tanker fleet is now entering a phase of more moderate growth.

Source: Clarksons

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(5) Lloyd's List, 27 February 2017

A hidden opportunity to open up maritime trade?

Liberalising cabotage trades could offer hope for carriers

TIMES are difficult times for trade liberalisation. Protectionism has been on the rise since the financial crisis and the new US administration has signalled its willingness to impose import taxes that could spark a global trade conflict.

This does not bode well for the shipping industry. There may, though, be room for improvement in one of the areas that has been remarkably difficult to reform: maritime cabotage.

Cabotage is a technical term that covers coastal goods transport, that is, shipping restricted to a national coastline. In the large majority of countries this market segment of maritime transport is shielded off from international competition via legislation that restricts coastal shipping to vessels that are either nationally owned, flagged, crewed or built – or some combination of these criteria.

The official rationale for such restrictive rules is often national security but it is, in practice, also linked to employment in these shielded sectors. In some countries this has created a whole specialised, protected sector of domestic shipping companies with domestic shipbuilders catering to that market.

There are good reasons to reform maritime cabotage rules. Shielding off sectors from competition is never a good recipe for efficiency. Most coastal shipping services are more expensive than they would be if there was competition. This makes coastal shipping often less attractive as a domestic transport option than trucking, even in countries with very long coastlines and road congestion.

Quicker connections

For container shipping, this could present a great new opportunity. Many global lines have regular weekly calls at different ports in the same country, but cannot use this connection to transport containers between these ports.

Allowing this might bring higher utilisation rates of ships and a more balanced use of existing container terminal capacity, because it would be a way of counterbalancing hub-tendencies. Strict cabotage regimes tend to favour the country's hub port.

Moreover, it is a cost-effective way for governments to stimulate shortsea shipping, because the alternative to liberalising cabotage is public subsidies.

Despite the obvious advantages of liberalising maritime cabotage, it has proven remarkably resistant to reform. Only a handful of countries have opened up domestic shipping to international competition, because politicians fear liberalising maritime cabotage may be politically damaging. Lobbying from shipping companies specialised in cabotage and the trucking sector have upended many an effort to allow more competition in domestic shipping.

One of the complications for any government is the lack of reciprocity: it might open the market to ships from nations that themselves do not open their own.

The past couple of years have seen an increase in trade protectionism and experts fear a period of trade wars. Global trade might be in retreat, giving way instead to more regionalised trade systems. Intra-continental shipping is predicted to grow much faster than flows between continents. Paradoxically enough, it is this situation that might provide momentum for cabotage reforms.

In the middle ground between global trade liberalisation rounds that might be difficult to pull off and national cabotage reforms that might be politically risky, regional measures in regional trade alliances could be feasible.

The competition is likely to be more reciprocal, considering that the different markets will be fairly comparable, so negative local employment effects could be more limited, whereas competition would still bring prices down.

A precedent in this area exists. In 1993, the European Union (EU) liberalised coastal shipping at the European level. The regulation allows all EU shipowners operating ships registered in an EU state and flying the flag of one of these states to provide maritime transport services within the member states. This means that the EU now has a single market for maritime cabotage.

Something similar would be possible at the level of comparable free trade associations, such as the Association of South East Asian Nations and the Pacific Alliance, consisting of Chile, Peru, Colombia and

Mexico. Why not push for discussing the liberalisation of coastal shipping at the level of these associations?

Once more liberal cabotage regimes at a regional level are established, a more global movement of liberalising cabotage might emerge, via negotiation between regional regimes. Would that not be ironic?

Olaf Merk is administrator of the International Transport Forum at the Organisation for Economic Co-operation and Development

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(6) Hellenic Shipping News, 28 February 2017/ European Community Shipowners' Associations

Socio-economic impact of the EU shipping industry remains solid

http://www.hellenicshippingnews.com/wp-content/uploads/2017/02/2017-02-27-Oxford-Economics-Update-2017-FINAL.pdf

The EU shipping industry directly employed 640,000 people and supported a € 57 billion contribution to GDP in 2015. Adding supply chain and worker spending multiplier impacts, the shipping industry's total employment contribution rises to 2.1 million people and its total GDP contribution is estimated to have been € 140 billion in 2015.
These are the key findings of the latest update on the economic value of the EU shipping industry which ECSA commissioned from Oxford Economics. The report further indicates that, at € 89,000 per worker in 2015, productivity in the EU shipping industry remains above the EU average, as well as that of sectors such as manufacturing and healthcare.
ECSA publishes the new figures at the start of European Shipping Week, a week-long series of shipping events meant to raise the profile of the sector with EU policy-makers. "The latest Oxford Economics figures underline that shipping remains a solid contributor to the European agenda of jobs and growth", said ECSA Secretary General Patrick Verhoeven, "Compared to 2013 figures, we see a modest increase in both employment and value-added figures."
The Oxford Economics report finds that around four-fifths of direct employment occurs at sea. Officers account for an estimated 42% of positions at sea, and ratings 58%. 40% of the 516,000 seafarers employed in the EU shipping industry are estimated to be EU/EEA nationals.
"Although it is an estimated figure, the percentage of EU/EEA seafarers appears to remain fairly stable", commented Patrick Verhoeven, "This is a positive sign, given the challenging market circumstances most European shipping companies still operate in."
Source: European Community Shipowners' Associations (ECSA)
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(7) Hellenic Shipping News, 9 March 2013/ AlixPartners

Global container shipping outlook for 2017: rearranging the deck chairs—with only a few seats in the sun

Events like Brexit and the new US administration's policies threaten to add insult to injury as they inject even more uncertainty into the future of global trade. Spreading protectionist stances could reverse the past several decades' steadily easing trade barriers that have supported the growth of containerization since the 1950s.

Yet hope remains for the shipping industry. Rate levels on major East-West trades improved—dramatically in some cases—in the fourth quarter of 2016. At the tail end of peak season, Hanjin Shipping Co. filed for bankruptcy, sending shock waves through spot rate markets and exposing the flaws of the alliance system in the process.1 The bankruptcy helped create a rare seller's market that lasted through the close of 2016.

Carriers managed to sustain those higher rate levels because of an unusually early Chinese New Year, which should buoy financial results for the fourth quarter.

Although carriers will struggle to improve their financial performance this year, they can take clear steps to shore up balance sheets in this difficult environment.

They should remain laser-focused on eliminating costs from their core shipping business. For those involved in the wave of consolidation sweeping the industry—which is just about everyone at this point—it is imperative to consider taking advantage of every opportunity to save costs through effective postmerger integration and seize this unique opportunity to rationalize the global fleet.

FIGURE 1: CARRIER INDUSTRY FINANCIAL RESULTS 2010 TO 2016

Key metrics (in billions)	2010	2011	2012	2013	2014	2015	LTM
Revenue	191.9	204.0	198.6	184.7	183.8	164.0	151.2
Total debt	85.1	98.2	110.6	113.8	99.9	91.4	100.3
EBITDA	30.7	20.7	17.9	17.8	21.1	17.1	9.9
EBIT	19.4	9.5	6.2	6.1	10.2	6.3	-1.3
CAPEX	-18.1	-25.2	-25.4	-21.4	-19.7	-16.0	-12.4
Cash from Ops	21.6	12.1	10.5	14.5	20.4	16.1	9.4
OPEX	162.7	194.6	192.5	178.6	173.6	157.8	152.5

Ratios	2010	2011	2012	2013	2014	2015	LTM
Cash from Ops/CAPEX	1.2	0.5	0.4	0.7	1.0	1.0	0.8
Debt/EBITDA	2.8	4.7	6.2	6.4	4.7	5.4	10.2
OPEX as percentage of revenue	85%	95%	97%	97%	94%	96%	101%
Cash from Ops as percentage of revenue	11%	6%	5%	8%	11%	10%	6%

Source: AlixPartners analysis of publicly available financial reports

FINANCIALS ARE BLEAK

Searching for solutions to its financial woes, the shipping industry continues to seek out ways to drive down costs. Carriers have slimmed down operating expenses (OPEX) and reduced their capital expenditures (CAPEX), especially by delaying megavessel orders. The industry has slashed CAPEX by more than half in the past five years, bringing it down from $25.2 billion in 2011 to $12.4 billion in 2016. But those efforts may not go far enough. Nearly every key financial indicator worsened from the previous year. Operational cash flow as a percentage of revenue slowed to an anemic 6% through the last-12-month period ended September 30, 2016. CAPEX still outstripped those cash flows despite the strides the industry has made.3 Meanwhile, the industry's total debt levels, driven by borrowing from mergers-and- acquisitions (M&A) activity, have edged back up.

What's more, earnings before interest, taxes, and depreciation (EBIT) margins turned negative in Q3 2016 for the first time in our sample period (figure 2). Those losses are not concentrated in just a few carriers. In fact, about half of our study base reported negative margin the last-12-month period (figure 3). The fact that Q3 2016 results were especially discouraging does not bode well for the 2017 calendar year, because the industry usually sees peak volumes during that period.

Those results, however, largely predate the anticipated impact of the Hanjin bankruptcy. Financial indicators had foretold a bankruptcy on the horizon. Now it's finally happened, and it's a big one—in fact, the biggest one since the United States Lines bankruptcy in 1986.

After struggling with mounting debt for some time, Hanjin filed for bankruptcy in South Korea in August and shortly thereafter filed Chapter 15 bankruptcy protection in New Jersey federal court. The South Korea–based shipping company commanded a market share of 2.9% of total container capacity before the filing.4 Its unraveling will likely have profound impacts on the market this year. In fact, spot rates for the eastbound transpacific trade lane, a focus of Hanjin's network, have nearly doubled since the carrier declared bankruptcy (figure 4). This is welcome news for an ailing industry whose operators have been regularly undercutting each other on price for years. The impact on the Asia-Europe trade lane has been less noticable, but carriers have been able to keep rate levels moving slightly higher nonetheless.

As a whole, the industry's average Altman Z-score has fallen back to a feeble 0.9, the lowest level to date (figure 5). The Z-score—a formula for predicting the likelihood of bankruptcy based on a number of

metrics from a company's public statements—of less than
1.81 suggests financial distress. For further context, we have not seen a score higher than 2.99, which is considered in the safe zone, since 2007.
Note: Spot rates on the Eastbound Transpacific trade lane have nearly doubled since Hanjin filed Source: Shanghai Container Freight Index future. But the industry can avoid another unraveling if carriers improve their financial results by maintaining higher rate levels and reducing costs throughout 2017.

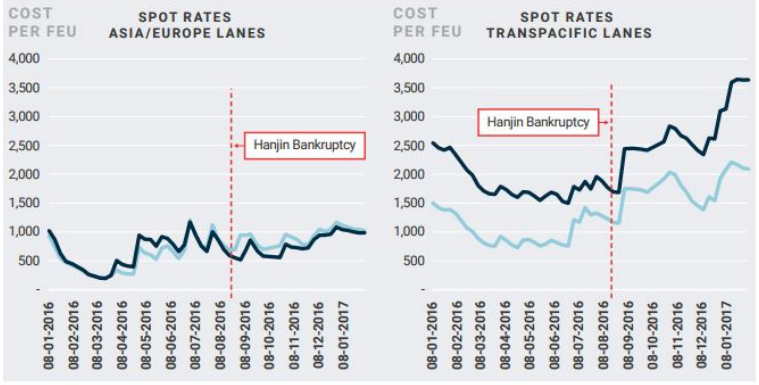
FIGURE 2: Q3 2016 – Revenue versus EBIT percentage

Source: AlixPartners analysis of publicly available financial reports

FIGURE 3: EBITDA margin versus carriers with negative margin

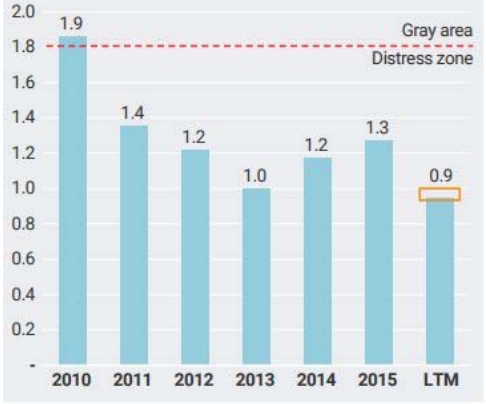
Source: AlixPartners analysis of publicly available financial reports

FIGURE 4: Hanjin bankruptcy pushed spot rates up on major East/West trades and carriers have built on subsequent gains



Note: Spot rates on the Eastbound Transpacific trade lane have nearly doubled since Hanjin filed
Source: Shanghai Container Freight Index

FIGURE 5: Industry average Altman Z-Score 2010 to 2016

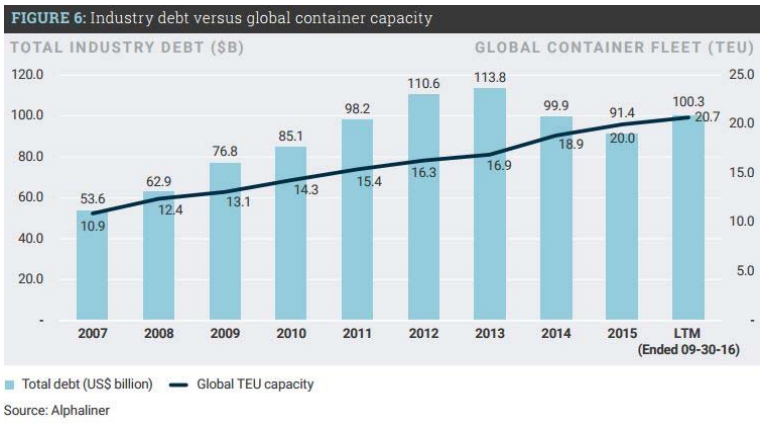


Source: AlixPartners analysis of publicly available financial reports

CONSOLIDATION SHOULD CONTINUE APACE

The global container shipping market will likely see overcapacity as a persistent problem for the foreseeable future. Industry consolidation is only a piece of the solution, but it is a critical piece that had largely been ignored for the last decade.
Even when Hanjin—which had a negative Z-score in the last-12-month period—is removed from the sample set, the industry average edges up to only 1.0. That may signal that another bankruptcy is likely in the near future.
Fortunately, the pace of M&A activity accelerated through the end of 2016. In late October, the three largest Japanese lines—Nippon Yusen Kabushiki Kaisha (NYK), Mitsui O.S.K. Lines (MOL), and Kawasaki Kisen Kaisha ("K" Line)—announced their plans to merge in 2017.5 A few weeks later, the European Commission approved the Hapag-Lloyd-UASC merger,6 followed by Maersk's announcement in early December that it was buying German shipping line Hamburg Süd.7 Carriers that have not been involved in a merger or acquisition are persistently rumored to be the next to do a deal. Consolidation will

likely continue as the smaller carriers that lack scale to compete with the larger players struggle on their paths forward.
The recent uptick in M&A has further complicated operational alliance partnerships, which were already dynamic and recently suffering from a crisis of confidence caused by the wake of the Hanjin bankruptcy. Last year there were four major alliances, and spring 2017 there will be three. 2M, Ocean Alliance, and THE Alliance will comprise 11 shipping operators and manage more than 70%8 of the container capacity on the Asia-to-Europe and transpacific routes in 2017.9
These shifting alliances, coupled with the wave of M&A activity, have infused more complexity and more confusion into an already turbulent market. The outlook may grow increasingly foggy for shippers and ports if any carrier in those alliances decides to merge with a partner outside its current alliance. Increasing consolidation in the market may limit shippers' choices, but it could also widen their reach as more carriers become truly global in scale.
As the reshuffling continues, shippers should carefully reexamine their procurement strategies to ensure supplier diversity. They should make sure they're using multiple alliances and studying carriers' financials as a way to protect themselves from the disruption that a potential bankruptcy could cause. Executive management teams should be aware of the dynamic state of the market, because they may want to begin positioning their budgets to prepare for an era of increasing rate levels.



THE 2017 PLAYBOOK FOR CARRIERS : FOCUS ON FUNDAMENTALS

Carriers that have weathered the storm have a difficult task in front of them, but the playbook remains clearly defined: focus on customer and route profitability, reduce operating costs, and rationalize the fleet. All of these actions could help support higher rate levels in 2017 and beyond. This may sound familiar to many as the story has not changed for several years but carriers continue to lag behind the curve; specifically in terms of digitization.

Focus on customer and lane profitability

Carriers should make smart and disciplined commercial decisions around customer and lane profitability. Historically, reliable year-over-year growth resulted in a market-share-driven commercial mind- set. But growth became harder to achieve in the wake of the 2008 financial crisis, and carriers were slow to adapt. They often made poor decisions around customer segment targeting and pricing.
In today's uncertain environment, carriers have to fully understand every building block of their business. That means knowing the profitability from every customer, trade lane, and shipment. Carriers should determine the right customer profile based on volume, network, industry segment, and other important characteristics. They also have to have an understanding of the profitability of certain customers on certain trade lanes. Tying together a clear picture of costs and revenue will be a difficult but not impossible task. In fact, diving into the fundamentals and breaking down sprawling operations into smaller and more manageable blocks may make the task less daunting.
Digitization offers a possible solution. Many carriers struggle to understand real costs because they operate on fragmented, often antiquated information technology systems that are difficult to integrate. Those outdated systems cannot accurately track real route costs, which can vary tremendously depending on market-specific operating costs. Yet the past several years have seen major advances in the tools and techniques required to capture, store, and manipulate large data sets. Building a

sophisticated and centralized digital system that can pull data together and then track profitability in real time can help the executive management team make intelligent and informed decisions. Fortunately, this is not as expensive or time-consuming as it used to be.

Take full advantage of the postmerger integration process

With industry consolidation in full swing, it's critical that carriers take full advantage of postmerger integration opportunities. Carriers must avoid the pitfalls that have plagued past integrations and make sure that value doesn't get eroded in the process. They should retain all of the possible cost benefits of consolidation—and they should do it swiftly.

Carriers must quickly rightsize their organizations and root out inefficiencies. Merger partners with global footprints will likely have significant overlap. They might discover overlap in their back-office functions, operations centers, agency networks, terminals, inland networks, and other noncore assets around the world. Carriers should take a hard look at those duplicative assets and decide which to shed and which to keep. Plus, it's also critical that the newly combined portfolio drive out cost and enhance service levels for customers. For example, the merger between NYK, MOL, and "K" Line will leave the new company with ownership stakes in three southern California terminals and vessel calls at seven others. If the company leaders want to reduce costs and improve customer service at this critical gateway, they should correct the fragmentation as soon as possible.

As the number of carriers drops, future entities will bring together legacy carriers with potentially clashing identities, local business rivalries, and conflicting practices. The executive management team has to make sure everyone across the new company shares the same values and goals, because the new company cannot afford productivity losses stemming from internal culture clashes. The team should perform a formal diagnosis on what the differences are, and where in the new organization they might be most pronounced. The good news is such a diagnosis can be performed relatively quickly. Arming executives with insights on similarities and differences can be invaluable to heading off culture problems during the integration process.

Rationalize the global fleet

The global industry fleet size continues to grow, but at a more muted pace. Vessel ordering programs have been slowed or stopped altogether in some cases.

Global capacity—measured in twenty-foot equivalent units (TEU)—grew from 20.0 million TEUs in 2015 to 20.7 TEUs in the last-12-month period (figure 6). Carriers should continue their efforts to trim future vessel orders to be more in line with demand forecasts.

Carriers with stronger balance sheets may be able to take advantage of a growing alternative to ordering brand-new vessels. They could pick up vessels that become available from distressed competitors and financial owners. Buying distressed assets can help carriers lower the average capital costs of their fleets and help them operate at lower costs, thereby making carriers more competitive—as long as they can fill their vessels. Being opportunistic here can pay off.

Meanwhile, vessel scrapping appears to be on the rise. According to the latest report from ship broker Braemar ACM, 35 container vessels, equating to 119,500 TEUs, were scrapped in January 2017.

There were just nine, accounting for 27,000 TEUs, by the same time in 2016. Yet those figures are not as aggressive as they look. Carriers appear to be scrapping primarily smaller vessel classes and older ships with little utility—or, put a different way, ships they have little reason not to scrap. Panamax ships, for example, account for a majority of vessels to be scrapped, totaling 16 units of 4,000 to 5,000 TEUs.10 Carriers have been reluctant to scrap larger and, typically, newer vessels that drive overcapacity—and lower rate levels—on major East-West lanes.

THE BOTTOM LINE

Carriers have to make some hard decisions in 2017. They've already taken steps to relieve their financial woes, including slashing CAPEX and OPEX and stepping up scrapping. They should continue to drive down costs through effective post-merger integration and fleet rationalization activities that can bring supply and demand back into balance.

Fortunately, spot rates have improved in the wake of the Hanjin bankruptcy, which carriers must maintain at the very least. The carrier community's ability to drive rate levels higher into the transpacific contract negotiations will likely decide whether 2017 will be the turning point the industry desperately needs—or just another bad year in a growing string of losses

Source: AlixPartners

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(8) International Maritime Organization, 1 March 2017

Bangladesh ready for next phase to make ship recycling green and sustainable

IMO, the Government of the People's Republic of Bangladesh and the Secretariat of the Basel, Rotterdam and Stockholm Conventions (BRS) have jointly implemented the 30-month "Safe and Environmentally Sound Ship Recycling in Bangladesh – Phase I" (SENSREC project).

The Government of Bangladesh is actively seeking international partnerships and financial support to help make the country's ship-recycling facilities greener and more sustainable, following the successful completion of the first phase of a project aimed at improving safety and environmental standards within the country's ship-recycling industry.

The International Maritime Organization (IMO), the Government of the People's Republic of Bangladesh and the Secretariat of the Basel, Rotterdam and Stockholm Conventions (BRS) have jointly implemented the 30-month "Safe and Environmentally Sound Ship Recycling in Bangladesh – Phase I" (SENSREC project).

At a high-level closure meeting in Dhaka, Bangladesh (22 February), which followed site visits to ship-recycling yards, stakeholders highlighted the successful completion of the five work packages under the SENSREC project. See Photos

These included economic and environmental studies on the ship-recycling industry in Bangladesh; studies on managing hazardous materials; refining the Government One-Stop Service (in which all the various ministries with a responsibility for ship recycling offer a single point of contact for related matters); developing training materials; and preparing a document for a follow-up Phase 2 to implement the recommendations of the first phase.

The second phase of the project is expected to focus on constructing a dedicated waste-management facility for treating, storing and disposing of the hazardous waste (TSDF), as well as rolling out a comprehensive training programme aimed at workers in ship recycling yards, supervisors and government officials.

The main funding for the project came from the Norwegian Agency for Development Cooperation (Norad). The European Union (EU) also supported the project with additional funding channelled through the Secretariat of the Basel, Rotterdam and Stockholm Conventions (BRS).

Speaking at the Dhaka meeting, Her Excellency Ms Sidsel Bleken, Ambassador of Norway to Bangladesh, highlighted the significant progress made.

"The SENSREC Project has achieved significant progress in terms of developing health, safety and environmental standards and appropriate training programmes that should stimulate a sustainable ship recycling business in Bangladesh. Now, it is important to apply these measures, particularly the workers' training programme," she said.

"Following the positive momentum created by phase I of the project, and based on the requests from industry stakeholders, the Norwegian Embassy has decided to continue its support to the ship-recycling sector in Bangladesh. The purpose is to scale-up the capacity enhancement to its next level and support implementation measures relating to environment, health and safety standards, by institutionalising the workers' training programme in practice," she said.

The opening session of the high-level meeting was also addressed by Mr Amir Hossain Amu, Honourable Minister of Industries of the Government of Bangladesh; Ms. Parag, Additional Secretary, Ministry of Industries, Government of Bangladesh; Ms Yasmin Sultana, National Project Director; and Dr. Stefan Micallef, Director, Marine Environment Division, IMO.

"The completion of phase I of the project is not merely the end of the initiative to improve the country's ship recycling practice but rather a stepping stone or a very good starting point towards further development. IMO will continue to cooperate with the Government of Bangladesh and, as far as possible, support its efforts with regard to training for ship recycling," Dr. Micallef said.

With an annual gross tonnage capacity of more than 8.8 million, the Bangladeshi ship recycling industry is one of the world's most important, second only to neighbouring India in terms of volume.

The successful completion of the SENSREC Phase-I Project is expected to assist Bangladesh in working towards accession to IMO's Hong Kong Convention for the Safe and Environmentally Sound Recycling of Ships and towards meeting the international standards stipulated by the Convention.
The Project was coordinated by a dedicated Project Coordination Unit established by IMO, including a project office and project officer based in Dhaka. A number of international and national consultants were used to deliver the technical activities within the project.
Source: IMO
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