Global Maritime Weekly Digest

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*The **Global Maritime Weekly Digest**, based at **Southampton SOLENT University**, provides a regular flow of maritime news and analysis, of significance in a global context.*
Topics covered include shipping fleets and management, seaborne trade, ports, shipbuilding, ship recycling, maritime policy and regulations, and seafarers' labour.

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Editorial comments

- Many shipowners, historically, have benefited from ***asset play in the shipping markets***, deriving large profits from buying a ship at a low price and selling at a much higher price. Is this strategy still workable? Recent signs suggest that opportunities continue to be available (item 1).
- The topic of ***maritime security*** has not featured as prominently in news reports since sea piracy off the Horn of Africa was brought under control. But substantial threats remain in a number of areas around the world (item 3).
- An international conference to discuss ***China's Belt and Road Initiative*** was held in Beijing this past weekend. A useful overview is provided in item 4. Land routes and infrastructure building are a central focus, although ports on the Maritime Silk Road are also featured.
- The crucial role of ***ship scrapping*** in assisting a fleet to grow at a limited pace is highlighted again in item 7. Correction of overcapacity which has unfolded in the global tanker market is likely to be greatly dependent on the volume of tonnage sold to recycling yards.
- Elimination of ships' ***heavy bunker fuel*** may be an extended process, even after new regulations prohibit its use two and a half years ahead, according to some signs (item 5). Availability of compliant lower sulphur fuel may be tight, and the cost of equipment to remove sulphur may be prohibitive in many cases, possibly leading to some rule infringement.

Richard Scott MA MCIT FICS
editor (email: bulkshipan@aol.com)
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(1) Clarksons Research, 21 April 2017

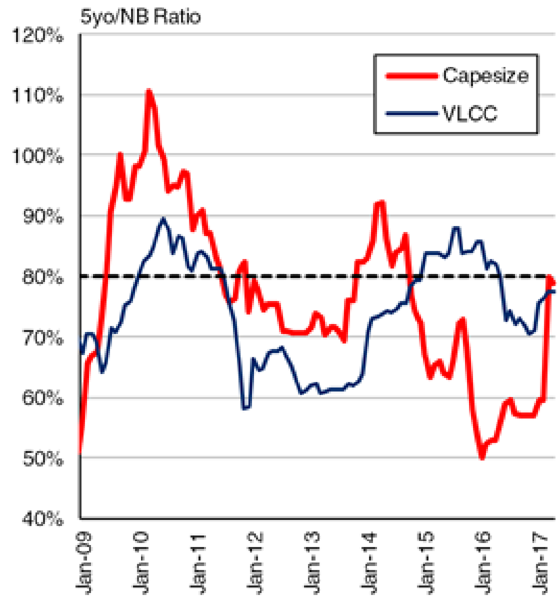
Shipping Still Hooked On Classics?

The shipping industry has long provided investors with opportunities for asset play, reflecting the volatility in prices and relative shifts in the value of certain classes or ages of ships. Recent months have been no exception, with changes in tempo clearly evident in some shipping sectors. What can conducting a quick survey of the classic asset market indicators tell us today?

Graph of the Week

Price Ratios: A Moving Composition?

The graph shows the ratio between the 5 year old secondhand price and the newbuilding price for a Capesize bulkcarrier and VLCC tanker on a monthly basis. The dotted line at 80% shows the typical ratio of the 5 year old price to the newbuilding price based on a 25 year lifespan and depreciating on an even basis.



Source : Clarksons Research

Classical Repertoire

One classic indicator (see SIW 1175) of the state of the asset market in any particular sector is the ratio of the 5 year old price to the newbuild price of a similar ship. On the basis of a 25 year lifespan, a 5 year old vessel depreciating evenly would be worth around 80% of the newbuild price. The level of this ratio can demonstrate how keen investors are to purchase assets on the water today.

Change Of Tempo

The graph shows the 5 year old to newbuild price ratio for a Capesize and a VLCC. The ratio is clearly volatile, and recent trends in the Capesize sector are illustrative of how conditions in shipping asset markets can change rapidly. Since the start of 2009, the Capesize ratio has fluctuated within a wide range from 50% (reached in early 2009 and again in early 2016) to 110% (although this was still well below the peak of 160% in mid-2008 at the height of the boom). The ratio has also moved significantly even in the last few weeks, as Capesize secondhand prices have risen robustly. At the end of February 2017, the 5 year old Capesize price stood at $25m, 60% of the newbuild price. By the end of March, the 5 year old price had risen to $33.5m, 80% of the newbuild price and the highest ratio since autumn 2014, indicating the improved appetite for tonnage in the bulker market.

New World Or Old Classics?

While these trends in asset price ratios can indicate the market's view on the relative value of newbuild and secondhand tonnage, changes in the ratio can sometimes subsequently impact on decision making by investors. When the ratio falls to low levels (the Capesize ratio remained below 70% from Jan-15 to Feb-17), secondhand purchases can often appear more attractive than newbuildings, whilst higher ratios can sometimes eventually stimulate newbuild interest.

Orchestrating Opportunities
Even more starkly, the volatility in price ratios reinforces the opportunities for asset play in the shipping markets. To take an example, a 5 year old Capesize vessel one year ago could have been picked up for about $23.75m. Trading the vessel on a 1-year timecharter (around $8,000/day at the time) and selling the unit as a 6 year old, for say $31.5m, would have generated a return of almost $8m after OPEX (34% of the original outlay).
Still Making Overtures?
So, even after a prolonged downturn, the classic indicators show a shipping market still volatile and open for asset play. Recent shifts, especially in the bulker sector, offer an excellent example. Whilst the outcome is always highly difficult to predict, there still appear to be opportunities for those willing to take a chance, hoping to hit the right note. Have a nice day!
Source: Clarksons
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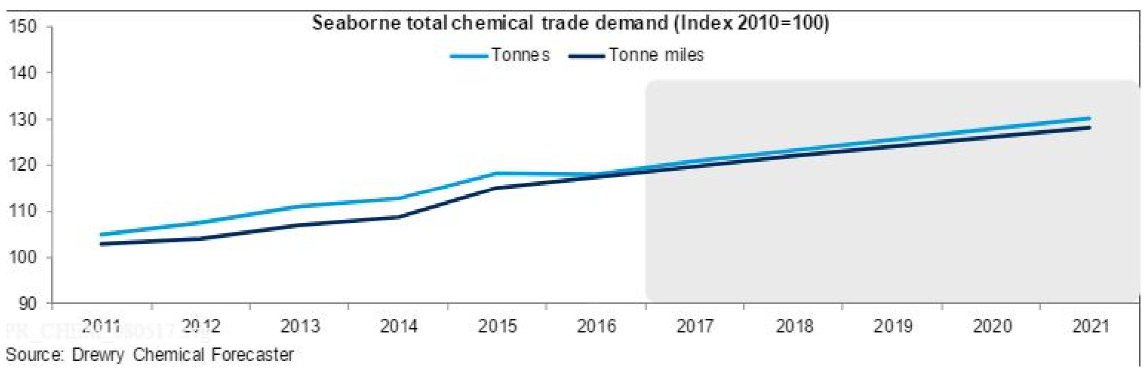
(2) Hellenic Shipping News, 9 May 2017/ Drewry

Growth in chemical tanker fleet trading in chemicals and vegoils to outpace CPP fleet

Demand for methanol and vegoil will moderately support global seaborne trade causing the shipping fleet trading in chemicals and vegoils to expand, according to the latest edition of the Chemical Forecaster, published by global shipping consultancy Drewry.

The orderbook contains 144 stainless steel vessels totalling 3.4 mdwt for delivery by 2020, almost 22% of the existing capacity for such vessels; 63 of these vessels are in the size range of 25,000-40,000 dwt, while in the existing fully stainless steel fleet, there are 143 vessels in the size of 25,000-40,000 dwt category. These large vessels are meant to be employed in the pure chemical trade.



The chemical tanker fleet grew by 1.3% in the first quarter of 2017 with the addition of 36 vessels (50 new deliveries and 14 removals). The fleet that trades in chemicals and vegoils expanded by 26 vessels and in clean petroleum products (CPP) by 10. This is a definite role reversal from the first quarter of 2016 when 9 vessels were added for chemicals and vegoils and 19 for CPP trade, indicating the current mood of the market. The chemical fleet also saw a higher number of vessels trading in chemicals and vegoils for the first time since 2012. It is also worth noting that almost all the ships trading in the CPP market have the ability to switch to vegoils; as a result these vessels are expected to carry chemicals and vegoils whenever they can earn higher profits.

Nonetheless, there are still far too many operators at the moment – sometimes competing in the same trade lanes, which does not help the market to consolidate any time soon. Of the big operators, Odfjell has 10 stainless steel tankers on order averaging 45,000 dwt in addition to the 40 vessels of above 19,000 dwt in its current fleet, a move to position them better when the market shrinks further. All major players are looking to place themselves in geographically advantageous positions to reduce the turnaround time and thus limit the operating costs, which will only make it harder for the smaller players to compete.

“Future deliveries will mainly be for the chemical and vegoil carriers as the clean petroleum products (CPP) fleet is currently oversupplied. Thus with current vessels on order, deliveries for both segments will increase by around 1.7% by end-2017,” said Hu Qing, Drewry’s lead analyst for chemical shipping. “By 2018 the chemical and vegoil carrying fleet will outpace its CPP counterpart in terms of growth. In this current scenario major players can only revive the market through consolidation, while the smaller players will find it hard to survive,” added Qing.
Source: Drewry
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(3) Hellenic Shipping News, 9 May 2017/ MAST

Rising security threats pose real danger to maritime industry, warns MAST

Conflicts and tensions in the South China Sea and sub-Saharan Africa pose a real threat to the maritime environment and some of the world’s most important shipping lanes, with 48 criminal incidents recorded in the first quarter of 2017, maritime risk management company MAST has warned.

According to MAST’s Risk Map that logs international maritime incidents in real time, the instability of Somalia and Yemen in the western Indian Ocean and the west coast of Africa are intrinsically linked to rising piracy and criminal activity at sea, with 22 reported attacks in the first quarter of this year.
Despite substantial suppression of piracy in the Indian Ocean region, which at its peak in 2008 cost the global economy around $6bn, the rising numbers make the area a potentially dangerous route for commercial vessels and trade into Europe again.

Poverty and famine, combined with a lack of opportunity, are major drivers for piracy in the region. The international community must therefore work together to support those many people in desperate need of help, MAST warns.

International tension around China’s approach to the Spratly Islands and South China Sea should also cause concern within the shipping community, given their location, China’s aggressive defence of them and President Trump’s decision to pull the US out of the Trans-Pacific Partnership (TPP). MAST reported a total of 17 maritime crime incidents across Indonesia, the Philippines and Malaysia. Commercial vessels may already be re-routing around these islands and any escalation of tensions in the area could cause increased disruption to trade in the Far East.

Of the 48 incidents in the first three months of this year, 36 involved a ship being boarded by unknown assailants resulting in a robbery, and some cases leading to the ship being hijacked. Reports of criminal activity were also reported in South America (5) and South Asia (4).

Gerry Northwood OBE, COO of MAST and former Royal Navy counter-piracy commander, said: “It is clear is that the maritime environment is linked to global events and not immune to crime and terrorism in their many forms, and that countries overwhelmed by political instability and conflict pose a threat to the shipping routes that they border or have influence over.

“Despite the hard work undertaken by international navies and organisations to tackle piracy at its peak some years ago, recent events have shown the scales are tipping back in the favour of those who would commit or support acts of piracy. The levels of maritime crime recorded in just the first three months of this year show that now is not the time to relax security measures. While some areas may not see an immediate existential threat of piracy or only have a low number of attacks or suspicious activity, the danger and severity of each case is not lessened.

"World shipping depends on the freedom of movement through these areas and so the time is now right for global security standards to be properly enforced and made fit for purpose. The success of Best Management Practice and other measures in the fight against maritime crime in the Indian Ocean has shown that such a goal is now achievable, but it will take input and agreement from many different stakeholders to make the High Seas a safer place to live and work."
Source: MAST
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(4) Hellenic Shipping News, 9 May 2017/ South China Morning Post

All you need to know about China's 'Belt and Road Initiative': what is it, who's paying, who'll benefit and who might lose out

China's much-discussed "Belt and Road Initiative" will shape the global economic market and geopolitical landscape for years to come. Ahead of a summit devoted to the plan, scheduled to take place on May 14-15 in Beijing, we take a look at its significance.

What is it?

Previously known as "One Belt, One Road", the initiative is being spearheaded by the Chinese government to improve trade and economic integration across Asia, Europe, and Africa. The strategy uses free-trade agreements and infrastructure projects – including roads, ports and railways – to create a modern Silk Road spanning some 65 countries, which have a combined gross domestic product (GDP) of US$21 trillion. It includes both an economic land "belt" through Eurasia, and a maritime "road" to connect coastal Chinese cities to Africa and the Mediterranean.

When and why did China create this initiative?

Chinese President Xi Jinping endorsed the scheme in late 2013, with a stated goal of increasing global economic cooperation. In additional to stimulating China's own economy, the plan is aimed at bolstering its economic relationships and influence, while providing more political capital at home and abroad.
Many observers have said the initiative could help establish China as a regional power – despite Xi's insistence the country will not interfere in other nation's affairs or seek hegemony – on a scale that supersedes the Marshall Plan that the United States launched to help rebuild Europe after the second world war. It also has significant implications for China's ability to achieve energy security.

How will the plan be financed?

China established the US$40 billion Silk Road Fund in early 2014 to fund the scheme's infrastructure projects, including the creation of six economic corridors by building roads, railways, pipelines and highways. Additional financing will come from the Asian Infrastructure Investment Bank (AIIB), the China-backed global bank launched in October 2014 and the New Development Bank (NDB), a Shanghai-based bank for the BRICS (Brazil, Russia, India, China, South Africa) countries.

What is happening at the summit?

In what is expected to be China's biggest diplomatic event of the year, state leaders will meet in Beijing to discuss the initiative over two days. In January, Xi said the summit was a chance to brainstorm on ways to address regional and global economic problems, and ensure the initiative delivered benefits to all countries involved. Top leaders from at least 28 countries have confirmed their attendance at the summit, including major southeast Asian leaders, as well as Russian President Vladimir Putin.
But only one G7 leader is expected to show – Italian Prime Minister Paolo Gentiloni. When Chinese Foreign Minister Wang Yi announced the summit's guest list in April, he did not mention officials from South Korea, North Korea, or Japan – which have strained ties with China.

What does the scheme mean for the United States and its allies?

While China bills the "Belt and Road Initiative" as a move toward global economic cooperation, its expansive reach has set off alarm bells for the United States, which has been wary of China's growing influence. The strategy not only kicks China's economic standing up a notch, it also challenges trade agreements that have excluded China, such as the Trans-Pacific Partnership, which US President Donald Trump nixed. Neither the United States nor its primary Asian ally, Japan, are part of the China-led AIIB, and neither of their heads of state will be at the upcoming summit.

How is China's new Silk Road perceived in Europe and Russia?

Many European countries have openly welcomed China's initiative, hoping it will attract more Chinese investment and development, but others remain hesitant about Beijing's growing influence and motivations on the continent. Nations in Europe such as Britain have signalled a willingness to partake in China-led institutions such as the AIIB, despite its exclusion of their ally, the United States.

But in the wake of post-Brexit Europe, it is difficult to say how perceptions towards the belt and road plan will be shaped. Meanwhile, for Russia, the Silk Road scheme is poised to benefit Sino-Russian relations, as it brings the two countries closer together through joint investments and projects. Much of the scheme also relies on Russian cooperation and involvement, given its strong historical influence in Central Asia, and has been perceived to be economically symbiotic.

Source: South China Morning Post

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(5) Hellenic Shipping News, 11 May 2017/ Bloomberg

World's Dirtiest Fuel Seen Holding Out Even as Ships Clean Up

Even as the owners of ships carrying everything from bananas to oil spend billions of dollars to meet tighter clean-air rules, demand to buy the dirtiest fuel will still hold out in some parts of the world.

In two and a half years, the International Maritime Organization will slash by 86 percent the amount of sulfur allowed in the fuel burned by the world's cargo ships and oil tankers as they sail around the globe. Meeting the new standards will cost the world shipping industry $60 billion a year, according to consultant Wood Mackenzie Ltd.

The IMO's new standards that require ships to use fuel with 0.5 percent sulfur or less — versus the current 3.5 percent — as of Jan. 1, 2020 should reduce heavy fuel demand by 2.3 million barrels a day, according to industry consultant FGE. Changing fuels completely across the world will be difficult, as refiners will need to build units such as cokers. More than two-thirds of residual fuel use is in developing countries, according to International Energy Agency data.

"This assumption of residual fuel all of a sudden disappearing is highly unlikely," said Mikhail Shapiro, a marine fuels marketing manager for Glencore Plc. "The majority of the residual fuel, and where the cokers need to go, is held in places and in countries that simply don't have the financial investment to do this."

Today, ships burn bottom-of-the-barrel bunker fuel — what remains after every bit of more valuable gasoline, diesel and jet fuel has been squeezed out of crude. The upcoming regulations leave shipowners with two main options: switch to more-expensive diesel fuel or install a scrubber on the ship to clean up emissions.

The price difference between diesel and bunker fuel will probably increase, Shapiro said at a conference in Stamford, Connecticut. "Take a look at scrubbers, because the gasoil/fuel oil spread will increase by default and you will have a lot of fuel oil displaced."

Scrubbers cost about $10 million for large container ships and $5 million for medium ships, according to Adrian Tolson, a consultant at 20/20 Marine Energy. The "payoff is quick" after making profits from the wider spread between fuel grades, he said.

Some owners could struggle to find financing for scrubbers, Paul Nix, general manager of terminal operations at Gulf Petrochem Pte. Ltd., said from Fujairah in the United Arab Emirates. "The shipping industry is not in very good shape at the moment, and to get credit from the banks to install scrubbers will not happen in a large scale," he said.

Third Option

There's a third option for shipowners: ignore the new rules and hope they don't get caught. While that's the least expensive, the legal and reputation risks will likely keep most shippers toeing the line, according to JBC Energy GmbH.

“The big ship owners, they can’t afford to be non-compliant,” said Alex Poegl, an analyst with JBC in Vienna. “There are smaller players who could benefit from that on a cost basis.”
Since nobody has jurisdiction over the high seas, each country’s local port controllers, such as the Coast Guard in the U.S., would enforce the IMO’s rules.
“Flag states have to issue ships with appropriate certification that they comply,” said Lee Adamson, the IMO’s head of public information in London. “Without that certification, other signatory states and other port states aren’t going to want those ships in.”
Small Penalties
The penalties for noncompliance are small, compared to millions of dollars for scrubbers and cleaner fuel. The biggest civil fine the U.S. Coast Guard can impose is $71,264, although willful violations could be referred to the Justice Department for criminal prosecution.
The light fines may tempt some owners to ignore the regulations, said Antoine Halff, a senior research scholar at Columbia University’s Center on Global Energy Policy.
“Non-compliance may be the No. 1 response to the new standards,” said Halff. “In terms of financial penalty or any other penalty it’s not effective. You make money by being non-compliant even if you get caught.”
In February, Columbia hosted the heavy hitters of the shipping industry at a closed-door meeting in London to talk about the future of their fuel consumption. The shipowners were comfortable to talk freely about their plans to blow off the IMO’s restrictions, according to Halff.
“Ship owners seem very brave right now, but when faced with European or U.S. port authorities I am not sure they will be as bold,” 20/20 Marine Energy’s Tolson said. “Right now I think they are trying to get a reaction until compliance gets sorted out.”
Source: Bloomberg
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(6) Lloyd’s List, 27 April 2017

China to have greater impact on shipping than Brexit and Trump

One Belt, One Road initiative will be key driver of global trade, says Clarksons Research

DESPITE concerns over Brexit and US president Donald Trump's policies, Chinese president Xi Jinping's ambitious One Belt, One Road infrastructure initiative will likely overshadow both factors in terms of impact on global trade and subsequently the shipping industry, said Clarksons Research managing director Steve Gordon at the Singapore Marine Insurance Conference 2017 held during Singapore Maritime Week.

He noted that UK only took up about 1% of global shipping, while the US held a 6% stake.

Hence, "trade will be impacted by the Chinese economy and policy."

Mr Gordon said that funds totalling $160bn have been established so far and total investment in projects related to the initiative could reach as much as $4trn-$8trn, "if all possible projects go ahead."

There are currently around 900 OBOR-related projects either being negotiated or already in progress.

"OBOR may boost Chinese imports of machinery and high-tech manufactured goods, supporting multipurpose shipping and heavy lift sectors," he said.

Infrastructure investments to create the needed logistics networks in 60 countries across Eurasia, the Middle East and Africa, "may boost demand for raw materials, supporting dry bulk imports."

Mr Gorden noted that port development initiatives in China as well as in nations along the Maritime Silk Road will inevitably boost containerised trade and broaden the container network.

Additionally, "the promotion of tourism along the [Maritime Silk Road]...may support additional cruise demand in Asia."

As such, the world-spanning infrastructure initiative will potentially have a substantial impact for the shipping industry, he said.

This is in line with Clarksons Research's view that Asia and the developing world have been and will continue to drive seaborne demand.

According to its estimates, the Asia region had a 57% stake in seaborne imports over 2016, while Europe, North America and other regions comprised the rest.

From a historical perspective, Asia and other regions saw global seaborne imports grow from about 3.5bn tonnes in 2001 to over 8bn tonnes by end-2016.

East Asia and Southeast Asia also comprised 45% of global fleet deployment by gross tonnage or 452.4m gt, according to the research house.

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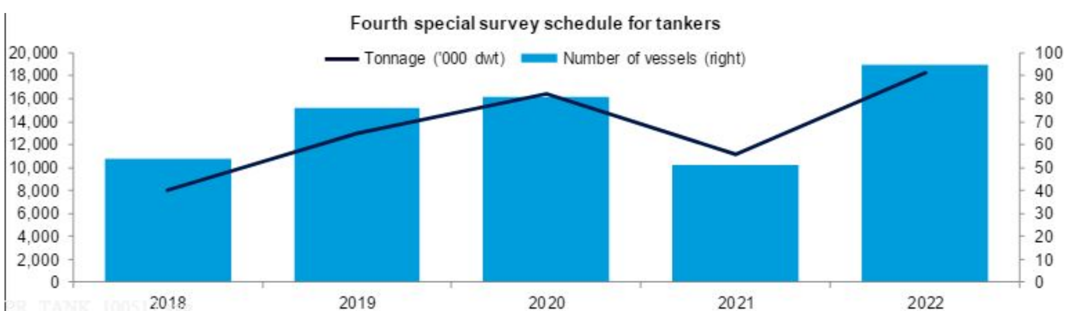
(7) Hellenic Shipping News, 11 May 2017/ Drewry

Scrapping to determine the pace of recovery for tanker shipping market

Recovery in the crude tanker shipping market is not expected until 2020 as weak trade growth and a bloated orderbook limit any rate recovery. But the timing of any market upturn will be heavily influenced by the level of scrapping, according to the latest edition of the Tanker Forecaster, published by global shipping consultancy Drewry.

The ongoing overcapacity in the tanker market is expected to persist further in 2017 because of a sharp increase in deliveries. Although tonnage deliveries are projected to decline after 2017, given a weak demand outlook hope of recovery will hinge on the extent of scrapping activity, which will be influenced by forthcoming IMO regulations on ballast water treatment.



Source: Drewry Tanker Forecaster

Scrapping activity has not increased so far, but Drewry expects it to gather momentum towards the end of 2017, once the new ballast water convention is implemented. Since some owners might bring special surveys forward, the real impact of this IMO regulation will not be seen until 2018. In the existing fleet, there are about 20 mdwt of vessel capacity aged 19 years or more, for which the fifth special survey is due during 2017-22. Drewry assumes that all of these vessels will be scrapped during 2017-22, as unattractive freight rates, poor employability and the additional cost associated with complying with the forthcoming IMO regulations will force owners to scrap them.

Additionally, there are about 367 vessels (of 67 mdwt), for which the fourth special survey is due during 2017-22. As these vessels are currently in the age range of 14-19 years, owners will have to decide whether to scrap them before they are due for their next survey as the owners will have to incur the additional cost of fitting ballast water treatment systems (BWTS) as well as scrubbers required to comply with IMO regulations on sulphur limits.

If we assume that about a third of these vessels are demolished during the forecast period 2017-22, the recovery in tanker freight rates will not start until after 2019. However, the extent of actual demolitions will be a crucial factor for deciding how quickly the market recovers.

“We expect the market to start a gradual recovery from 2020. For any recovery before 2020, demolitions need to be strong enough to keep fleet growth slower than demand growth,” said Rajesh Verma, Drewry’s lead analyst for tanker shipping.
Source: Drewry
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