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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

- Large changes in the global provision of **shipping finance** are taking place and, according to a new independent survey of this sector, the adjustment process is likely to continue (item1).
- Traditional bank financing has become less widely available. Many banks, especially in some European countries are in retreat, with a **marked decline in participation by banks** in Germany, UK, Ireland and Greece. Other lenders and investors are stepping into this gap. Asian finance is becoming more prominent, particularly from ship leasing companies in China.
- Recent news highlighted progress in building **China's 'One Belt, One Road'** mega-project. The 21st Century Maritime Silk Road (MSR) is one of the two principal elements (item 5).
- Notable **enthusiasm for the MSR** has been most evident in Southeast Asia, where a number of substantial port developments within the scheme are under way or planned. At the other end of the route, huge additional investment in the port of Piraeus, Greece has just been agreed.
- The global **shipbuilding industry** has endured tough conditions in the past few years. Numerous shipbuilders failed to survive. Figures compiled by Clarksons Research show that only about one third of shipyards taking an order nine years ago were able to obtain a newbuilding contact last year (item 2).

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(1) Hellenic Shipping News, 18 July 2016

Global ship lending steady at $398 billion, despite world's fleet growth says Petrofin Research

Global ship financing from the banking sector has remained steady over the course of the past 12 months, amounting close to $400 billion, almost identical to last year's, said Petrofin Research in its latest survey. It's worth noting though, that during the same period, the global fleet rose by 1.76%, from 89,676 to 91,526 vessels, which is a clear testament that this growth was achieved through alternative finances, other than banking sources, like private equity funds, or enhanced equity by owners. Of course, this isn't something new, as Petrofin's data supports the view that bank ship finance in relation to the world fleet has been contracting as a source of shipping funding for the past eight years.

"According to Clarkson's Intelligence, as of the end 2016, the total cargo fleet orders stood at a further 2,867 vessels or 15% of the current fleet. It is expected, therefore, that as the fleet shall grow at a faster pace than ship finance by banks, that there will be further declines in the importance of banking related shipfinance as opposed to other forms of finance and investment/equity. Current shipping conditions are not attractive to shipping banks, as all sectors are displaying signs of pressure in vessel values and earnings due to overbuilding, existing surpluses and large orderbooks. In addition, current financial conditions are also not conducive to more ship lending. Indeed, it is fair to say that, on a global basis, lending has slowed down substantially post 2008 as banks try to downsize and as bank regulations and supervision, e.g. ECB, Basel III, have increased. Unable to increase their capital base, banks are forced to restrict their lending and choose to lend among the best risk/reward industries. Currently, shipfinance is not a leading contender for loans. The need to support their own local shipping has been a strong motive underlying the expansion of the Far Eastern banks. Their national policies are in tune with local bank interests and this has provided a useful solution to a number of owners with local newbuilding orders seeking finance", says Petrofin Research.

Meanwhile, "as Western shipbuilding has largely disappeared (except for specialist vessels), Western banks are under less pressure to maintain their shipfinance presence in their home countries / Europe. The collapse of the KG system has accelerated the departure of many German banks. German banks still support the owners of their 'home base', but reduce finance to owners from other countries. This is not a universal rule as some banks have a small national shipping interest or have built up a substantial and well performing international clientele. Still, the trend is not particularly supportive of other nationalitie, such as Greek owners who are viewed as international owners. Putting the European bank global shipfinance portfolios under the microscope we observe that Dutch and Scnadinavian banks show a small growth and the marked decline in commitment is shown by the most traditional lenders, such as the German, British and Irish and Greek banks"
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Ted Petropoulos, Head of Petrofin Research noted that "there are signs that Far East ship finance appetite is slowing down, as well as that there has been a slowdown in new orders and a restructure of the Chinese shipbuilding industry with much unnecessary capacity being eliminated. With prevailing shipping conditions not helpful either, it is possible that Far Eastern shipfinance growth will slow down in the short run. However, the position may also be changing in the West with the effective departure of the major banks that decided to leave the industry, e.g. RBS, Commerzbank, HSH and others. Once the above banks shall disappear, it is likely that the remaining banks plus newcomers in the field of shipfinance, may signal the commencement of a base and, possibly, a rise in Western shipfinance. Despite the above, some banks clearly found the success formula to grow during this difficult period, with Credit Suisse, ING, Unicredit, BNP Paribas and ABN Amro backing the trend. Of course, we also need to highlight the continuous growth (both in relative and absolute number) of all the Far East lenders, who supported local newbuilding orders with new loans. Interestingly, some Far East banks and leasing entities have begun to focus on quality Greek names (both public and private), as the rate of new ordering has slackened and their experience with Greek owners has been largely positive".

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He added that “looking into the future, it is obvious that the adjustment process by both the markets and the banks will continue over the next couple of years. As, however, the depressed shipping sectors shall recover, it is expected that shipfinance appetite shall return. The scene will be different, though, as the European domination will further weaken and Far Eastern and other nationality of banks will fill the vacuum. We envisage that new banks shall also join shipping, aiming for the small to medium owners. The risk / reward of shipfinance is changing and will become all too apparent when the recovery prospects for shipping will solidify”.

According to Petrofin’s data, “lastly, we should mention the increasing presence of non-banking finance institutions that are often the only finance alternative for owners, as well as the development of niche ship finance in the PG, Singapore and other local areas. As traditional bank finance continues to be scarce, conditions for non-banking instruments and local finance shall improve. The special position of Chinese ship leasing companies should be mentioned as a popular means of finance offered by Chinese leasing companies who are invariably owned or supported by local banks. Overall, for shipfinance lending to rise, an improvement in shipping market conditions is necessary. For some sectors, such as dry bulk and containers, this is not expected soon. Beyond shipping itself, the strengthening of balance sheets and capital ratios of banks across the world and more supportive international financial conditions are required for bank lending to increase once more to the benefit of global growth is general and shipfinance in particular”, Petrofin concluded.
Nikos Roussanoglou, Hellenic Shipping News Worldwide

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(2) Clarksons Research, 15 July 2016

Shipbuilding’s ‘Fatal Attraction’ – A Dramatic Affair?

Down the years, shipbuilders have always entered and exited the business as cycles have progressed, but over the past decade developments have been dramatic. Back in 2007, 220 shipyards secured at least one order for a unit of 20,000 dwt or above in size, but in 2015 just 101 yards were successful in doing so. What have been the characteristics of such acute changes in the shipbuilding landscape?

Following The Plot
‘Fatal Attraction’ was an 1980s thriller movie in which a weekend affair resulted in a tricky predicament. Having had its fling with investors, it could be said that the shipbuilding industry has also found itself in severe distress. At the climax of the newbuilding investment boom in 2007, 220 yards took an order (for a vessel of 20,000 dwt or above), up 80% on the number in 2005. However, the global economic downturn ended the ‘affair’ and the number of yards to take an order fell 45% in 2009. Chinese state subsidies reignited old flames in 2010, when 190 yards attracted an order (62% were located in China) and countercyclical ordering helped support around 130 yards in 2013 and 2014, but the general trend has been a steady fall in the number of shipyards successful in attracting orders in the recent investment environment.

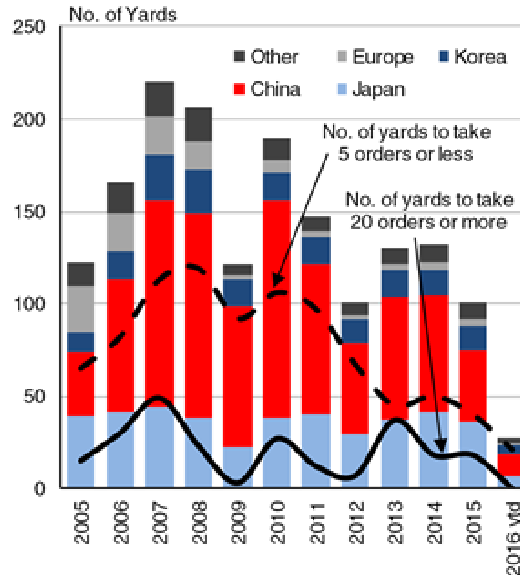
Character Development
In 2015, 1,083 orders (20,000 dwt and above) were placed at 101 yards globally, and of the yards who took an order in 2007, only 80 (36% of the total) were successful in doing so last year. Shipbuilders who ‘left the scene’ in this period included many Chinese yards (87), generally focussed on the bulker sector, as well as a number of European yards (17) finally ceding to Asian competition.
The solid line on the graph represents the number of yards taking 20 or more orders each year. This number has fluctuated less than the total number of yards taking orders, reflecting the more consistent part of the industry, including established Korean yards and ‘top tier’ Chinese state yards (27 different yards have appeared in this grouping since 2010). The dotted line shows yards who have received five or less orders each year, and reflects the more vulnerable end of the business, making up 51% of yards who

took an order in 2007, but accounting for an average of 37% of the total between 2013 and 2015. 62% of yards in this grouping who took a contract in 2007 have not received an order since 2012.

Graph of the Week

Global Shipbuilders: A Close Look At The Last Decade

The bars on the graph show the total number of yards to receive at least one contract (for vessels 20,000+ dwt in size) each year by yard location. The solid line on the graph displays the number of yards which received 20 or more orders for units of this size in a given year. The dotted line shows the number of yards who took five or less orders. For the purpose of this analysis only units 20,000+ dwt have been included and therefore yards active in the smaller vessel sectors are not represented in the data. Data for 2016 is on the basis of the first half of the year.



Source : Clarksons Research

No Alternate Ending?
On a more positive note, despite the fall in the number of yards to take a contract in 2015, six of the 18 yards to take 20 or more orders took their largest number of contracts since 2007 last year. For the first time this decade the largest number of these yards were in Japan (7).
Nevertheless, the environment clearly remains severely challenging. In 1H 2016, 97 orders were reported placed (for units 20,000 dwt or above) across just 27 yards. Though there may be some late reporting, and optimism from some quarters that 2H 2016 could see increased contract volumes, changes to the industry landscape appear to have been stark (and for some 'fatal'). Over the second half of this year, market observers should continue to watch the drama closely.
Source: Clarksons

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(3) Note for SOLENT GMWD by *Richard Scott*, GMWD editor, 18 July 2016

China's economic growth slowdown

At the end of last week official statistics revealed that China's economy grew by 6.7% in the second quarter of 2016 (compared with its output in the same quarter a year earlier). This GDP growth rate was the same as that seen in the first quarter. It was slightly lower than the 6.9% increase seen in 2015 as a whole, and confirmed perceptions of a longer-term slowing pattern persisting.

The slowing trend is largely an intended outcome of government policy designed to shift the economy towards a more sustainable rate of expansion, recognising resource constraints. Policy is attempting to

rebalance the economy, reducing emphasis on capital spending, construction and manufacturing and prioritising consumer spending and services. Some limited further progress towards this target seems to have been achieved in the second quarter of this year.

As we have seen, global shipping markets have been adversely affected by the deceleration evolving in China's economy. The volume of all cargoes imported by sea into China last year, comprising about one-fifth of the global volume, was only marginally above the total for the previous twelve months. The small increase represented a sharp slowing from double digit percentage growth a couple of years earlier.

Yet some individual commodity trades performed remarkably strongly in the first half of 2016. Figures published last week showed that volumes of three commodities, imported into China in vast quantities, were much higher than seen in the corresponding period of last year. Iron ore imports increased by 9% to 494 million tonnes, coal imports rose by 8% to 108m tonnes, and crude oil imports were 14% higher at 187m tonnes (equivalent to 7.5m barrels/day).

A robust crude imports trend was foreseeable. But the upsurge in iron ore and coal imports in the past six months was not widely expected. Because these are such large-scale cargo movements, the rapid expansion provided valuable extra demand for shipping capacity.

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(4) Hellenic Shipping News, 13 July 2016/ International Maritime Rescue Federation

Report finds ship fires pose a real threat to maritime safety

Ship fires pose a threat to maritime safety in Europe with the highest risk on roll-on/roll-off (ro-ro) passenger ships because a single ship may carry more than 1000 people and tens of millions use this transport.
This is the main conclusion drawn from a risk assessment on ship fires produced by the Finnish Border Guard and Finnish Transport Safety Agency and produced for use in the Baltic Sea Maritime Incident Response Group (Baltic Sea MIRG) project.
The report concluded that it is very difficult to prevent ship fires and minimising their consequences also poses great challenges. About 6% of fires on ro-ro passenger ships have resulted in loss of life or serious injury every year.
"This is a thorough and comprehensive insight into the impact of fires on shipping in Europe and highlights the need for the work being done by the Finnish Border Guard with the Baltic MIRG project," said International Maritime Rescue Federation (IMRF) CEO Bruce Reid (pictured).
"Even though there has only been a slight rise in ship fires between 2004-2014, there is no room for complacency. We have a great interest in seeing how SAR response to ship fires can be improved particularly in the context of Maritime Mass Rescue Operations."
Providing the context for the findings, the reports says that sea transport plays a central role in Europe's goods and passenger traffic. Almost 90% of Europe's foreign trade is seaborne, and every year about 400 million passengers either embark or disembark at European ports.
In 2013, the volume of seaborne trade at European ports totalled 3,716 million tons. Liquid bulk cargo accounted for the largest proportion of this, at 38%. The next most significant product groups were solid bulk cargo, containers, and multimodal ro-ro transports. Exports accounted for 1,472 million tons of all seaborne trade, and imports for 2,244 million tons. When these figures are compared to those for global seaborne trade, European ports accounted for 17% of exports and 21% of imports.

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The report says that many passengers and crew members have died in ship fires in European sea areas. The most serious of these have been on ro-ro passenger ships. The worst accident in recent history occurred in 1990, when 159 people were killed in a ship fire aboard theScandinavian Star.
'This tragedy' the report's authors conclude, 'played a significant role in the IMO's decision to launch preparations for the ISM Code. When it came into force, safety management systems became compulsory for many operators and vessels. In seafaring, it is quite typical for significant safety-enhancing measures to be launched in the wake of catastrophes rather than on the basis of risk assessments.'
According to Lloyd's List Intelligence statistics, 74 ship fires occurred in European sea areas in 2014, 10 of which were serious. A total of 799 ship fires occurred during the period 2004–2014, 10 per cent of which were serious. The worst incident occurred in December 2014, when 11 people were killed and several injured in a fire aboard the ro-ro passenger ship Norman Atlantic. The fire originated on the ship's car deck. Other ship fires resulting in multiple fatalities or injuries also occurred during this period.
In 2010, 28 people were injured in a fire aboard the ro-ro passenger ship Lisco Gloria. The fire originated on the ship's car deck. In 2008, 10 people were killed and several injured after an explosion aboard the general cargo ship Enisey. The explosion was caused by welding sparks while the ship was docked. In 2008, eight people were killed and several injured after an explosion aboard the gas carrier Friendshipgas.
In an examination of ship fires over the period 2004–2014, the report says a slight rise can be detected. Ship fires have increased among, for example, general cargo ships, ro-ro passenger ships and cruise ships. Nordic insurance companies10 and the EMSA11 have also noted this increase in the number of ship fires aboard ro-ro passenger ships.
'It is also worth noting that there has been a significant reduction in the number of ship passengers in Europe in recent years, and this must also have been reflected in the number of ro-ro passenger ships. On the basis of this data, it can be assumed that a greater number of fires per vessel are occurring aboard ro-ro passenger ships. On the other hand, favourable developments can be seen in, for example, the number of fires aboard oil tankers, chemical tankers and fishing vessels, which have all decreased in recent years.'
Compliance with fire safety regulations does not guarantee that a vessel is safe, the report says, but it is a good starting point for safe operations. According to researchers from the Finnish Safety Investigation Authority, attitude plays a key role in fire prevention. This can often be seen in the thorough performance of basic procedures, such as keeping areas clean and tidy and maintaining equipment in proper working order.
'However, preventing fires can be difficult, as there are such a wide range of potential causes, from electrical faults to a variety of human activities. It is therefore impossible to prepare for all eventualities. This is why specific causes of fire are not always significant with regard to the overall safety of a vessel. Instead, it is often easier to influence the prompt detection of fires and their effective extinguishment, and these factors therefore play a key role in minimising fire damage aboard vessels.'
Several international regulations on vessel fire safety have been passed. The key ones are SOLAS Chapter II, the FSS Code, and Section A of the STCW Code. These international regulations seek to both prevent ship fires (preventative measures) and minimise their consequences (proactive measures).
Source: IMRF
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(5) Hellenic Shipping News, 12 July 2016

Article by Richard Scott, associate, China Centre (Maritime), Solent University and MD, Bulk Shipping Analysis

China's Maritime Silk Road project advances

Recent news highlighted further progress in building China's 'One Belt, One Road' mega-project. Chinese involvement in possible expansion at Port Klang, Malaysia apparently is under discussion while, at the

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other end of the route, huge additional Chinese investment at the port of Piraeus in Greece has just been agreed. This article looks at how the plan is evolving.

OBOR is a grand scheme of international sea and land trade route elaboration and related infrastructure augmentation initiated by China. It harmonises with President Xi Jinping's ideas about a 'Chinese Dream', an aspiration emphasising the rejuvenation of China. The Maritime Silk Road plan was unveiled almost three years ago in October 2013, following the ideas announced earlier that year for a land-based route.

The two parts of the OBOR, the 'Belt' or Silk Road Economic Belt, and the 'Road' or Maritime Silk Road are designed to be complementary. The 21st Century Maritime Silk Road has not been evolving as rapidly as its overland counterpart, but it has significant implications for the global shipping industry and could have a greater impact over the next few years.

'Silk Road' is the name given to an ancient trade route opened up by Chinese merchants in the second century, linking China with the West for movements of silk, spices and other goods. Changing political and military circumstances caused the precise route to vary. More accurately the term refers to a network of historic routes across Asia.

What characterises the modern version, for which the original name has been revived? The land-based Silk Road Economic Belt, also described as a corridor, consists of a broad band of central China, reaching through a large number of Asian countries and stretching into the eastern European region. These countries are or will be linked by existing or planned railways and roads, with bridges and tunnels, as well as pipelines, energy projects, industrial parks and logistics centres.

The Maritime Silk Road or corridor is principally a sea route from the South China Sea and South East Asia, through the Indian Ocean and Middle East area into the eastern Mediterranean. It also extends in other directions. Its main feature is port infrastructure projects, some linking with the parts of the land-based project.

A persuasive rationale

China's justification for the OBOR concept is a need to facilitate trade route connectivity and efficiency, reducing the costs of transporting goods, while improving the security of the country's enormous import and export flows. Other prominent reasons for such a vast and what is described as hugely 'ambitious' grand plan, is to promote additional work for Chinese construction companies on large-scale building projects, while boosting potential for manufactured goods exports from China in new markets.

The OBOR is designed to enrich the economies of China and about sixty of its nearby trading partners, and enthusiasm for participation has been seen in many countries throughout the region. There are potential strategic advantages also as countries involved in the OBOR become more closely integrated with China.

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These imperatives partly reflect the pronounced economic slowdown and accompanying rebalancing of economic activity in China. The process is expected to continue well into the future, possibly for several years. As a consequence, large excess capacity has been revealed in some major industries, such as steelmaking, construction and equipment manufacturing: this capacity could be directed towards other markets.

A paper published last year by Clingendael, Netherlands Institute of International Relations, assessed the rationale for the Maritime Silk Road in particular. It concluded that the MSR "is not aimed primarily at changing China's role in international shipping, but rather is part of a highly ambitious long-term programme for the economic integration of a vast zone...on the basis of infrastructure development".

This analysis pointed out that, especially in developing countries, Chinese investment in key infrastructure projects can lead to increased leverage for Beijing in its relations with the host government. Leverage is further enhanced when China-controlled entities provide financing.

The Clingendael report concludes that the OBOR programme focus "is not on military dominance". However, the authors suggest that "the initiatives...are accelerating the growth of its (China's) influence on maritime trade patterns as well as in Asia, Africa and Europe more broadly". A later paper published this year by the Peterson Institute for International Economics similarly concludes that the OBOR "appears to be entirely a mercantile endeavour designed to fortify China's economic interests around the world".

OBOR components

Familiarity with aspects of the OBOR, and accumulating evidence of progress achieved, has clarified the framework and content. Initially the plan, while undoubtedly impressive in scale and scope, seemed somewhat vague and amorphous, resulted in the project lacking defining features. This impression is now fading. Nevertheless, there is still considerable uncertainty about how some parts will evolve in the years ahead.

The scale of this super-sized programme implies an enormous and ongoing financing requirement. Principal channels involved are China's four state-owned banks (Bank of China, Industrial and Commercial Bank of China, China Construction Bank, and Agricultural Bank of China). Also contributing are the Chinese state's $40 billion Silk Road Fund, the multi-national Asian Infrastructure Investment Bank, and others.

Characteristics of land-based portions of the OBOR differ from those of the sea routes. There is a pressing need for additional or upgraded land infrastructure in many Asian countries. Much of the existing rail and road infrastructure is deficient and therefore hampering trade flows across the region by causing congestion, delays and the higher costs resulting. Consequently there is a clear requirement for more major investment, which can improve and cheapen land transport and connection with sea routes.

Maritime Silk Road progress

Within the Maritime Silk Road, substantial investment in port facilities in various locations is planned or under way. New, expanded or more advanced capacity will improve connections between sea and land legs of trade movements, raising overall transport efficiency and reducing costs.

Enthusiasm for the project has been especially notable in Southeast Asia. The economic logic may be most compelling in this region, assisting greater flows of goods, people and capital and promoting economic growth in all countries along the route. There is also a trade security aspect. Land connections

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from China to ports in Southeast Asia reduce dependence on maritime trade passing through the congested and potentially insecure ‘choke point’ of the Straits of Malacca.

One of the high profile port projects in Southeast Asia is Gwadar in Pakistan, operated by China Overseas Port Holdings and built by China Harbour Engineering Company. CHEC’s other involvements in Pakistan include an extension of the port at Qasim. An agreement to create an ‘economic corridor’ between Pakistan and China was finalised in early 2014, including upgrades to roads and railways linking the two countries.

Other examples are prominent. In Myanmar a contract was agreed at the end of 2015 with a Chinese consortium, including CHEC and led by CITIC Group Corporation, which will build a deep-sea port at Kyaukphyu. A new deep-sea port at Sonadia Island, Bangladesh is being constructed with Chinese involvement. Two projects in Sri Lanka involving China are a Colombo container terminal and new port at Hambantota.

At the other end of the Maritime Silk Road, a showpiece project is China’s investment in the port of Piraeus, Greece. Seven years ago COSCO (now China Cosco Shipping after its merger) obtained a concession from the Greek government to operate part of the port’s container terminal over a thirty-five years period. Expansion of capacity has enabled much higher throughput. Then, in early 2016, a two-thirds holding in Piraeus Port Authority was acquired. Subsequently plans to greatly increase port investment have been announced.

Maritime transport carrying capacity is another aspect. Further investment to enhance the scale and efficiency of shipping services has been discussed, but there have not yet been many direct developments.

Arguably the 21st Century Maritime Silk Road is already heavily, and comprehensively, provided with high-quality Chinese and foreign shipping services offering enormous capacity for moving cargoes efficiently. Extra investment by the companies involved has been proceeding for many years. The China-owned fleet of deep-sea trading ships continues to expand rapidly, with a large number of new ships due to be completed in the next few years, and many more purchased secondhand from foreign shipowners. This pattern seems to satisfy current and foreseeable requirements.

Earlier in 2016, in an implicit acknowledgement that Maritime Silk Road progress was lagging, or at least need reinvigorating, a Chinese government official stated that a new action plan would be introduced this year. This intention follows an action plan covering both Road and Belt routes and priorities announced in March 2015. One suggested explanation for the limited progress of the maritime strategy is concerns, among some of China’s neighbours in Southeast Asia, about Chinese maritime territorial claims. These claims have become a more contentious issue over the past few years.

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A colossal, multi-faceted enterprise
China has previously organised huge commercial projects and trade activity. In an historical context, one example is of particular significance.

In the early fifteenth century the Yongle Emperor ordered the construction of a vast imperial fleet to undertake lengthy international voyages. The remarkable treasure ship expeditions were commanded by famous admiral and diplomat Zheng He. These extended voyages to Southeast Asia, Arabian Sea ports and East Africa took place from 1405 to 1433. Each of the seven expeditions, apparently involving up to 200 ships and 20,000 mariners, lasted two years. Some ships involved were far bigger and more technically advanced than others built anywhere else in the world at that time.

This massive enterprise can be regarded as a precursor for the present 21st Century Maritime Silk Road, although infrastructure building was limited in the earlier expeditions. Today great endeavours designed to increase China's participation in, and influence on, cargo movements along the route, are progressively taking shape. Although the eventual outcome is still difficult to foresee, it seems predictable that more OBOR features will be added over the next few years.

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(6) Hellenic Shipping News, 13 July 2016/ Watson, Farley & Williams

Brexit: Potential Implications For The Maritime Sector

While the nature of the United Kingdom's future trading relationship with the European Union ("EU") will take some time to become clear, it is important to realise that in the immediate aftermath of the result of the UK's recent EU referendum, nothing has changed in terms of the trading relationship and the movement of people and goods between the EU and the UK and the laws which apply to your maritime business and contractual arrangements. As the political machinations play out, it is clear that Article 50 will not be invoked until a new Prime Minister is in place, which will not be until at least September. Once invoked, the UK has an extendable period of two years to negotiate new trade arrangements with the EU. During this negotiating period the UK remains a full member of the EU and subject to all the related rules and regulations. While trade relationships of various forms between the UK and EU have been suggested as possibilities by different people, organisations and publications, ultimately it is difficult at this stage to know what form that relationship will take, or to be able to advise in detail on the full potential impact of a Brexit from the EU for the maritime sector.

English law: a favourable contractual & dispute resolution regime for maritime contracts?
Whatever the outcome of the UK's trade relationship with Europe, we are of the belief that English law will remain a favourable legal regime for the documentation of international contracts and transactions. The choice of English law is due to the certainty of its long established legal precedent and court system, not because the UK is part of the EU. Generally speaking other elements of law that directly regulate the maritime sector are international in scope and incorporated into English law so the status quo would largely remain in place. As regards England as a jurisdiction for disputes, Brexit should not have any effect on the pre-eminence of London and its arbitral institutions in the resolution of international arbitrations. The current worldwide enforceability of London awards should remain. As regards court litigation, the various EU regulations in respect of jurisdiction, applicable law, enforceability of judgments and insolvency should be applied by English courts, and by the courts across the EU in respect of UK matters, until such time as the UK has left the EU. Nothing should change during this period, although it remains to be seen how different courts in fact deal with matters as the date of departure approaches. As regards the situation after the UK leaves the EU, we consider it too early to draw conclusions on what the landscape might look like for dispute resolution and insolvency. However, we do not consider it a necessary or probable outcome of the UK leaving the EU that the English courts and those of the

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remaining Member States will lose a common framework for ruling on jurisdiction or applicable law or that the reciprocal enforcement of judgments or recognition of insolvency proceedings will cease.

UK Tonnage Tax & UK flag

Whilst the UK Tonnage Tax regime currently needs to comply with EU State Aid Law, the regime itself is not derived from EU law. The legislation that governs tonnage tax is domestic legislation and, accordingly, Brexit does not need to have any impact on the UK Tonnage Tax regime. If the UK is able to operate without the need to comply with the EU State Aid Law, then there could even be the possibility of relaxations to the rules, for example, on the limits on time chartered in tonnage. It is to be hoped that the UK Government will retain its current support of the tonnage tax system, and continues to recognise the important role it has in contributing to the UK economy and attracting shipowners to set up businesses in the UK.

Employment & Immigration law in the maritime sector

In terms of employment law implications, the position is very uncertain. One view is that the Government may seek to deregulate this area in order to make the UK appear more competitive compared with countries remaining within the EU. However, laws underpinning employment on board ships arises from the ILO Maritime Labour Convention, 2006 (the "Convention"), which the Government ratified on 7 August 2013, and a number of enforcing EU Regulations. The overriding aim of the Convention was to set decent, minimum global standards for seafarers' living and working conditions and to help create conditions of fair competition and a level playing field throughout the shipping industry. In order to comply with the Convention, UK legislation (insofar as it was necessary) was brought in line with its standards and in our view it is unlikely that the UK will in any way seek to deviate from its Convention obligations not least because of the international repercussions. However, many believe that there will be some watering down of certain employment law rights, such as rules relating to the calculation of holiday pay, which could be relaxed allowing employers to reach their own decisions on the appropriate level of pay, and also on the ability of employees to carry forward leave in cases of long term sickness absence. It is also unlikely that the anti-discrimination laws will undergo a radical change but we agree with the views expressed by the UK Chamber of Shipping that the Government may seek to introduce a cap on the damages awarded in such claims. In terms of immigration we expect big changes in this area and we would be very surprised if the UK Immigration Rules and Tier 2 remain in their current form. For example, the government may need to open the Tier 3 "low-skilled" category of the Points Based System ("PBS") (currently suspended) to fill any void left by EU workers e.g. agricultural workers. In terms of the maritime sector, this could be beneficial by opening up a category to non-EU nationals (e.g. Filipino nationals) who don't currently qualify under Tier 2. However, if the plan is to move EU nationals into the current PBS system then this will increase pressure on the system and the current PBS problems, which include delay and inconsistency across different jurisdictions, will apply to EU nationals also (although, this, of course, depends on the negotiations).

Border controls and customs

Potential changes to border controls are of particular concern to cruise & ferry operators; however, as the UK is not part of Schengen and passport controls are already in place at UK ports no practical changes are anticipated and there will be no immediate changes in any event. Whether there will be changes to applicable customs rules will depend on the negotiations surrounding the UK's continued access to the Single Market.

Environmental and safety regimes

While the EU has done much to advance environmental and safety legislation, there have been thoughts in some quarters that such legislation is at times as much a burden as a benefit. Practically speaking, once the UK leaves the EU we would expect most EU environmental legislation that has shown itself to be of value to be incorporated into the laws of the UK. An interesting case that might provide opportunities for the UK concerns the recycling of decommissioned vessels. Recycling activity is currently governed by the EU Ship Recycling Regulation, which takes elements from the 2009 Hong Kong Convention for the Safe and Environmentally Sound Recycling of Ships. Once no longer beholden to some of the more onerous elements of the regulations, more ship recycling may be possible in the UK and thus provide a boost to this industry. Metal from a number of already decommissioned North Sea

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offshore platforms still standing could be recycled if their owners no longer had to abide by the exacting standards of the EU Ship Recycling Regulation.

Conclusion
The extent to which changes resulting from Brexit will impact the shipping industry will depend heavily on the relationship of individual companies with the UK and the EU and, ultimately, as for all sectors, where the discussions between the UK and the other EU member states finally come out on the key issues of free movement and access to the Single Market. It is, at present, “business as usual” and, as the maritime industry is a global, predominantly US dollar industry many may not directly feel the impact of Brexit. We will be watching developments closely to determine how they will affect our clients.
Source: Watson, Farley and Williams

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(7) Hellenic Shipping News, 13 July 2016/ Reuters

Oil and shipping markets on edge after South China Sea ruling

Global oil and shipping markets reacted nervously on Tuesday (July 12) after an international arbitration court ruled against Beijing’s claims across large swathes of the South China Sea, fuelling geopolitical tensions in the vital waterway.
A tribunal in The Hague, Netherlands, found China had breached the sovereign rights of the Philippines and had no legal basis to its historic claims in the South China Sea, a major shipping lane between Europe, the Middle East and Africa.
The ruling will be seen as a victory by other regional claimants such the Philippines and Vietnam, but with China rejecting the ruling and saying its military would defend its sovereign rights, nerves were on edge.
Although shippers and oil traders said they did not expect an immediate impact on shipping as a result of the ruling, oil prices jumped following the findings. Brent crude futures were up over US$1, or more than 2 per cent, to US$47.60 per barrel at 1110 GMT.
“It is vital that merchant ships are allowed to go about their lawful business on the world’s oceans without diversion or delay. We will of course be monitoring for any interference in the coming weeks,” said Peter Hinchliffe, Secretary General of the International Chamber of Shipping in London.
The deep waters of the South China Basin between the Spratly and also-disputed Paracel Islands are the most direct shipping lane between northeast Asia’s industrial hubs of China, Japan and South Korea and Europe and the Middle East.
The geography of the region offers few economically viable alternative routes for large oil tankers or dry-bulk ships and container ships.
Esben Poulsson, president of the Singapore Shipping Association, said any actions that restricted the right of innocent passage and freedom of safe navigation for merchant shipping would potentially drive up shipping costs, resulting in a detrimental impact on maritime trade.
Reuters shipping data shows that, counting just Very Large Crude Carrier (VLCC) super-tankers, some 25 VLCCs are passing between the disputed Spratly and Paracel islands at any time, with enough capacity to carry the equivalent of about 11 days’worth of Japanese demand.
Some industry participants were more relaxed, however.
“It’s just pure politics,” Ralph Leszczynski, head of research at ship broker Banchero Costa said.
“China will simply ignore it, and it will not change in any way the reality on the ground. All there is at stake is access to offshore oil and gas deposits and perhaps fishing grounds,”he said.
Insurers said costs were unlikely to rise in the short term.
“We don’t currently foresee any increase in insurance costs as a result of the ruling and would be surprised to see operators being penalised by the insurance market for trading in this area,” said Andrew Brooker, founding partner, at Hong Kong marine marine insurance broker’s Latitude Brokers.

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Neil Roberts, manager of marine underwriting at the Lloyd's Market Association, said the South China Sea is not listed by the LMA's joint war committee which highlights insurance hotspots.
"Unless it is there would be no prospect of premiums rising," Roberts told Reuters.
"The shallow waters and numerous reefs in the Spratly island region means that commercial shipping is unlikely to be sailing within the territorial waters of any of the islands."
Source: Reuters (Editing by Lincoln Feast)

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