



# **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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- (7) How will China's Belt and Road Initiative change international trade?

## **Editorial comments**

- Order books in the world's **largest shipbuilding countries** are still shrinking as the outflow of completed ships exceeds the inflow of new contracts arranged. These trends are highlighted in item 3, which shows that specialisation in cruise ship building, with its high work content, is enabling European shipyards to remain relatively strong.
- In recent years the global **ship recycling market** has featured substantial volumes of bulk carriers and container ships being sold for demolition, amid weak freight rates. Two size groups - capesize bulkers, and 'old panamax' container ships - have seen especially large scrapping volumes as many of these vessels became uneconomic (item 1).
- What steps are needed to revitalise the **UK shipowning industry**? A leading shipowner offers some ideas (item 6), emphasising the importance of finding a niche where a particular skill set is valuable and where barriers to entry deter an influx of new entrants.
- Despite its well-known benefits for the planet as whole, renewable energy's contribution is a downside risk for the **bulk carrier market** because of negative implications for one of that sector's biggest components, coal. Possible implications for charter rates are discussed in item 4.
- In the **LPG (liquefied petroleum gas) market**, rapid fleet expansion is likely to result in an over-supply of vessels persisting for some time ahead (item 2).

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(1) Clarksons Research, 12 May 2017

## The Great Race: Bulkers And Boxships Battle For The Lead

In recent years, in generally difficult market conditions, it has been no surprise that many sectors have seen a significant removal of surplus tonnage. This has been particularly notable in the bulkcarrier and containership sectors, and in the case of the Capesizes and the 'Old Panamax' boxships, it has been a bit like the famous race between the tortoise and the hare but with even more changes in leadership...

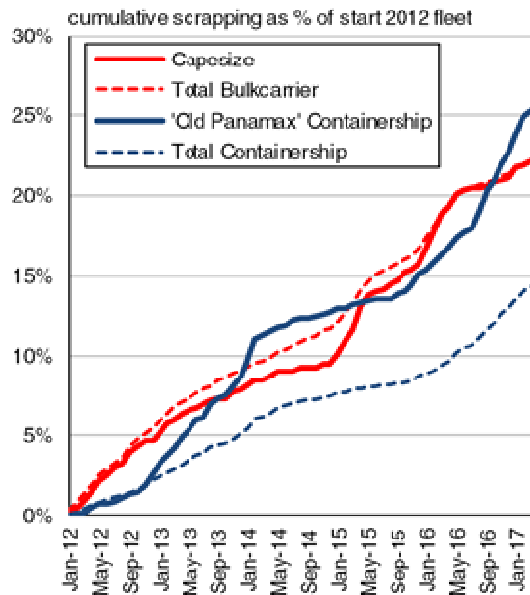
### At The Start

Back in 2012, Capesize demolition was on the up with the market having softened substantially in 2011 on the back of elevated levels of deliveries. Meanwhile, 'Old Panamax' containership demolition (let's simply call them Panamaxes here) was also on the rise with earnings under pressure. Across full year 2012, 4.7% of the start year Capesize fleet was sold for scrap (11.7m dwt) and 2.6% of the Panamax boxship fleet (0.10m TEU). In both cases this was working from the base of a fairly young fleet, with an average age at start 2012 of 8.2 years for the Capes and 8.9 years for the Panamax boxships.

### Graph of the Week

#### A Neck And Neck Race To Remove Surplus Tonnage?

The graph shows the cumulative percentage of start 2012 fleet capacity demolished in the Capesize bulkcarrier and 'Old Panamax' containership sectors, as well as in the overall bulkcarrier and containership sectors, on a monthly basis since the start of 2012. Bulkcarrier capacity in dwt, containership capacity in TEU terms.



Source: Clarksons Research

The cumulative volume, as a share of start 2012 capacity, of Capesize demolition remained ahead of Panamax boxship scrapping until Sep-13, by which time 7.3% of the start 2012 Panamax boxship fleet had been demolished compared to 7.2% of the Capesize fleet. In 2013 the Cape market improved with increased iron ore trade growth whilst the boxship charter market remained in the doldrums. In 2013, Cape scrapping equated to 3.2% of the start 2012 fleet (7.9m dwt); the figure for Panamax boxships was 6.0% (0.24m TEU). The fast starter had been caught by the slow burner.

### Hare Today...

But by 2015, Cape scrapping was surging once more, regaining the lead from the Panamax boxships. By May-15 the cumulative share of the start 2012 fleet scrapped in the Capesize sector was 13.7% compared to 13.4% for the Panamax boxships. Iron ore trade growth slowed dramatically in 2015, whilst the Panamaxes appeared to be enjoying a resurgence with improved earnings in the first half of the year ensuing from fresh intra-regional trading opportunities.

### ...Gone Tomorrow

But the result of the race was still not yet clear. Today the Panamaxs are back in front again, thanks to record levels of boxship scrapping in 2016, including 71 Panamaxes (0.30m TEU) on the back of falling earnings, ongoing financial distress and the threat of obsolescence from the new locks in Panama. Despite a huge run of Capesize scrapping in Q1 2016 (7.5m dwt), the cumulative figure today for Capes stands at 22.3% of start 2012 capacity, compared to 25.4% for Panamax boxships, remarkably similar levels.

### Where's The Line?

So, today the old Panamax boxships are back in the lead, but who knows how the great race will end? Capesize recycling has slowed with improved markets, but Panamax boxships have seen some upside too, even if the future looks very uncertain. Hopefully they'll both get there in the end but no-one really knows where the finish actually is. That's one thing even the tortoise and the hare didn't have to contend with. Have a nice day.

Source: Clarksons

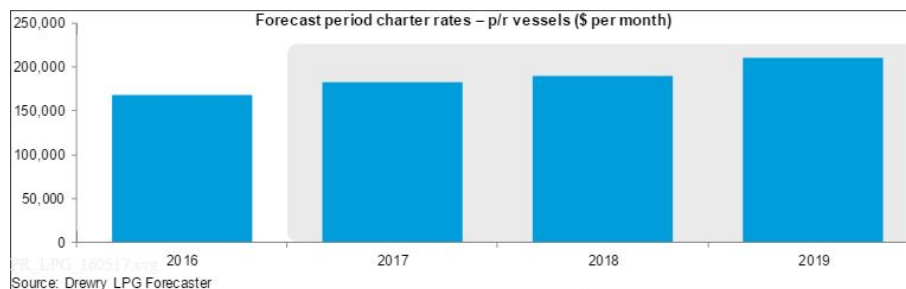
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(2) Hellenic Shipping News, 17 May 2017

## LPG freight rate recovery to be confined to smaller vessels

Vessel oversupply will persist in the LPG shipping market for the next two years, keeping freight rates under pressure across most size segments. However, the small vessel segment is the only category where fleet growth will be minimal, leading to a recovery in rates, according to the latest edition of the LPG Forecaster, published by global shipping consultancy Drewry.

Most vessel size segments are expected to witness another year of rapid supply growth in 2017, with the overall fleet forecast to expand by 16%. This will keep freight rates under pressure over the next two years.



However, the small LPG vessel segment (1,000-5,000 cbm) will be the exception where fleet growth will be minimal and rates are expected to improve. After growing at an annual rate of 4% over the last three years, pressurised vessel (p/r) fleet growth will slow to 3% in 2017. Thereafter, p/r fleet growth is likely to turn negative as only one vessel will be left from the current orderbook to be delivered in 2018 and none beyond it, while some vessels will indeed get demolished.

Although the improvement in rates will mainly be led from the supply side, some push will also come from the demand side as refining capacity expands in China, increasing cargo supply for the intra-regional trade.

"As a result of slowing fleet growth, Drewry expects rates for small LPG vessels to strengthen further. We anticipate time charter rates for a 3,500 cbm p/r vessel to average \$182,000 per month in 2017, an increase of 8% from 2016. As fleet growth slows further from next year, rates will continue to improve and average \$210,000 per month by 2019," commented Shresth Sharma, senior analyst for gas shipping at Drewry.

Source: Drewry

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(3) Clarksons Research, 17 May 2017

## Shipbuilders Feeling Forward Cover Fluctuations

Forward cover, an indicator of shipbuilders' future work levels, is still declining at a global level. On a regional basis there are some interesting trends, with forward cover highest at European yards and at record lows at South Korean yards. This month's Shipbuilding Focus investigates what factors have been behind these changes and how the situation may develop.

### Regional Peaks And Troughs

Forward cover is one measure of shipbuilders' future work, calculated here in CGT terms by dividing the current orderbook by the previous year's output level. While as an indicator it fails to capture changes in shipyard capacity by relying on the previous year's delivery data and doesn't account for the impact of slippage and cancellation, it is still a useful measure of the shipbuilding industry's health.

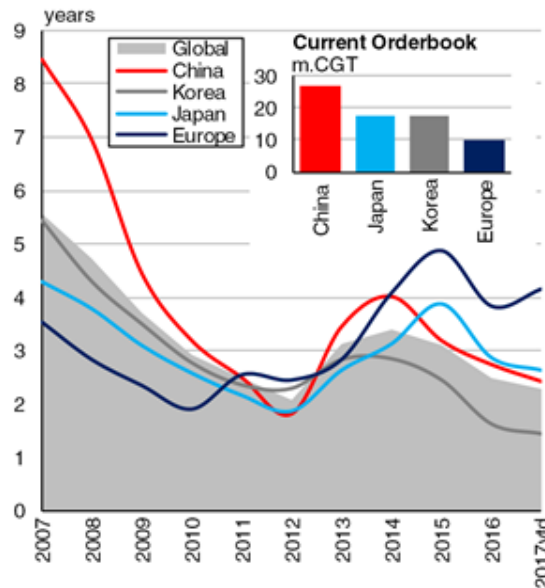
Global forward cover is now at 2.3 years, low but not quite at the 2012 trough of 2.1 years. Korean yards' forward cover has reached a historical low of 1.5 years, falling by 49% from its last peak in 2014.

Meanwhile, Chinese yards' forward cover has declined by 40% since 2014 and currently stands at 2.4 years. Japanese yards' forward cover has fluctuated less, declining by 32% since its last peak in 2015 and is currently at 2.6 years. Conversely, European yards' cover is the highest at a healthy 4.2 years and has increased by 8% in the year to date.

### Graph of the Month

#### Rising And Falling Levels Of Builder Forward Cover

The graph shows end year forward cover in CGT terms, globally and for the main builder countries/regions. Forward cover is calculated here by dividing the total orderbook by the previous year's total deliveries in CGT terms. The inset graph shows the current orderbook for each builder region in CGT terms.



Source : Clarksons Research

### The Whys And Wherefores

Many factors influence forward cover, with recent declines at the 'big 3' builder countries largely caused by weak contracting which has depleted yards' orderbooks. In China and Korea, strong deliveries have further reduced forward cover and the Chinese and Korean orderbooks have decreased by 36% and 44% respectively since start 2016 in CGT terms. The strong level of forward cover in CGT terms at European yards reflects their dominance in the cruise ship sector, with European yards' orderbook stretching out to 2025. Meanwhile, Japanese shipyards' relatively more stable contracting and delivery volumes have helped maintain a steady level of forward cover.

### Looking To The Future

Needless to say falling levels of forward cover does not bode well for shipbuilders. As of 1st May 2017, there are 369 active shipyards globally (with a 1,000+ GT vessel on order). Of these yards, only 44% are reported to have taken a newbuild order in 2016 or 2017 and 39% are scheduled to deliver all vessels on their orderbook by the end of 2017. Furthermore, only 26% have delivery slots booked further than 2018. If, for example, in 2017 there is the same level of contracting as in 2016, and assuming yards deliver around 33m CGT in full year 2017, we could see global forward cover drop below 2 years by the start of 2018. Even if ordering doubled year-on-year in 2017, global forward cover would simply remain steady at 2.3 years.

So, forward cover is falling for most builder countries as the global orderbook declines. This largely reflects historically weak newbuild contracting as well as relatively steady delivery levels. With forward cover likely to decline further or at best remain steady, the significant pressure on shipyards' to build up their orderbooks is clear.

Source: Clarksons

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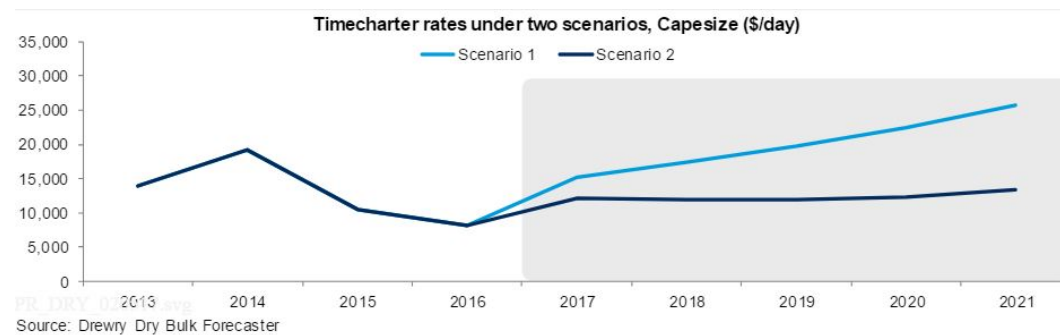
(4) Hellenic Shipping News, 3 May 2017

## Dry bulk shipping market to grow steadily but renewable energy a downside risk

Drewry's outlook for dry bulk shipping remains positive given the shrinking supply-demand gap, according to the latest edition of the Dry Bulk Forecaster, published by global shipping consultancy Drewry.

With high demolition activity and low deliveries the fleet is expected to grow at a slow annual rate of 1% over the next five years, while tonne mile demand will grow at a faster pace of around 3% per annum. As supply and demand becomes more balanced over the forecast years, charter rates are expected to improve gradually.

Drewry has also researched and flagged the impact of renewables on the dry bulk trade, as this has the potential to reverse charter rates, and has built two scenarios based on current trade developments (see chart).



The Chinese government's stimulus package in 2015 supported steel production last year and is likely to aid the steel industry over the next two years. The relative cheapness of imported coal (cfr) over domestic coal makes room for increased coal imports, supporting the rally in rates for the rest of the year.

However, the declining cost of producing energy from renewable sources and the general acceptance that COP21 may reduce the use of coal as a major energy source is a threat to the dry bulk shipping trade. Although the share of renewables in total energy production is quite low for most major economies, any shift away from coal could hamper the dry bulk trade over the medium term (1-3 years).

Looking at demand, Drewry has identified three concerns that might impact dry bulk shipping rates in the near future. First, the National Energy Administration of China plans to increase coal consumption by only 0.7% annually over the next four years, and plans to meet its energy production targets by making coal use more efficient.

Secondly, China also plans to cut down on excess steel capacity by 100 million tonnes over the next five years by shutting down illegal, sub-standard, steel-making units. The combined efforts of China and India to increase the share of renewables in their energy mix could bring down the dry bulk market to an era of negative growth in the short to medium term.

Thirdly, India plans to increase its thermal coal power generation to 236 GW in 2022 from the current 186 GW, an increase of 4% annually. Coal India, which meets most of the country's coal requirements, has been increasing its output by 5.8% annually and the government has been making additional efforts to increase Coal India's output faster. To produce 236 GW thermal coal power in 2022, India will require 159 million tonnes of imported coal, meaning an annual fall of 1.8% in imports.

If we club the three downside risks to demand together, there is a risk that charter rates could start declining. Drewry has built a scenario to show what will happen if India and China together reduce or slow down their coal imports, and China starts cutting down its steel production output.

From a low base in 2016, average rates might still be substantially higher in 2017, but will start sliding from current levels and will continue to fall over the next three years, stabilising thereafter. The chart above shows the timecharter rates in scenario 1 (base case rates) vs rates in scenario 2 (lower demand case).

"The rationale for using demand to create scenarios finds its logic in the fact that the dry bulk market has become more demand-dependent than ever before," commented Rahul Sharan, Drewry's lead analyst for dry bulk shipping. "However, for the time being the impact of renewables on coal trade is not likely to be significant as its share of the global energy market remains very low. Hence, Drewry expects its base case (Scenario 1) to prevail which will see the dry bulk shipping market continue to improve, albeit at a moderate pace."

Source: Drewry

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(5) Clarksons Research, 28 April 2017

## Scissors Giving Containers A Cutting Edge At Last?

In the high jump 'the scissors' was one of a number of techniques eventually superseded by Dick Fosbury's 'Flop', which saw the American athlete win the gold medal at the 1968 Olympics in Mexico City. The container shipping market has seen a bit of 'flop' of its own in recent years but today a return to the 'scissors' appears to be providing some helpful support at last...

### The Flop

It has been clear to market watchers that containership earnings have spent most of the period since the onset of the global financial crisis back in 2008 at bottom of the cycle levels. The Analysis in SIW 1,245 illustrated how cumulative earnings in the sector in that time proved a bit of a flop, and notably so in comparison to those in the tanker and bulker sectors. However, it's fair to say that things have started to look a little bit better recently.

### Jumping Back

The first building block was that the freight market appeared to bottom out in the second half of last year, with improvements in box spot rates on a range of routes backed by careful management of active capacity. In the first quarter of 2017, the mainlane freight rate index averaged 64 points, up 42% on the 2016 average. However, containership charter rates remained in the doldrums into 2017, with the timecharter rate index stuck at a historically low 39 points at the end of February, before the market picked up sharply during March taking the index to 47 (though since then market moves have been largely sideways). This change in conditions was partly supported by liner companies moving quickly to charter to meet the requirements of new alliance service structures, but how much were fundamentals also driving things?

Well, the start of some upward movement at last was to some extent in line with expectations, with demand growth expected to outpace supply expansion this year, and no doubt accelerated charterer activity helped too. However, the market received additional impetus from recent sharp shifts in supply and demand.

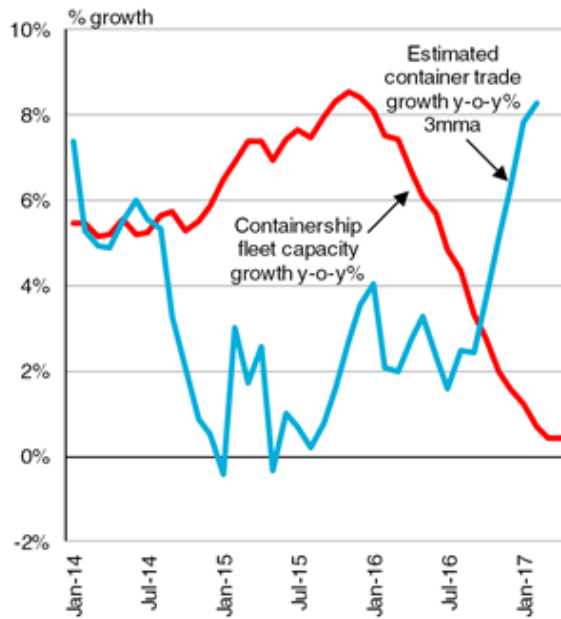
### Doing The Scissors

The lines on the graph (see description) show y-o-y growth in box trade and containership capacity; this is where the scissors come in. In 2015, capacity growth reached 8%, and remained ahead of trade growth until Q4 2016 when the lines crossed. In 2017, with capacity declining by 0.1% in Q1, backed by historically high demolition, and trade growth, notably in Asia, pushing along nicely, a big gap between the two lines has opened up. Demand is projected to outgrow supply this year (by c.4% to c.2%), but not by quite as much as seen so far. Full year expectations may be a little more restrained, but it's still a helpful switch.

### Graph of the Week

#### Containers Crossing The Line Into More Positive Territory?

The graph shows the monthly development of year-on-year growth in containership fleet capacity in TEU as well as the 3-month moving average of year-on-year growth in estimated sea-borne container trade based on volume data on a selected basket of trades representing around 80% of global container trade.



Source : Clarksons Research

### Going For Gold

So, in the case of the recent changes in containership earnings, maybe a bit of extra heat from the charterers' side helped, but it looks like fast-moving fundamentals have offered some support too. Perhaps it all goes to show that old methods can sometimes be as good as new ones, and right now boxship investors should be happy to forget the 'flop' and focus on the return of the 'scissors'.

Source: Clarksons

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(6) UK Chamber of Shipping, 19 May 2017

## UK shipowning needs to move with the times

by Sir Michael Bibby, managing director, Bibby Line Group

Bibby is one of the UK's last remaining family-run shipping companies, but that's not a fact I'm sentimental about. In fact, the way the Bibby Line Group has evolved shows just how critical it is that we look forwards – not backwards – in developing not only British shipowning and the wider UK sector. We need to think practically and move with the times.

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

The mid-twentieth century created a lot of problems for Britain's shipping industry, as Bibby can attest. Our company serviced the UK to Burma and Ceylon trade during the 1800s, and during the world wars we carried troops around the world for the British government. Burma and Ceylon (now Myanmar and Sri Lanka) gained independence from Britain in the 1940s and there was little trade with the UK as their economies shrank dramatically. In the 1960s, army troops began to travel the world by air.

As the empire faded, British shipping companies really struggled to adapt their businesses to the environment, which resulted in a lot of market share being taken over ultimately by foreign competition. This teaches us how difficult it is to make major transitional change in your business and adapt as market circumstances change around us – we've got to be realistic. A lot of the companies that survived and are still around today are hugely successful businesses that have grown and developed in new markets and have really served the needs of their customers.

We mustn't get sentimental about British shipowning being in "decline" – because it isn't. Most modern British shipowners are structured as large corporations, which have the economies of scale to market their services competitively. Certain wealthy individuals still own substantial stakes in many of these businesses, even though the companies are floated publically. That's one way in which British shipowners have moved with the times.

When we talk about UK shipowning, it's important to differentiate between putting vessels on the UK flag, having vessels owned within British companies and supporting the whole professional and service infrastructure behind that – as opposed to just British people owning ships.

The ships that are registered under the UK flag are often ultimately owned by foreign owners but they're still British ships registered under a British flag and often managed by British companies. In terms of shipmanagement, the UK's skill base is managing ships technically and commercially and providing the professional services to support that. This business is still thriving – whether it's in Glasgow, the City of London, Liverpool or wherever. The skill base is still there and is still doing really well, and is recognised internationally as a leading player in the sector.

Smaller entrepreneurs aren't investing in shipowning mainly because it's a large capital sum and there is significant risk attached. Traditionally, you used to have a seven-year shipping cycle: you'd have two years of boom followed by five years of bust. This cyclical structure made the market extremely risky and the average return on a ship investment over its lifespan was pretty low to justify that risk.

For these reasons, it has become quite difficult for shipping companies to survive in the long term and it is pretty risky to invest in the short term. To succeed, you have to find a niche where the barriers to entry are so high that people can't just come in and build lots of ships and dump them in your market – unless you have the massive scale from Day 1 to compete on a cost-plus basis.

Companies with a large number of ships can protect their position to some extent because they are basically gambling on future values and the highs and lows of asset prices. It is basically a residual value asset play, which means you are best to come into the market for a relatively short period of time, before selling up, getting out and then getting back in again.

To stay in shipping over the longer term, owners need to find individual niches where they have a particular skill set that allows them to sell more of a service to customers. You can see this in the renewables sector at the moment and you can see it in offshore to some extent, where there are some particular skill sets that have built up.

Bibby, for instance, has invested in the saturated diving business because there were more barriers to entry in that sector. We've developed our more niche marine specialities – we're building a vessel to service deep-water offshore windfarms at the moment, which is a specialist vessel that will be harder to be replicated, so it will be more difficult for new players to come in and trash the price.

For a new entrepreneur to come in and make money in shipping, there has to be an angle where they can add value and establish a foothold in the market. At the moment, that's probably not going to be in bulk carriers or traditional tankers or some of the commodity shipping markets – the container market is already saturated. Opportunities lie in some of the really niche activities as new markets develop, for example, in offshore wind farms and before that in the offshore sector, or on particular trade routes – maybe with ferries that can offer a particular type of service to meet specific local demands.

At the moment, there isn't a major incentive for government to make legislation that will support UK investors in shipping. There were previously some pretty big UK tax incentives where you could invest in shipping and cover a lot of your losses. Today, there aren't that many tax relief schemes for investment in this area on a significant scale.



Nevertheless, it will be interesting to see if the government's attitude changes after Brexit. Certainly, there will be some changes because a lot of the government's actions are determined by EU competition policy at the moment. That also makes it a good time for UK shipowners or those with British shipping interests to lobby the government to make policy changes that will benefit this country's maritime industry. Historical events have prompted Bibby to shift its strategy over the years and adaptation has made us stronger. The UK's shipping sector is in the midst of another transformational time in history as Britain negotiates its exit from the European Union. This need not be a negative thing – in fact, by liaising closely with government we may be able to tip the scales in our favour. The UK Chamber has an important role to play in achieving this. History and tradition aren't things to cling on to – they're a series of lessons from which we must learn and grow. UK shipowners will do well to stay on their toes, be agile to change and look for opportunities to get ahead of the crowd.

Source: UK Chamber of Shipping

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(7) Hellenic Shipping News, 17 May 2017

## OBOR: How will it change the game?

Global trade is shifting and the centuries-old model that saw maritime superpowers located in the western world controlling cargo flows across the high seas is giving way to a more multi-directional and multimodal future. Heavily influencing the new dynamics of world trade will be China, not least through One Belt One Road (OBOR). Also known as the New Silk Road, the multi-trillion dollar initiative aims to reshape intercontinental trade through a new network of maritime and landside links between Asia, Europe and Africa, based on ancient trading routes.

At its Belt and Road Summit in Beijing last week, President Xi Jinping announced that China will lend an extra \$124 billion to OBOR, including massive infrastructure development to support long-haul rail freight routes connecting China with Europe. The inauguration of the first-ever direct weekly freight train service between China and the UK earlier this year – a 7,500 mile journey through 7 countries – is the latest example of what could emerge as a fundamental shift in Eurasia supply chain routings.

In the last few years, the China-Europe rail freight has grown in popularity as a cheaper alternative to airfreight and a faster option than ocean. Some 18 separate services are now reported to be in operation, hauling a growing range of ambient and temperature-controlled cargoes, including electronics and perishables.

OBOR and the new dynamics of Eurasia trade connectivity will be high on the agenda at the Container Supply Chain conference at this year's TOC Europe and we asked some of our speakers for their thoughts on the future:

### **The Transport Operator viewpoint:**

#### **Karl Gheysen, Executive Director – Europe Region, KTZ Express:**

"The New Silk Road is about 'Interconnectivity'. Trains connect countries, trains connect companies and connect people. I see TOC Europe in a similar way. All major European decision takers in the logistics sphere are present.

As we speak, new destinations and regions continue to be added to this vast network of interconnected places all along the New Silk Road. In 2016 we witnessed a significant build-up of volumes. We continued to develop new destinations in Germany, the Benelux, but also new trains to Paris and Madrid. Most recently, we had already the first return trains from the UK, packed with export goods, back to China."

### **The Academic viewpoint:**

#### **Hercules Haralambides, Professor of Maritime Economics & Logistics, Erasmus University Rotterdam states:**

"Looking at Chinese investments in Australia, central and south America, and a continuing interest in the construction of the Nicaraguan Canal, OBOR could be easily extended to a global around the world (ATW) transport system.

The ATW concept assumes more concrete credence today, after President Trump's withdrawal from the Trans-Pacific Partnership (TPP) and, possibly, from NAFTA in the near future. China is already taking the lead in TPP, becoming the unquestionable global force of international trade. The withdrawal of the USA

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from TPP leaves a vacuum in China's trade policy – and her interests in trading partners – which could be filled by Europe, if the latter is ready to harmonize investment rules and allow greater, and thus reciprocal, Chinese FDI into Europe, through a Bilateral Investment Treaty (BIT).

Something like this would also strengthen Europe's position in trade matters with other Asian countries under China's sphere of influence."

OBOR of course also has major geopolitical ramifications and the huge scheme continues to excite a mixed response both inside and outside China. The US and many European nations did not send senior officials to the recent Beijing Summit. India did not attend.

How could these political considerations impact Eurasia trade, transport and infrastructure dynamics in the future? What role will China play versus India? How will the re-emergence of Iran impact the trade map? Where does long-haul Asia-Europe rail fit into the container supply chain mix? And where will the new ocean and inland trade hubs of the future be?

Source: TOC Europe

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