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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

- According to a regular survey***, confidence in the global shipping industry*** remains steady. After three consecutive quarterly increases, the latest survey shows an unchanged overall confidence index, compared with three months earlier (item 1).
- A huge number of ships will require ***ballast water management systems*** to be installed when the IMO convention enters into force later this year (item 2). Apart from the large cost involved, there are concerns about whether sufficient docking and engineering capacity will be available, although equipment installation will take place over several years.
- Prospects for ***China's economy*** are a relevant aspect of the outlook for many global maritime activities. A new survey published by the OECD organisation (item 3) suggests that the most likely trend is a continued gradual slowing over the next couple of years, amid the rebalancing which the government is seeking. However, debt has become a much bigger problem.
- The aim of a new ***maritime investment fund in Denmark*** is to achieve 'an attractive return" over the longer term (item 5). But, for some observers, this enterprise raises questions. The desirability or otherwise of investing pension fund money into a highly cyclical industry, with widely varying and uncertain annual profitability, is not altogether clear.
- Attempting to comprehend ***digital initiatives in shipping*** is proving a major challenge. A survey has revealed that, while many respondents acknowledge the importance of having digitalisation strategies, investment in these is somewhat limited in many cases (item 7).

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(1) Hellenic Shipping News, 22 March 2017/ Moore Stephens

Shipping confidence holds steady despite industry and political pressures

Shipping confidence held steady in the three months to end-February 2017, according to the latest Shipping Confidence Survey from international accountant and shipping adviser Moore Stephens.

In February 2017, the average confidence level expressed by respondents was 5.6 out of 10, unchanged from the previous survey in November 2016 and equal to the highest rating since August 2015. Owners were the only main category to show an improved level of confidence, up from 5.4 to 5.6. Confidence on the part of charterers was down from its all-time survey high of 6.8 to 5.9, while that of managers fell from 6.4 to 6. Confidence levels in the broking sector, meanwhile, dropped from 5.6 to 4.6. The survey launched in May 2008 with an overall confidence rating of 6.8. Confidence was up in Europe and North America, from 5.4 to 5.5 and 5.9 to 6.1 respectively, but down from 5.7 to 5.6 in Asia.

Respondents generally felt that competition was running at very high levels, while other familiar concerns included overtonnaging and geopolitical uncertainty. Most respondents saw 2017 as a year of retrenchment rather than improvement. One said: “If owners can maintain their discipline and resist the blandishments of shipyards desperate for business, there is hope that 2018 will see a return of market equilibrium, in which continued scrapping remains a key element.” Another, meanwhile, noted: “The current state of most shipping markets, coupled with the weakness of banks, means that conditions should be more attractive for alternative lenders.”

The likelihood of respondents making a major investment or significant development over the next 12 months was unchanged for the fourth successive quarter, at 4.9 out of 10. Managers’ expectations were up from 5.2 to 5.6, the highest level since August 2015. Owners’ expectations were also up, from 5 to 5.1, but those of charterers and brokers were down, from 6.4 to 5.8 and 3.8 to 3.4 respectively.

The number of respondents expecting finance costs to increase over the coming year rose by one percentage point to 54%, the highest level since November 2011. Owners’ expectations of increases fell from 58% to 57%, while the figures for brokers were also down, from 53% to 41%. Managers were of a different mind, with 61% expecting increases as opposed to 52% in November 2016.

Demand trends overtook competition as the factor expected to influence performance most significantly over the next 12 months, followed by finance costs and tonnage supply. “Competition is so intense at the moment,” said one respondent: “that you either accept what is offered or a competitor will take the cargo.” The number of respondents expecting higher rates in the tanker market over the next 12 months fell by eight percentage points to 25%, while the number anticipating lower tanker rates rose from 24% to 28%. Meanwhile, there was a three percentage point rise, to 44%, in the numbers anticipating higher rates in the dry bulk sector, although one respondent remarked: “The dry bulk freight market will continue to be tough, with returns not much above break-even”. In the container ship sector, the numbers expecting higher rates rose from 27% to 31%, while there was a three percentage point fall, to 18%, in those anticipating lower container ship rates. The net sentiment in the tanker markets was -3 (compared to +9 in November 2016), while it was +33 (up from +31 last time) in the dry bulk markets and +13 (compared to +6 in the previous survey) in the container ship trades

In a stand-alone question, respondents were asked to identify the price range they expected crude oil (per-barrel) to be in 12 months’ time. The most popular estimate was the $50-$59 range, identified by 38% of respondents, as opposed to 19% in the February 2016 survey. Meanwhile, 12% of respondents opted for the $40-$49 range compared to 26% last time. The $60-$69 price range was favoured by 29%, as opposed to just 5% one year ago. In February 2016, 31% predicted crude oil prices to be in the $30-$39 price range, whereas just 1% did so this time.

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Richard Greiner, Moore Stephens Partner, Shipping & Transport, said: "After three successive quarterly increases, shipping confidence has held steady. This is encouraging given the continuing political uncertainty in the US and Europe. Shipping is vulnerable to changes in the political landscape, and a slew of elections in leading industrialised nations will render it particularly so this year.

"Elsewhere, the issues facing the industry include an over-supply of ships and insufficient demolition. Freight markets are dragging along the bottom in many sectors, with net rate sentiment in the tanker market being particularly low. Add to this the expectation of higher ship finance costs, the mounting costs of regulation, the threat of cyber-crime and projected increases in operating costs and it is evident that shipping will not be a picnic for the foreseeable future

"But shipping is not a natural fit for the pessimist, and those with meaningful experience of the industry will be looking with some justification for a re-strengthening of rates in the tanker and dry-bulk trades, supported by continued rationalisation of newbuilding plans and accelerated recycling levels. Meanwhile, oil prices will continue to go up, which is mixed news for the shipping industry. For those who can effectively manage risk and volatility, shipping is still the place to be."
Source: Moore Stephens
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(2) Clarksons Research, 22 March 2017

Meeting The Global Standard For Ballast Water Discharge

The IMO's Ballast Water Management Convention was finally ratified in 2016 and 55 states representing 53% of global GT are currently signatories. This key piece of environmental legislation will enter into force on 8th September 2017 and the ramifications for the fleet are significant. Thousands of ships will require costly technology and elevated levels of demolition are expected as compliance dates approach.
The Final Standard
The IMO's Ballast Water Management Convention aims to prevent the spread of harmful and invasive species via ships' ballast water and requires that vessels install approved ballast water management systems (BWMSs). However, technology and installation costs are significant and range from anything between $0.5m to $3m per ship. Currently, around 3,900 vessels in the fleet are reported to have a BWMS. Bulkers, tankers and boxships account for 70% of these. A much higher proportion of the orderbook is compliant, around 16%, and most ships on order have provisions for BWMSs.
Ships constructed after the convention enters into force on 8th September 2017 must comply upon delivery while most existing ships will have until the first renewal of their International Oil Pollution Prevention certificate (IOPPC) to comply. This typically occurs during a ship's 5-year Special Survey but, depending on the flag administration, the IOPPC can be 'de-harmonised' and renewed separately. This could delay compliance dates, an attractive option in weak shipping markets, especially as only three systems currently have USCG 'Final Approval', which enables ships to sail in US waters.
Fleet Management
The graph illustrates one potential scenario for BWMS retrofit demand across the global merchant fleet. Excluding c.5,300 ships estimated to have BWMSs (including allowances for late reporting) and around 43,000 ships engaged in 'domestic' trading, as these are likely to be exempt from the convention because they operate within one body of water, approximately 46,000 ships require a BWMS. However, BWMS retrofit is costly and can be technically difficult for older ships and this may push owners to scrap as compliance dates near. With a rough assumption that ships of 20+ years will be recycled rather than retrofitted, BWMS retrofit demand falls to c.31,000 ships.
Ballasting Ahead
Clearly, this high-level scenario is very sensitive to the assumptions made and BWMS retrofit demand could be much higher or lower in reality. Overall, however, the number of ships requiring BWMSs is likely to be considerable and how the compliance schedule is phased will be very important. Whether there is

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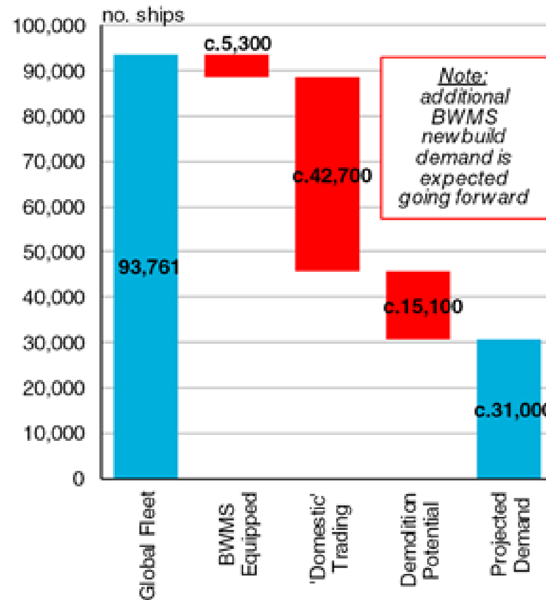
sufficient docking and engineering capacity is another concern, and the potential for installation 'bottlenecks' appears to be high.
The ratification of the Ballast Water Management Convention has significant implications for the shipping industry. Compliant technology can be costly and older ships are likely to be recycled, especially given the current weak earnings environment. Even with increased demolition, thousands of existing ships are still estimated to require BWMSs and meeting this requirement will be challenging.

Graph of The Month

BWMS Requirement: Global Fleet Scenario

The bars show the projected total merchant fleet requirement for ballast water management systems (BWMSs) based on the start March 2017 fleet. Note that the BWMS equipped fleet is based on reported technology (c.3,900 ships) plus an allowance for late reporting. 'Domestic' trading ships are vessels reported to have spent the last 2 years operating in the same body of water, identified using the Clarksons SeaNet ship tracking system. Demolition assumptions were made on a vessel sector basis.



Source : Clarksons Research

Source: Clarkson Research Services
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(3) OECD, 21 March 2017

China: time to focus on financial risks and structural reform

As the Chinese economy matures to a slower but more sustainable growth path, policy efforts need to focus more on efficiency, stability and inclusiveness, according to a new OECD report.
The latest OECD Economic Survey of China projects that the Chinese economy will remain the major driver of global growth for the foreseeable future, with per capita GDP on course to almost double by 2020 from 2010 levels. The Survey recommends continued efforts to rebalance the economy from investment to consumption and to address key risks including high corporate debt, excess industrial capacity and inflated housing prices.

"After decades of breath-taking expansion, the focus should be on making growth more resilient, sustainable and inclusive, and addressing risks to stability," said OECD Secretary-General Angel Gurría. "China's economy should now be driven less by physical investment and more by innovation, it should deleverage and it should, above all, become greener."

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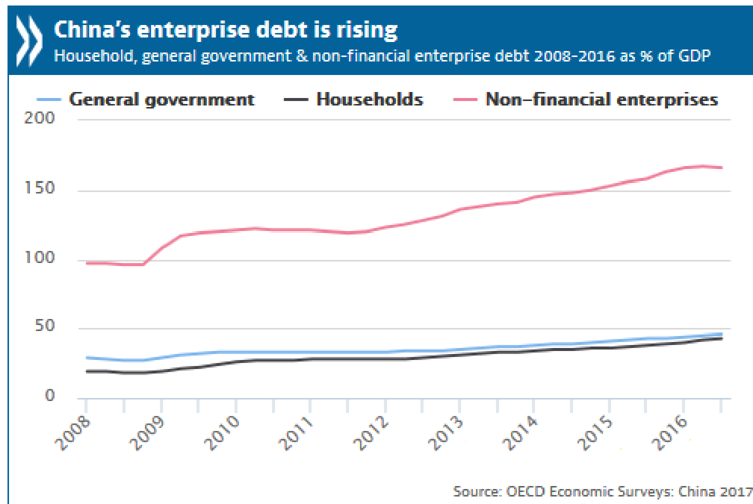
Financial risks are mounting on the back of rising enterprise debt and over-capacity in some sectors, as well as real estate price exuberance. Debt owed by non-financial firms in China, encouraged by implicit state guarantees to state-owned enterprises (SOEs) and public entities, reached 170% of GDP in 2016, the highest level among leading economies. Two-thirds of enterprise debt is owed by SOEs. Steps to tackle financial risks should include gradually removing implicit guarantees to SOEs and restricting leveraged investment in asset markets.



The Survey also recommends further structural reforms in line with China's quest to become a "moderately prosperous society" by 2020.
The tax and transfer system reduces income inequality less than in other leading economies. For example, many low-income households pay a higher share of income in social contributions than richer ones. The Survey suggests basing those contributions on actual income earned, but also broadening the personal income tax base and increasing tax progressivity.
Vast disparities also exist in access to quality education. The Survey argues for increasing public funding for childcare and encouraging the participation of rural children in early childhood education. It also advocates greater central and provincial government social assistance transfers to poorer areas.
The Survey further recommends that support for research and development, which at present is too concentrated on high-tech industries, be broadened to a wider range of sectors to boost innovation across the economy and maintain sustainable growth. Although China ranks first worldwide in terms of patents, streamlining the incentive system and removing regulatory barriers would boost the impact of innovation on productivity.
Source: OECD
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(4) Hellenic Shipping News, 22 March 2017/ Alphaliner

Global container volumes recover in 2nd half of 2016

Global container volumes grew by an estimated 1.8% in 2016, up from 1.4% in the year 2015. Following a tepid first six months of 2016, port throughput eventually growth rebounded in the second half of the year. Particularly the fourth quarter of 2016 saw volume growth soar to 4.0%, compared to a negative growth of –0.6% in the first quarter, based on Alphaliner's sample of quarterly data collected for the 30 largest container ports in the world.

Last year's stronger volume growth was led by several ports that reported double digit gains, including Port Kelang (10.8%), Colombo (10.6%), Manila (11.3%), Piraeus (10.4%*), Mundra (18.7%*), Salalah

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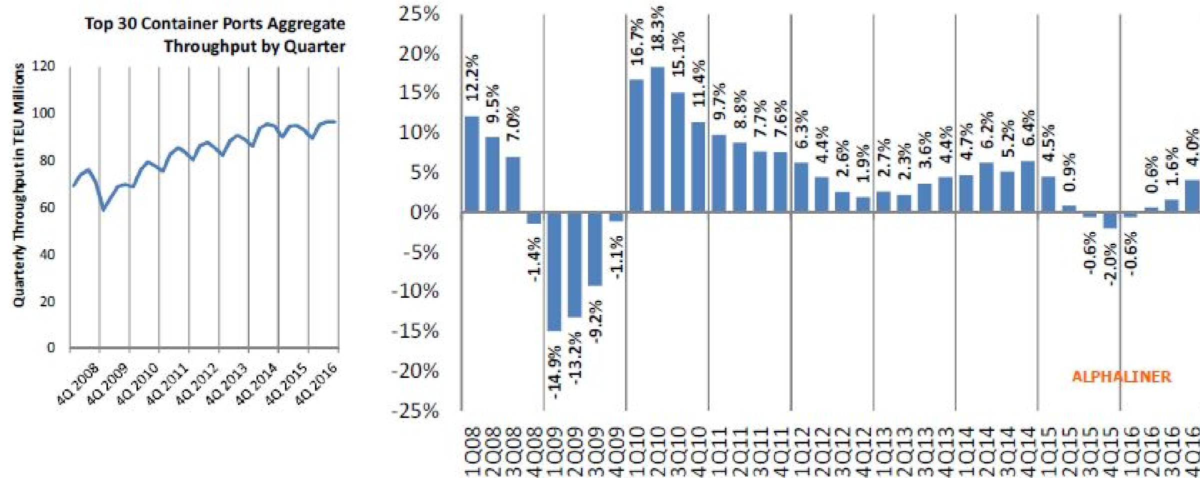
(29.4%), Inchon (12.6%), Fuzhou (10.0%*), Chittagong (15.9%), Barcelona (14.5%), Bandar Abbas (23.6%) and Cai Mep (35.3%). However, these gains were mitigated by volume losses at Dubai (-5.2%), Tanjung Pelepas (-9.2%), Jakarta (-6.5%), Felixstowe (-8.5%*), Santos (-5.7%), Port Said (-11.9%*), Balboa (-8.0%), Ambarli (-9.2%), Durban (-5.4%), Cartagena (- 10.6%*), Manzanillo (Pan) (-7.3%), Dammam (-9.6%) and Zeebrugge (-10.8%).

Top 30 Ports : Throughput Growth by Quarter



Preliminary 2016 throughput data for the Top 100 container ports (see page 2 for full list) is in line with global growth estimates, with aggregate volumes at these ports growing by 1.8% last year to reach 555.6 Mteu.
Source: Alphaliner
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(5) Hellenic Shipping News, 23 March 2017/ PensionDanmark

Establishment of new maritime investment fund of over $300 million

PensionDanmark, Danica and Navigare Capital Partners have established the Maritime Investment Fund I, which, based on capital from the founders, shall build a diversified portfolio of maritime assets including dry bulk, container, offshore, product, crude oil and chemical tankers, to put on charter to operators.

The fund will be managed by Navigare Capital Partners, which consists of partners with broad based shipping experience. ”The new investment fund will give institutional investors a possibility to invest in a broad portfolio of vessels. This is new and very positive for shipping in Denmark, “Blue Denmark”, says Henrik Ramskov, Managing Partner in Navigare Capital Partners The three investors (PensionDanmark, Danica and Navigare Capital Partners) have agreed to invest more than 300 mio. USD in the new fund. The fund will eventually invite other institutional investors to participate.

“We are looking forward to a long-term partnership between PensionDanmark and Navigare Capital Partners on investment in vessels. The investments will be handled by a team with strong competences and experience, and we expect an attractive return during our relatively long term investments within shipping”, says Managing Director Torben Möger Pedersen, PensionDanmark “We expect that the investment in the fund will give our customers a reasonable return. We are investing in a strong and experienced team with a broad set of competences, and this together with the attractive price on new as well as secondhand vessels, is a key reason for us to see this as a good investment, says Investment director Danica Pension Jesper Langmack.

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The three investors:
Navigare Capital Partners
Navigare Capital is owned by a number of partners with substantial shipping experience. The partners will be providing capital along with the institutional investors.
PensionDanmark A/S
PensionDanmark A/S manages pension and insurance schemes, health care and educational funds on behalf of 695,000 members. At the end of 2016 PensionDanmark had EUR 26.4bn under management.
Danica Pension
With more than 600,000 customers, we are one of the largest pension providers in Denmark. We have specialised in pension schemes, life insurance and health insurance, and our total pension funds amount to DKK 327 billion, with annual contributions upwards of DKK 27 billion.
Source: PensionDanmark
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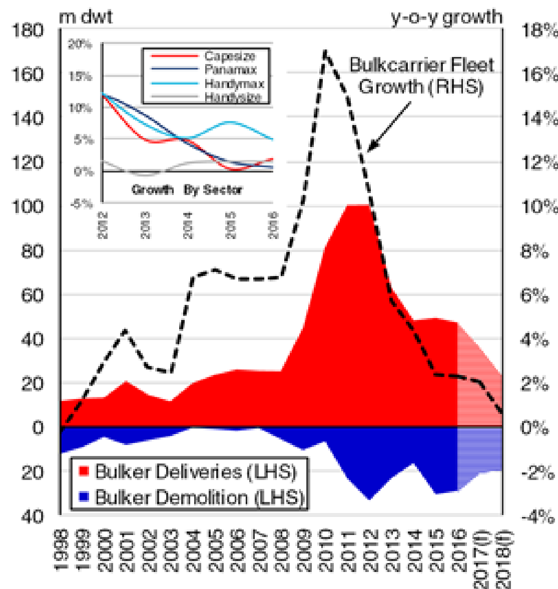
(6) Clarksons Research, 20 March 2017

Bulkcarrier Fleet Growth In Limbo?

The pace of bulkcarrier fleet growth has fallen sharply since 2010, when the fleet grew by a record 17%. In 2016, the supply side response to difficult market conditions saw the bulker fleet grow at the slowest pace so far this century, while current projections also indicate a further easing in the near future. Given the range of possible scenarios, the question is how low (or high) could bulkcarrier fleet growth go?

Graph of the Month

Bulkcarrier Fleet Growth Trends In The 21st Century



The red area indicates annual bulkcarrier deliveries, while the blue area shows annual bulkcarrier demolition volumes, both in dwt (LHS). The black dotted line represents annual bulkcarrier fleet growth in dwt terms (RHS). Data for 2017 and 2018 represents current 'base case' projections. The inset graph shows annual fleet growth across the bulkcarrier sectors.

Source : Clarksons Research

A 21st Century Low
Against a backdrop of oversupply built up over several years, average bulker earnings hit a 14-year low of $6,218/day in 2016. This exacerbated financial pressure on owners, triggering supply side measures including firm scrapping and delivery deferral, which combined to see the pace of bulker fleet growth hit a 16-year low of 2.3% in 2016. Furthermore, while overall bulker fleet growth was sluggish, the Handymax fleet grew 4.9% in 2016, reflecting the recent popularity of Ultramax orders. Without firm levels of Handymax growth, bulker fleet expansion might have been closer to 1% in 2016.

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Breaking Down With Demo
The subdued pace of total bulkcarrier fleet growth in 2016 was partly driven by firm demolition activity. As dry bulk market conditions deteriorated and secondhand prices for 15 year old bulkcarriers fell close to scrap values in 1H 2016, owners responded by scrapping 297 units, of a combined 23m dwt. While the pace of demolition slowed in 2H 2016, total bulkcarrier scrapping still hit 29m dwt in full year 2016, which was the third highest total on record.

A Low Bar For Deliveries
Depressed dry bulk market conditions also drove a firm increase in the rate of the 'non-delivery' of the scheduled bulkcarrier orderbook. Indeed, 'non-delivery' of the start-2016 bulkcarrier orderbook reached a rate of 46%, compared to 36% in 2015. As a result, overall bulkcarrier deliveries dropped to a 7-year low of 47m dwt in full year 2016.

Some Swing Scenarios For '17
Looking forward, the pace of bulkcarrier fleet growth is expected to remain subdued. Current projections indicate expansion of around 2.0% in 2017, based on 37m dwt of deliveries and 21m dwt of demolition. However, fleet projections are clearly very sensitive to the assumptions used. For example, using 'base case' demolition assumptions and adjusting for the rate of 'non-delivery' of the start 2017 orderbook, projections for bulkcarrier fleet growth range between 1.3% if the rate of 'non-delivery' matches the 2016 level, and 4.6% if all tonnage enters the fleet on schedule. Meanwhile, using 'base case' delivery assumptions, bulkcarrier fleet growth could range between 0.4% if demolition matches the current record scrapping levels seen in 2012, to as high as 2.6% based on the more conservative levels recorded only two years later.

So, there is a great deal of uncertainty regarding the exact levels of bulkcarrier fleet growth in 2017. While there is a 'high case' scenario, continued 'non-delivery' in the year to date suggests that this is less than likely. Overall, while it is still unclear how low fleet growth really will go, it does appear that the short term looks set to see a period of relatively subdued expansion in bulkcarrier capacity.

Source: Clarksons

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(7) Hellenic Shipping News, 23 March 2017/ Futurenautics Maritime

Waypoint Digital 2017 Survey shows 85% of Shipping industry see digital transformation as critical, but number one challenge is understanding it

A groundbreaking survey carried out by Futurenautics Maritime in association with Ericsson has for the first time delivered hard data around the status of, and investment in, digital initiatives in the shipping and maritime industry.

Anecdotally the global shipping industry and its suppliers have been considered 'conservative' in their approach to digitisation but according to more than 700 respondents to the Waypoint Digital 2017 survey 85% of ship operators, suppliers and industry stakeholders globally believe that digital initiatives are of the most, or highest importance to the financial or market success of their organisations. The figure amongst ship operators was 73%.

Asked to characterise their organisation's digital strategy today, overall three-quarters (75%) described it as either Digital Transformation or Digital Reimagination—where radical changes to business processes, whole new business models, new digital products and services and new segmentation and customer channels were being created.

However, according to C-suite respondents 76% of their organisations are investing less than $100k pa in their digital initiatives, with 57% investing less than $25k pa. Only 11% of organisations are investing more than $1m pa.

"These findings mean an end to the narrative that ship operators and maritime suppliers have no interest in digital transformation, it's very clear they recognise just how critical it is," said Roger Adamson, CEO of Futurenautics Maritime. "However, it's very hard to see how three-quarters of shipping and maritime

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companies are engaged in a wholesale digital reimagination of their businesses on this kind of investment."

Increasingly reliable and affordable connectivity to vessels is now opening the door for new digital operations, exposing inefficiencies and opaque business practices, but respondents cite lack of data and understanding about how digital trends affect the industry and their organisations' competitiveness as their number one challenge.

"Leaders overwhelmingly feel ill-equipped to navigate the developing digital economy, making them vulnerable to disruption from new, technology-centric competitors, which should be a concern not only for the industry but for national governments looking to support their shipping and maritime sectors," said Roger Adamson. "Companies need access to strategic advice and information around how digital shifts may affect them, and finance to invest in digital infrastructure and talent rather than more tonnage no one needs."

Source: Futurenautics Maritime

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