Southampton SOLENT University

Global Maritime Weekly Digest

Publishing Director: Dr Minghua Zhao **Editor: Richard Scott**

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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.

Contents

Editorial comments

- The latest quarterly **survey of global shipping confidence** compiled by consultants Moore Stephens shows a very slight improvement compared with the previous survey (item 1). Among shipowners, confidence was markedly higher.
- Several **industry problems** were cited by respondents, including economic and geopolitical uncertainty (disappointing economic growth), availability of finance (too much or too little), and over-supply of tonnage. However "the mood of our respondents was not universally downbeat" according to Moore Stephens.
- Although the incidence of **maritime piracy** around the world has diminished during the past few years, it is still prominent in some areas (item 2). It has receded greatly in East Africa and the Gulf of Aden where it was previously most visible. 'Hot spots' are now West Africa and South East Asia.
- More **maritime professionals may leave the UK** as a consequence of last week's Brexit referendum majority vote, according to a survey by recruitment consultants Faststream (item 5). However, the compilers acknowledge that the relative attractiveness of various work locations in a global industry is a constantly shifting scene.
- Greatly expanded capacity in the **Panama Canal** was officially opened this week. With increased maximum dimensions for ship length, beam and draft, Clarksons Research estimates that the canal is now accessible to almost four-fifths of the world fleet of ships (as shown in the item 6 graph), based on deadweight tonnage, compared with well under half prior to the enlargement.

Richard Scott MA MCIT FICS, editor (bulkshipan@aol.com)

(1) Hellenic Shipping News, 22 June 2016/ Moore Stephens

Moore Stephens: Small rise in shipping confidence

In May 2016, the average confidence level expressed by respondents in the markets in which they operate was 5.1 on a scale of 1 (low) to 10 (high). This is a slight improvement on the 5.0 recorded in February 2016, but is still the second lowest rating in the life of the survey, which was launched in May 2008 with a confidence rating of 6.8.

Confidence on the part of owners was markedly up this time, from 4.8 to 5.7, while charterers were also slightly more optimistic than in February, their rating inching up from 3.9 to 4.0. Confidence among managers and brokers, however, was down, from 5.5 to 5.1 and from 5.1 to 4.3 respectively.

Geographically, albeit from very low levels last time, confidence was up in Asia, from 4.4 to 5.2, in Europe from 5.1 to 5.2, and in North America from 4.7 to 5.0.

Economic and geopolitical uncertainty was uppermost in the thoughts of many respondents. “Overall world economic growth is still not moving concertedly in a positive direction,” said one, “so that we have what might best be described as a patchy global economic recovery.” Another emphasised, “Unless there is a drastic change in geopolitical events, shipping markets will remain in their present condition for another 12 months.” Elsewhere it was noted, “World economies are in transition, and we have to adapt to a period when money is not so easy to come by.”

The availability of money for shipping projects, meanwhile, was another recurring theme in respondents’ comments. “Finance is way too cheap,” said one, “and has caused a massive over-supply of tonnage.” Not everybody agreed, however. One respondent complained, “Demands for early loan repayments have been a huge blow to owners’ survival plans,” while another said, “Unstable income due to the collapse in the markets has led financiers to lose confidence in owners.”

Once again, a surfeit of tonnage and a paucity of scrapping were referenced by a number of respondents. One noted, “Far too many newbuildings in the ultra-to-VLOC size range will be hitting the market in the next 12-to-18 months,” while elsewhere it was noted that what is needed is, “strong scrapping, fewer dry newbuildings, stiffer regulations, better and more uniform control.”

Another respondent said, “Over-supply of tonnage is still the key influencing factor in the market, and there will be no real change until bold decisions are made in respect of scrapping tonnage which is less than twenty years old.”

It was not all pessimism, however. One respondent insisted, “There are lots of opportunities in the market for smart operators. Those who merely follow the lead of others will, as always, suffer, because they do not understand the market.” More than one respondent, meanwhile, emphasised that, in many cases, there is simply no alternative to shipping. “Shipping is the major means of transporting goods in the world, and shipping lanes will continue to increase,” said one. “There is still a market out there,” said another, “but we can’t all be winners, and there is no longer any room for mediocre performance.

The likelihood of respondents making a major investment or significant development over the next 12 months was up marginally on the previous survey, on a scale of 1 to 10, to 4.9 from 4.8 last time, which equalled the figure recorded in February 2009 as the lowest in the life of the survey to date. The confidence of owners in this respect was up significantly, from 4.9 to 5.7, while managers also recorded a small increase, from 5.3 to 5.4. Charterers and brokers, however, were less confident in this regard than they were three months ago, dropping from 5.1 to 4.1 and from 4.4 to 3.5 respectively.

The number of respondents who expected finance costs to increase over the next 12 months was down by one percentage point on last time, to 41 %. The numbers of owners (37 %), managers (49%) and brokers (44 %) anticipating dearer finance were up by one, 6 and 8 percentage points respectively, but charterers’ expectations in this regard were down by 27 percentage points to just 29%.

Demand trends, competition and tonnage supply featured again as the top three factors cited by respondents as those likely to influence performance most significantly over the coming 12 months. Demand trends, which were actually down by two percentage points to 24 %, remained in first place, with competition (up 2 percentage points to 23 %) in second place. Tonnage supply, up one percentage point to 16 %, occupied third place, one percentage point ahead of finance costs. Operating costs, down by 3 percentage points to 9 %, featured in fifth place, ahead of regulation (5 %) and fuel costs (4 %).

Though overall sentiment in the tanker market was still negative, there was a 5 percentage-point increase (to 23 %) in the number of respondents expecting higher freight rates over the next 12 months, and a 3 percentage-point increase (to 43 %) in the numbers of like mind in the dry bulk trades. But there was a 6 percentage-point fall (to 21 %) in the number of respondents anticipating higher rates in the container ship market. The net sentiment in the tanker market was -11, but +32 and +1 in the dry bulk and container ship sectors respectively.

Respondents were asked a stand-alone question concerning whether or not the UK should leave the European Union. Overall, 77% of respondents felt the UK should remain in the EU. But whereas 79% of owners and 75% of managers were of that view, in the case of charterers and brokers it was significantly lower – 57% and 38% respectively. Twenty percent of respondents felt that an EU exit would have some negative impact on their business, but 64% said it would have no impact at all. So far as UK respondents alone were concerned, 59% thought the UK should remain in the European Union, while 49% thought that leaving the EU would have no impact at all on their business.

One respondent said, “There is likely to be no major impact if the UK votes to leave the EU, but there could be a period of uncertainty in connection with rules and regulations.” Another, however, pointed out, “Shipping is a very complex international business. Having an extra layer of bureaucrats in Brussels has a negative effect on economic wellbeing under just about any form of government.”

Richard Greiner, Moore Stephens partner, Shipping Industry Group, says, “If there is one thing certain in the current shipping market, it is the level of uncertainty which is pervading all sectors at the moment. Over the three months covered by our latest survey, that uncertainty has embraced a variety of industry-specific issues, as well as geopolitical factors ranging from the UK referendum on EU membership to the comparative slowdown in the Chinese economy. Against such a background, any increase in shipping confidence – however small – is welcome.

“Many of our respondents continue to express serious misgivings about the extent of overtonnaging, and about the inadequacy of current levels of demolition activity. One informed estimate recently put world shipbuilding overcapacity at 50%. Other estimates, meanwhile, put first-quarter 2016 demolition levels at roughly 50% more than in the same period the previous year. Where ship recycling is concerned, however, 50% of not very much is not enough. As one respondent to our survey noted, ‘We have still to see 15-year-old ships being sent to scrapyards in any meaningful manner.’

“There is meanwhile little cheer in the freight markets. In the dry bulk sector, rates are described as ‘dire’, while it is reported that the container ship market is seeing some of the lowest freight rates in its history. The tanker sector is faring better by comparison, but its fortunes over the coming 12 months will be closely linked to what happens to oil prices. The Baltic Dry Index, although recovering from its recent all-time low, is languishing by comparison with its ‘salad days’, and may continue to do so for some time absent a significant upturn in the Chinese economy.

“It is clear that shipping is in for a hard 12 months. The problems cited by the respondents to our survey are familiar in nature and, in many cases, growing in the extent of their severity. The fact that only 5% of respondents considered regulation to be one of the main factors likely to influence their performance over the coming 12 months is either an indication of the severity and immediacy of other factors, or else an acceptance that there is still time to save up for what is needed to comply with new regulation. The Ballast Water Management Convention now stands on the cusp of ratification at a largely unquantifiable cost to operators.

“The mood of our respondents was not universally downbeat, however. A number continued to emphasise the fact that other methods of transportation are invariably not a viable alternative to shipping, while others stressed that innovative operators will always find a way to succeed, including accessing the finance needed to do so. And while some complained about the difficulty of securing or maintaining finance, 45% of owners rated the possibility of making a new investment over the coming 12 months at 7 out of 10 or higher.

“In general terms, the continuing advent of new technology and the relentless march of regulation are intended to make shipping safer, cleaner, more accountable and more competitive – an environment that would be a natural fit for well-founded operators with sound business plans and long-term aspirations. But the cost of achieving those aims is high, and ultimately much will depend on the industry’s ability to rationalise capacity and thereby push up freight rates.”

Source: Moore Stephens

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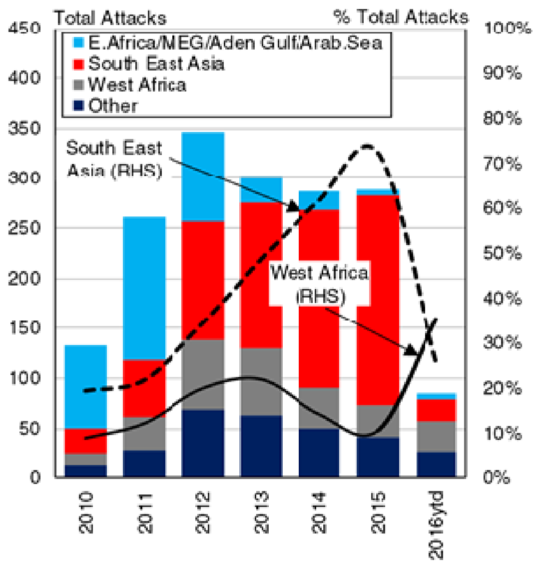
(2) Clarksons Research, 23 June 2016

Tracking Global Piracy Trends Across The Seas

Piracy has existed since the conception of shipping, and pirate attacks on vessels continue to disrupt trade, raising vessel security concerns and impacting the operation and insurance costs for ships. The drivers behind piracy are wide but primarily economic and clearly, geography is also key. This month, we take a closer look at recent shifts in the regional distribution of piracy 'hot spots'.

Graph of The Month

Still A Pirate's Life For Some? Looking At The Latest Trends



The bars show piracy attacks by region, in terms of vessel numbers. The lines show the total share of global piracy attacks reported in South East Asia and West Africa.

Source : Clarksons Research

Piracy Still Prevalent

Piracy remains a prevalent concern within the shipping industry, raising issues around vessel security, disrupting trade routes and increasing ship operation costs. In the year to date, 85 piracy attacks have been reported globally compared to 142 in the same period of 2015. While the overall incidence of piracy has fallen since 2012 when nearly 350 attacks were reported, the number of incidents remains significant (and is likely underestimated). In 2016 so far, six ships have been reported captured by pirates, this compares to 10 vessels in full year 2015, down from nearly 30 ships in 2011.

Africa: Piracy Shifting West

The regional distribution of piracy incidents has varied over time. In 2016 so far, piracy attacks have been most prevalent in West Africa with the region accounting for 35% of reported incidents (30 ships). Piracy in the Gulf of Guinea has increased as Nigerian militants seek alternative sources of funding. Further, lower oil prices have made the theft of oil cargoes less financially attractive and pirates appear to be focussing on kidnap for ransom activities. Four of the six ships reported captured in the year to date were sailing in West Africa. In contrast, no vessels have been reported captured in East Africa or the Gulf of Aden in 2016 so far. 25 ships were reported captured in this region in 2010, close to 90% of all vessels captured, largely as a result of Somali piracy. Concerted naval efforts in these waters have led to a dramatic decline in the number of piracy incidents and the average number of attacks reported between 2013 and 2015 totals 17 ships p.a. compared to an average of 105 attacks p.a. between 2010 and 2012.

Safer South East Asian Seas?
Piracy attacks in South East Asia meanwhile account for 26% of incidents reported in the year to date (22 ships). The Strait of Malacca is a key trade route and piracy attacks in the region tend to focus on the theft of cargo. However, reported attacks in the year to date have declined 75% year-on-year with an average of 163 ships attacked by pirates in South East Asia p.a. 2012-15. Lower commodity prices have made the economics of siphoning oil and gas to sell on less attractive and with piracy in this region generally less violent, only two vessels have been reported captured in 2016 so far. Further, regional initiatives such as ReCAAP have also helped deter piracy.

So, piracy attacks are reported to be declining though 'hot spots' remain. Lower oil prices have fuelled more aggressive incidents of piracy and vessel captures in West Africa. At the same time, they have weakened the economic incentive for piracy in South East Asia, reducing attacks on ships. However, in the longer-term, piracy is still an important issue and regional counter piracy efforts including stronger governance and law enforcement systems remain key.
Source: Clarkson Research Services

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(3) Hellenic Shipping News, 24 June 2016/ Drewry

Slowing shipping fleet growth to ease officer shortage

Slowing growth in the size of the shipping fleet will reduce the shortage of officers over the coming years, according to the latest Manning report published by global shipping consultancy Drewry.

The global shipping fleet – encompassing all sectors except the non-cargo carrying ship types, such as tugs and passenger ships, and smaller coaster vessels, such as oil tankers and bulk carriers of less than 10,000 dwt – is expected to rise by a mere 300 vessels through 2016-2020. As a result, the shortage in officer supply is forecast to reduce from 20,900 at the end of 2015 to 7,700 by the end of 2020.

The year 2015 proved to be a dreadful one for the entire shipping sector, with the exception of oil tankers. Weak demand, coupled with falling commodity prices and oversupply of tonnage in most sectors led to rates collapsing to levels unseen since the global financial meltdown in 2008-2009. Growing concerns in the global economy and depressed freight earnings have forced owners to refrain from contracting new orders, while order cancellations and vessel demolitions have become a regular feature of the market
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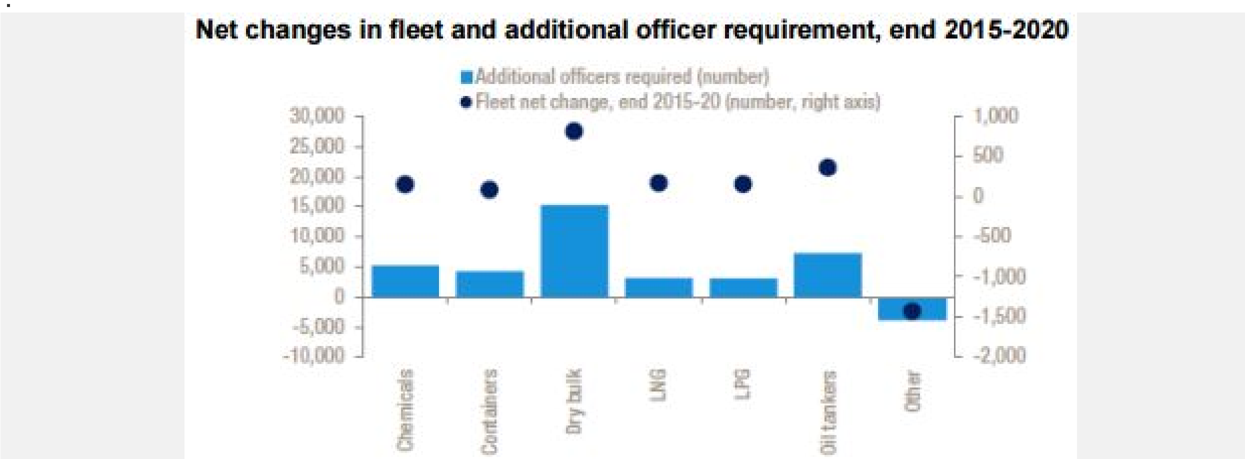

Source: Drewry's Manning report (www.drewry.co.uk/publications)

Poor freight earnings are forcing owners and operators to reduce costs, in turn keeping any increase in wage levels to a bare minimum. While manning costs for 2016 are largely similar to those in 2015, in some sectors, such as LNG, there have been some uplifts in wage costs over the past year. However, the offshore sector, in particular, has witnessed wage reductions in light of falling oil prices and an uncertain economic outlook.

With the growth in the size of the cargo carrying fleet tapering off, we expect the ongoing officer shortage to ease and for wage costs to increase modestly over the next five years", said Nikhil Jain, senior analyst at Drewry.
Source: Drewry

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(4) Hellenic Shipping News, 24 June 2016/ Sustainable Shipping Initiative

The Sustainable Shipping Initiative Develops Concept For "SEAFARERS' On-Board Charter"

The Sustainable Shipping Initiative (SSI) – a pioneering coalition of companies from across the global shipping industry – has announced it has developed the concept of a 'Seafarers' On-board Charter' – a best practice charter that can be adopted by ship owners and operators to further enhance the welfare of seafarers beyond the mandatory standards of the Maritime Labour Convention (MLC). The announcement coincides with the International Maritime Organisation's (IMO) annual Day of the Seafarer on 25th June 2016, which recognises the indispensable role that seafarers play in driving the global economy.
The SSI's Social Sustainability Working Group has developed the concept for the Seafarers' On-board Charter following the implementation of a research survey to analyse the quality of life of seafarers, and generate insights on what more can be done to enhance living conditions while on-board vessels. The Charter aims to encourage ship owners and operators to go beyond the mandatory basics of the MLC, including specifically implementing some of the voluntary aspects of the Part B provisions of the MLC, within the following five subcategories:
Accommodation – enhancing habitability through indoor environmental quality factors
Recreation and social activities – providing and equipping recreational spaces for social activities on board
Communication and social support – providing internet connectivity, and monitoring seafarer satisfaction
Food and catering – provide routines for testing of potable water to ensure a suitable quality
Management and policy – ensuring that there are equal opportunities for seafarers and shore staff, and encouraging a harmonious working environment
Ship owners and operators that adopt the best practice standards of the Charter will demonstrate their recognition of the value of the seafarer to the enterprise, and their commitment to them. By creating a better working environment, they will attract and retain the best talent which will inspire more productivity and efficiencies within operations, adding to their competitive advantage with their customers.
To support the voluntary implementation of the Charter, the SSI is working with its ship owner and charterer members for suitable rating schemes to adopt the the Charter and would recognise and favour owners and operators who adopt the more progressive approaches to crew welfare. A further development could be for access to the Charter to allow seafarers to see which progressive companies place additional value on their sea staff.
The development of the Charter is in line with the third key pillar of the SSI's Vision for a sustainable shipping industry by 2040. The SSI believes that not only is it a fundamental duty of the industry to improve the overall quality of life for those that work at sea, but also, the industry must build a reputation for being a trusted and responsible partner within the communities where it lives, works and operates. This will help to promote shipping as an industry of opportunity, attracting and retaining people with the traditional skills and competencies required, as well as the more diverse skillsets and experience which are increasingly needed as the industry develops in technical complexity.
"Since coming into force, the Maritime Labour Convention has had a positive impact in ensuring that the majority of seafarers, at the minimum, have a basic, safe, and secure workplace as well as fair terms of

employment and relatively decent living conditions," said Alastair Fischbacher, CEO, the Sustainable Shipping Initiative.
"While there are many companies who already implement many of the Charter aspirations, it is by no means universal and more need to be aware of what they can do to improve their sea staff's satisfaction and productivity. Seafarers are the lifeblood of the shipping industry and critical to its future sustainability. The Charter sets out some simple measures that enhance their welfare, living standards and working conditions to ensure that we attract and retain the best talent by ensuring a reputation for shipping as an industry where people can build rewarding careers."
Source: Sustainable Shipping Initiative

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(5) Hellenic Shipping News, 27 June 2016/ Faststream

Brexit result could see UK facing an exodus of maritime talent

The UK's decision to leave the EU has the potential to drive many of its maritime employees away, according to the results of a survey issued by industry recruitment group Faststream earlier today.

A survey to UK based maritime employees, issued following the Brexit results today (24.06.16), shows that over 39% of employees who wouldn't previously have looked at a move away from the UK would now consider roles overseas, with a further 23% undecided. "It's a leave vote for the UK and a leave vote for UK maritime employees" comments Mark Charman, Faststream Group CEO.

Charman continued; "Global mobility has always been a positive aspect of working in the maritime industry. 66% of respondents to our survey would have considered a role outside the UK prior today's Brexit results, which shows just how flexible the maritime workforce are. The uncertainty that a leave vote brings just adds fuel to the fire."

The UK, like many other global maritime hubs, already faces a serious shortage of talent in shore-based operations. The opportunity for UK employees to secure jobs away for its shores will be possible for many, but not all. "The shock factor created by the reality of the UK leaving the EU will create immediate uncertainty for many UK maritime employees. However, wanting to move away from the UK doesn't mean that employees can or should. It's a big decision, both personally and professionally, and not one to take lightly."

Charman continued; "The subject of losing talent from one location to another is not ground-breaking. Whether it's a downturn in a certain region, rising living costs, lack of opportunities or low pay, there will always be a host of reasons for maritime employees to consider a move away from their current location. On face value the leave vote in the UK is not unlike any of these. Time will tell."

Faststream will be looking closely at confidence within the sector over the coming months. "We already have plans in place to record, analyse and release a monthly maritime confidence index later this year which will monitor employee confidence data within global maritime hubs. We feel that this is important, not just for the UK but to the market as a whole."
Source: Faststream

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(6) Clarksons Research, 27 June 2016

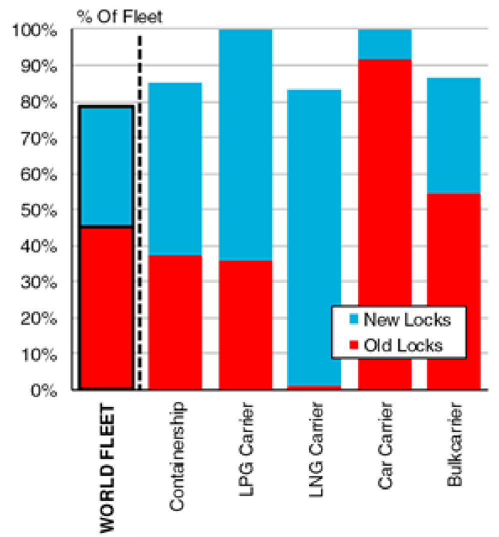
The Panama Canal Goes Forth Into A New Dimension

On 26th June 2016, a landmark development for the shipping industry will occur with the opening of the new third set of locks at the Panama Canal. Around ten years in the making, the expansion will enable significantly larger ships to transit the Canal, which is likely to have a wide and significant range of implications across a number of shipping sectors.

Graph of the Week

The Panama Canal Achieves Its 'Widest' Dreams?

The graph shows the proportion of fleet capacity in each sector which is capable of transiting the existing (or "old") locks of the Panama Canal, and the additional proportion of fleet capacity which will be able to transit through the new expanded set of locks. Data shown in dwt for the world fleet and bulkcarriers, in TEU for containerships, cubic metres for LPG and LNG carriers, and vehicle capacity for car carriers. Statistics as at 20th June 2016.



Source : Clarksons Research

Beam Me Through, Scotty!

Since opening in 1914, the Panama Canal has provided a key point of transit between the Atlantic and Pacific Oceans. Nearly 14,000 transits of the canal were recorded last fiscal year, carrying around 230mt of cargo. While this accounts for just 2% of total global seaborne trade, the canal is a key shipping lane for a number of vessel segments and cargo flows.

At a macro level, vessel upsizing trends over recent decades have significantly increased the number of ships that are too large to transit the canal. On the 20th June 2016, more than half (55%) of total dwt capacity in the world fleet was accounted for by ships too large to transit the canal. The new, larger locks will enable many additional vessels to transit, as the maximum permissible beam will initially be raised to 49m, up from 32.3m at the old locks, while the maximum LOA and draft at the new locks will be 366m and 15.2m respectively. On the basis of the 'New Panamax' dimensions, 79% of dwt tonnage in the world fleet will now be able to officially pass through the canal.

Walk On The Wide Side

The most significant impact of the opening of the new locks will be on the containership sector, which has accounted for around a third of all canal transits and half of the annual toll revenue. More than 1,400 boxships of 12.5m teu (63% of total containership fleet capacity) are too large to transit the old locks today, but only around 200 of 3.0m teu (15% of fleet capacity) will be too large to pass through the new locks. Vessels of up to and around 13,500 TEU will be able to transit, compared to around 4-5,000 teu previously. This is expected to drive significant changes in containership deployment, particularly on the Transpacific trade.

Let’s Go Wide
In addition, the opening of the new locks is generally thought likely to have an important impact on the LNG, LPG and car carrier sectors. All VLGCs will be able to transit the new locks, as will the majority of LNG carriers, compared to only a handful of small LNG carriers previously. This is expected to lead to an increase in LNG vessels transiting the canal, typically with exports from the US.

Locked In To A New Era
Clarksons Research is marking this important milestone through a number of data updates. Fleet databases now include vessel indicators for the ability to transit both the “New” and “Old” locks of the Panama Canal, which will be displayed on vessel profiles within Shipping Intelligence Network and World Fleet Register. Vessel segmentation within the containership sector will also be updated to best reflect the structure of the fleet in the context of the expanded canal. As the Panama Canal enters a new era, for many in the shipping industry it’s the perfect time to “go wide”. Have a nice day!
Source: Clarksons

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