



# **Global Maritime Weekly Digest**

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**04 April 2017**

**issue 69**

*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**

- Signs of an improvement in the global **container ship market** have emerged in recent weeks and there are arguments for expecting a positive trend to continue this year (item 1).
- One of the contributory factors is **heavy scrapping of container ships** which reached a record high volume last year and may remain equally high in 2017 (item 6) although, as always, forecasts are surrounded by considerable uncertainty.
- How rapidly will the **China-owned fleet of merchant ships** grow this year? There are solid indications of another period of brisk expansion ahead, following two years when this fleet grew by seven percent annually (item 3).
- Shipowners based in China have the **largest volume of new ships on order** among the leading shipowning countries. While prospects for other fleet drivers are less clear, heavy newbuilding deliveries over the next two years could enable the China-owned fleet to expand strongly.
- Growth in global **liquefied natural gas (LNG) trade** continues apace and is seen as likely to maintain an upwards trend. Export availability, facilitating trade, has been aided by increasing use of FLNG vessels (the letter F denotes floating), which are expensive specialised units converting gas into liquid for transportation, enabling economic extraction from offshore gas fields (item 4).
- The position of **LNG as an alternative fuel for ships** has been restricted by lower oil prices in the past couple of years and by limited development of refueling (bunkering) facilities at ports. Thus some observers have adopted a cautious view of prospects for greater use (item 5).

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(1) Hellenic Shipping News, 29 March 2017/ Maritime Strategies International

## The containership bounce back: What could possibly go wrong?

Sentiment in the containership markets is palpably shifting and on the back of the Q1 2017 optimism, a roadmap to headier rates and earnings might take the following course.

First, freight rate improvements have recently moved liner operators toward profitability, whilst charter owners are seeing the first meaningful uptick in earnings since mid-2015. Second, the scars of disappointing trade growth in 2016 are seemingly healed, whilst the imposing 2017 delivery schedule is more a hypothetical than an actual barrier to a sustained recovery.

Third, scrapping will continue at the same rate as last year (even if charter rates pick up), whilst the 1 million TEU idle fleet is apparently illusory. What, one asks, could go wrong?

For once, MSI is taking the middle ground. We do think that a lot of the optimists are overstating their case – a notable example being those who believe charter rates will pick up rapidly – but we also assume that another 700,000 TEU will be scrapped this year.

We also think that, even allowing for a considerable amount of slippage, the 2017 delivery schedule should be cause for considerable concern. Finally, the benign assumption of relatively steady trade growth has been made for a number of years now, and whilst in 2014 trade surpassed expectations, 2015 and 2016 proved to be serious disappointments.

However we do believe that the worst has passed for the charter market and that, on an annual average basis, 2017 earnings will surpass 2016 for large and midsize tonnage. Smaller tonnage will prove somewhat more disappointing, as we cleave to our longstanding belief that any market recovery will be led by the relief of pressure from the larger segments which are currently forming such an effective blockage preventing an earnings recovery.

However, the most significant, and least discussed, risk to our benign view remains the idle fleet. In blunt terms, we think that a significant recovery in earnings cannot occur until the economically active idle fleet reduces to below 400,000 TEU – as opposed to today's level of 1.2m TEU.

Chart 1 below displays the relationship between idle capacity and earnings for two containership benchmarks. As it shows, there is a good relationship between idle capacity and the containership earnings environment across the fleet, but the biggest beneficiary of a reduction in idle capacity is the Panamax vessel.

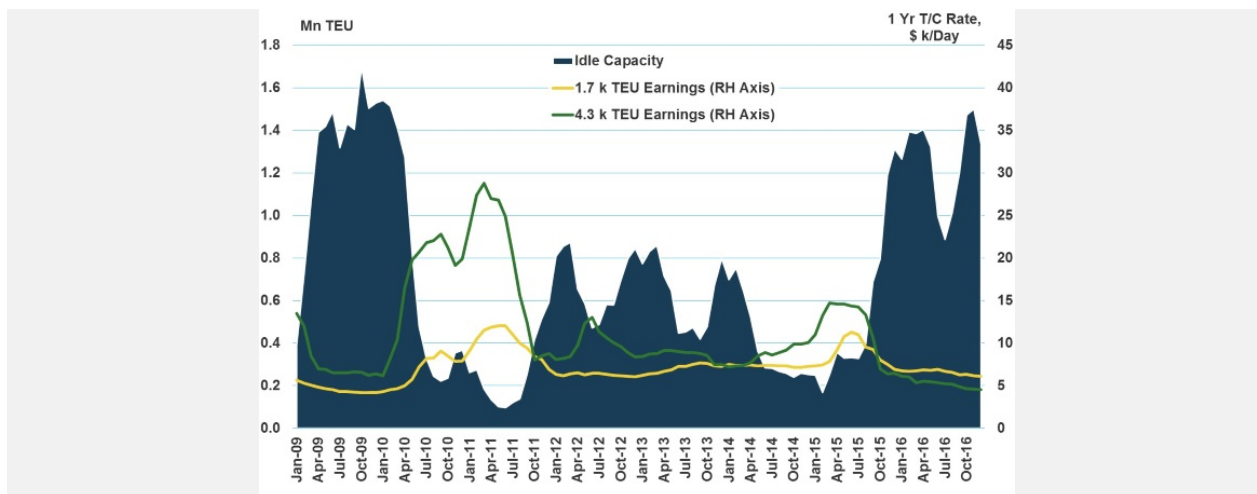


Chart 1: Idle Capacity v Earnings

This should come as no surprise to regular readers of MSI analysis, but the wider message now is that the dynamics facing the Panamax market are more broadly replicated for all vessels above 4,000 TEU. In fact, even the ultra-modern 11,000 TEU vessels controlled by Costamare and York Capital being

completed at Hanjin Subic are struggling to find work, and it is clear that 8,000 TEU and 6,500 TEU vessels increasingly find themselves in the liquid market.

The crux of our charter-rate forecast is that idle capacity will trend down over the year, and by Q4 will be below 0.5 million TEU, which will in turn push up earnings. The reduction in idle capacity is driven by our view of a tightening supply/demand balance, but critically also by liner companies taking a somewhat more proactive stance with respect to the charter market and deployment after the introduction of the new alliance system in April 2017.

Should the change in liner company behaviour not materialise then the recovery in earnings will be pushed back by about two quarters. However, in the case that the demand side recovery MSI is forecasting disappoints, then realistically a substantial upwards movement in the charter market will be postponed until towards the end of 2018.

Source: Maritime Strategies International

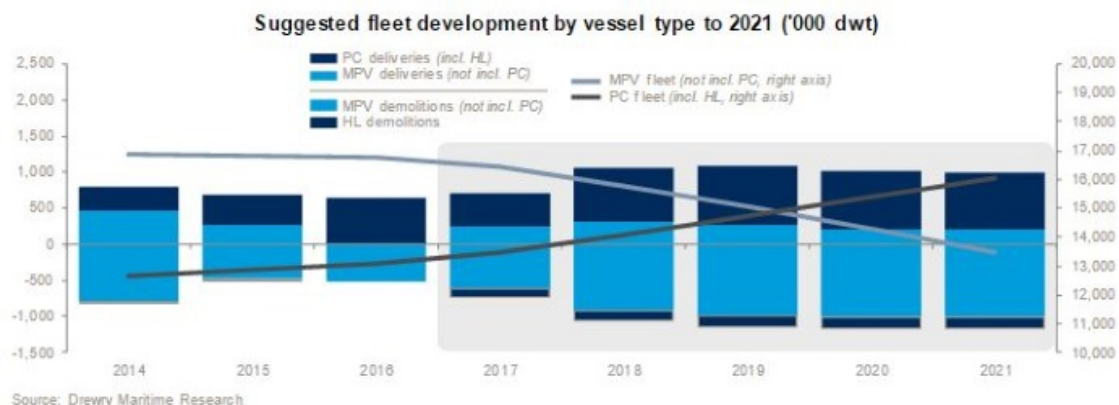
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(2) Hellenic Shipping News, 29 March 2017/ Drewry Maritime Research

## Light at the end of the tunnel for the multipurpose shipping market

Following another poor year for multipurpose shipping with further erosion of rates making it the worst market in over 10 years, signs of recovery are now evident with momentum expected to build over the next few years, according to the latest Multipurpose Shipping Market Annual Review and Forecast 2017 report published by global shipping consultancy Drewry.

Dry cargo demand is forecast to grow by around 3% in 2018, but within that figure it is the market share available to multipurpose vessels which is more interesting. Drewry estimates that the multipurpose (MPV) share of bulk trades in the peak year of 2007 was about 17%, while the share of general cargo trades was nearer 20%. Over the intervening period, both these shares have eroded and we estimate the bulk cargo share for 2016 to be nearer 14% and 12% for general cargo. However, Drewry believes that this is the bottom of this particular cycle and that the MPV market share in both areas should improve, albeit marginally, over the next five years. Although MPV demand fell slightly over 2016 compared to 2015, it is expected to grow at an average annual rate of 3.4% to 2021.



On the other side of the equation vessel supply is expected to contract over the same period, albeit by only 0.1%. However, for both newbuilding orders and demolition activity there is a big difference between simple MPV and project carriers. Over the last five years the percentage of project carriers being delivered to the fleet has risen to an average 58%. However, in 2016 a staggering 93% of all newbuildings had heavylift capability, sounding a death knell for the simple MPV fleet.

With about 63% of the orderbook declaring heavylift capability, the future decline of the simple MPV section of the fleet is almost assured. There is very little, if any, new investment in this sector with those new orders without lift capacity seen as simple replacements for an aging fleet. Owners are taking

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significant decisions to build higher specification vessels with bigger lift capacity, in order to give them an advantage in the appalling market.

“Drewry expects to see a decline of almost 4% in the ‘simple’ MPV fleet to 2018, balanced against growth of 4% in the project carrier fleet,” comments Susan Oatway, lead analyst for multipurpose shipping at Drewry.

“Add these two together and you get an improving supply and demand balance. We expect to see only a slight improvement in the market over 2017 with rate rises gathering momentum after 2018. For the larger sectors, which have a bigger correlation to Handysize rates, there could be a more significant uptick in 2017 before rates settle over 2018,” added Oatway.

Source: Drewry Maritime Research

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(3) Hellenic Shipping News, 30 March 2017/ article by Richard Scott, GMWD editor

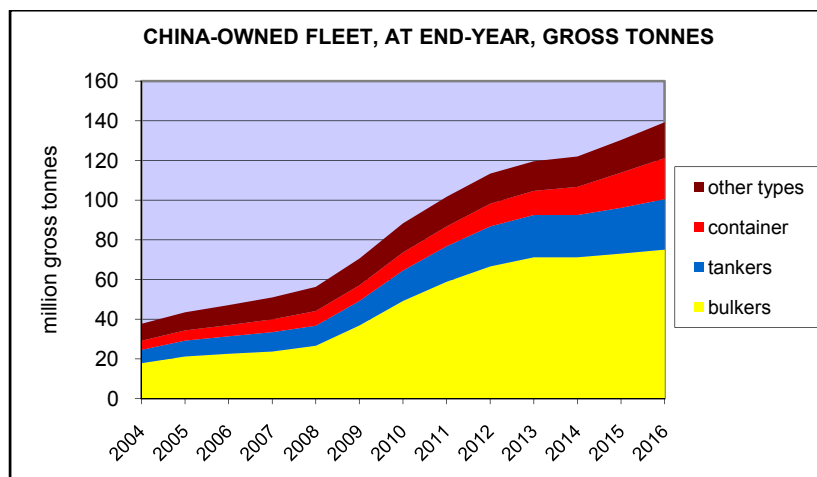
## China-owned fleet's brisk growth

Vigorous expansion in the China-owned fleet of ships over the past two years looks set to persist in the next twelve months and further ahead. Large numbers of new tankers, bulk carriers, container ships and other vessels are scheduled to begin operating. While some fleet growth drivers are hard to predict, a strong upwards trend seems likely.

Organisational changes are accompanying enlargement of the fleet's carrying capacity. Reorganising Chinese state-owned shipping companies has progressed. Consolidation into much bigger businesses aims to facilitate efficiency improvements and enhance competitiveness, boosting financial performance.

### Resuming a powerful wave

Stronger fleet expansion has returned. In 2016 the China-owned merchant ship fleet grew by an estimated 7 percent for the second consecutive year, after decelerating quite dramatically over several years to only 2 percent growth in 2014, according to Clarksons Research figures. During last year, although newbuilding deliveries were lower than seen in the previous twelve months, reduced scrapping and other changes contributed.



includes all tankers; includes bulk carriers 10K dwt & over; excludes Hong-Kong owned  
source: Clarksons Research

At the end of 2016 the entire China-owned fleet, excluding Hong Kong-owned tonnage, reached 139.3 million gross tonnes, a three-fold expansion over one decade. This volume still comprises the world's

third largest by owner nationality, at 11 percent of the global total. Greece is in the top position, and number two is Japan.

The bulk carrier fleet, China's largest segment, has seen relatively slow 0-3 percent increases in the past few years, reaching a total of just over 75m gt at the end of last year. Meanwhile growth in tanker capacity has rebounded after slowing to almost nil in 2014, growing by 8-10 percent annually to 25m gt at end-2016.

In the container segment, the past three years have seen remarkably fast expansion. This included 16 percent growth last year to 21m gt following a 26 percent rise in the preceding twelve months. Among other notable changes, the gas carrier fleet of liquefied natural gas (LNG) and liquefied petroleum gas (LPG) vessels has almost doubled over the past three years, reaching 2.2m gt.

Ship's cargo carrying capacity (or, more correctly, total lifting capacity) is expressed here in gross tonnes, because this is a common measurement. Usually, bulk carriers and tankers are measured by deadweight tonnes, container ships by the teu (twenty-foot equivalent unit) and gas carriers by cubic metres. Another statistical point is that vessel ownership is defined by the country where the parent owning company is located.

### **Notable fleet features**

Last year, based on the figures already discussed, the entire China-owned merchant ship fleet's tonnage growth was almost 9m gt, compared with growth of 8.3m gt in the previous twelve months. This sequence enabled the percentage rate of increase to remain stable at 7 percent. But changes in key influences varied.

In 2015 overall fleet expansion accelerated, reflecting higher newbuilding deliveries and second-hand purchases than seen in the preceding year, coupled with lower scrapping and lower second-hand sales. In 2016 all components fell, according to Clarksons Research provisional calculations. Newbuilding deliveries, scrapping and second-hand purchases and sales declined at varying rates, the result of which was a larger net tonnage growth figure.

Figures for second-hand purchases and sales by owners based in China appear to mainly reflect transactions with foreign owners. However, some transactions may represent deals between domestic Chinese owners.

Coupled with rising capacity, the number of individual ships in the China-owned fleet has risen, although not proportionately. A decade ago at the end of 2006 there were 4,304 ships, with an average size of 10,987 gt. Ten years later, at the end of last year, there were 6,985 ships with an average size of 19,941 gt. This 81 percent growth in the average ship size, over a relatively short period, emphasises the effects of introducing many more huge tankers, bulk carriers and container ships.

Observed employment patterns confirm that the largest part of this fleet participates in international trade. Cargoes are carried to or from China, or in cross trades between other countries. A substantial number of ships, the remainder, is employed partly or often wholly in the Chinese coastal trade, a massive protected market restricted mainly to Chinese registered, owned and operated tonnage.

Just over half of the entire fleet operates under foreign flags, mostly open registries. The latest, end-2015, breakdown published by the United Nations Conference on Trade and Development (UNCTAD) shows 53 percent flagged out, although this percentage (which has remained stable in the past few years) includes a large volume registered under the Hong Kong flag. Advantages of foreign flag registration include greater operational, financial and regulatory flexibility compared with the Chinese flag.

### **Consolidation and upgrading**

The impact of government policy initiatives on the Chinese fleet's organisation and development over the past twelve months has been pervasive. Mergers among the big state-owned shipping companies were completed. Scrapping subsidies continued, providing benefits for fleet renewal.

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Consolidation on a vast scale occurred when COSCO merged with China Shipping Group in the first quarter of 2016. Both state-owned groups operated extensive fleets involved in many sectors, and provided many maritime services. Consequently it was a complex task. Later in 2016 there was another rearrangement between state-owned shipping companies. China Merchants Group completed its acquisition of Sinotrans & CSC Holdings. A further amalgamation last year was a merger of the valemex operations of China Merchants and ICBC Leasing.

These dramatic upheavals among the companies with the largest Chinese shipping operations have changed the China-owned fleet's profile. Amid difficult global circumstances in many sectors, the aim is reorganisation to increase efficiency, reduce costs, improve competitiveness and boost financial performance, benefiting from greater economies of scale in the world marketplace.

Fleet renewal has been assisted by the government's continuing shipping subsidy scheme, which was extended until the end of this year. Only China-flagged ships are eligible for inclusion. Shipowners participating in the scheme are required to place newbuilding orders at Chinese shipbuilders with a tonnage at least equivalent to the tonnage being scrapped in domestic recycling yards.

### **Becoming more prominent: the players**

The China-owned fleet is dominated by the two new groupings, COSCO and China Merchants. Numerous other companies also own ships, some of which are leasing and financing businesses connected with Chinese and foreign operators. A number of companies expanded their fleets during the past twelve months.

Some especially large fleets of specific vessel types, owned by individual companies or groups, are prominent. The largest existing at the end of last year were COSCO's 206 bulk carriers totalling 10.6m gt, and 140 container ships totalling 10.5m gt (based on figures derived from Clarksons Research data). Other big tonnages were COSCO's 7.9m gt tankers, and the tanker fleet owned by China Merchants subsidiary China VLCC, at 6.2m gt. BoCom Leasing, a subsidiary of the Bank of Communications owned a container ship fleet totalling 3.2m gt.

Among expanding categories, the fleet of China-owned 400,000 deadweight capacity valemex ore carriers increased last year. In June Industrial and Commercial Bank of China (ICBC) purchased a further three valemaxes from Brazilian mining company Vale, to join the four it had already bought. Two other shipowners - COSCO subsidiary China Ore Shipping, and China Merchants subsidiary China VLCC - had also each bought four valemaxes during 2015. In a preceding deal, Shandong Shipping leased four.

As a result, the number of valemaxes operated by Chinese owners has reached 19, over half the total 35 ships of this type operating. All vessels acquired have been chartered back to Vale on long term charters extending over twenty years or more. Acquisitions followed settlement of a dispute with the Chinese authorities which had prevented valemaxes entering discharge ports in China. The iron ore trade from Brazil to China is the main emphasis of employment.

### **Many newbuildings on order**

Clear potential for future growth in China's merchant ship fleet, over the next couple of years, is visible in the listings of new vessels which have been ordered from shipyards. The actual timing of newbuilding deliveries may differ from that reported, however.

As calculated at the beginning of this year, orders placed by China-based owners, for all vessel types and sizes, comprised 485 ships amounting to 28.8m gt. The total was equivalent to just over one-fifth of China's 139.2m gt existing fleet, according to Clarksons Research. Within the 28.8m gt total, 13.0m gt or 45 percent was scheduled for delivery in 2017 and a similar 46 percent next year.

Compared with other leading shipowning countries, Chinese owners' orderbook was the biggest. It exceeded that of Japan, 25.8m gt, and Greece, 18.5m gt.

## China-owned fleet: newbuilding deliveries schedule large ships, as at 1 January 2017 (excludes Hong Kong-owned)

number of ships, capacity (000 teu, dwt or cbm), scheduled delivery dates

ship type	2017		2018	
	number	capacity	number	capacity
<b>container ships</b>		<b>000 teu</b>		<b>000 teu</b>
9,400 teu	13	122	0	0
11,500 teu	3	33	7	81
13,500-14,500 teu	3	44	10	137
19,150-20,988 teu ULBC	1	19	17	341
<b>total</b>	<b>20</b>	<b>218</b>	<b>34</b>	<b>559</b>
<b>tankers</b>		<b>000 dwt</b>		<b>000 dwt</b>
113-115,000 dwt products	6	684	0	0
157-160,000 dwt crude	5	794	0	0
300-311,000 dwt crude	9	2779	13	3986
318-319,000 dwt crude	5	1594	3	957
<b>total</b>	<b>25</b>	<b>5851</b>	<b>16</b>	<b>4943</b>
<b>bulk carriers</b>		<b>000 dwt</b>		<b>000dwt</b>
105,000 dwt	1	105	0	0
180,000 dwt	8	1440	0	0
208-210,000 dwt	9	1877	0	03
250-262,000 dwt	3	2774	0	0
400,000 dwt valemex	0	0	18	7200
<b>total</b>	<b>21</b>	<b>6196</b>	<b>18</b>	<b>7200</b>
<b>LNG carriers</b>		<b>000 cbm</b>		<b>000 cbm</b>
172-174,000 cubic metres	5	870	3	517

**2019** deliveries scheduled: 12 valemex 400,000 dwt totalling 4,800,000 dwt  
source: compiled by Richard Scott from Clarksons Research order listings

The table shows newbuilding orders for larger ships only, scheduled for completion in 2017 and next year. Among notable highlights, container ships in the 19-21,000 teu ULBC (ultra-large box carrier) size group number 18. In the container ship size groups between 9,400 teu and 14,500 teu, a large number of the 36 vessels seem to be financing arrangements destined for charter to foreign container service operators.

Tanker newbuilding orders for the China-owned fleet are also prominent. In particular, VLCC (very large crude carrier) orders for 300-319,000 dwt ships number 30. Almost half, 14 ships, have been ordered by the China VLCC company (China Merchants).

Another notable category is the valemex 400,000 dwt ore carriers, a further 30 of which have been ordered by Chinese shipowners. Next year 18 are scheduled for delivery, followed by 12 in the next twelve months. A large part of this tonnage may directly replace older vessels currently employed in the Brazil to China iron ore trade, many of which are ore carriers converted several years ago from single-hull tankers. In addition, bulk carriers in the capesize category on order for China-based owners number 21, including 8 standard size ships, 9 newcastlemex and 3 larger wozmax vessels.

### A strong wave could prevail

Continued growth in the China-owned merchant ship fleet over the next couple of years at least is likely, based on current indications. Yet, although the direction of the trend seems clear, many uncertainties surround estimates of the pace.

One question arising is whether vessels now on order will be mainly delivered on time, according to reported schedules, or how much 'slippage' will occur. Also, orderbooks could be augmented by additional new contracts. These are hard to predict except in general terms, a comment applicable as well

to sales of existing ships for scrapping. Moreover, second-hand purchases from and sales to foreign shipowners are not usually accurately predictable.

Nevertheless, despite such imponderable aspects, an underlying theme reinforces expectations of possible robust future fleet expansion. A long-stated Chinese government aim is to see a greater proportion of the country's vast seaborne trade transported in ships owned and controlled by companies based in China. The extensive VLCC and valemex newbuilding programmes are consistent with this objective.

Another broad theme is China's 'One Belt, One Road' (OBOR) gigantic scheme of integrated transport and infrastructure projects. Port developments link elements of the Belt's land routes with the Road's sea routes. The 'Road' part of the title represents the concept of the twenty-first century Maritime Silk Road, a sea route stretching from the South China Sea and South East Asia, through the Indian Ocean and Middle East area, into the Eastern Mediterranean. Some of China's fleet developments can be related to this grand plan.

While there is inevitably great uncertainty about the longer term trend, in the shorter-term, perhaps more predictable future, the China-owned fleet of merchant ships seems set to experience solid expansion. During the current Year of the Rooster, another large increase is foreseeable.

Source: article by Richard Scott, associate, China Centre (Maritime), Southampton Solent University and managing director, Bulk Shipping Analysis

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(4) Clarksons Research, 27 March 2017

## Taking The Road To The Future With Natural Gas?

Natural gas is set to account for an increasing share of the global energy mix in coming years, with gas consumption growing by an average of around 1.5%-2% a year out to 2040, according to energy forecasting agencies such as the IEA. And based on recent trends, if the consensus views on natural gas prove accurate, the implications for the offshore and LNG carrier fleets are likely to be significant.

### Stepping On The Pedal

In 2016, global natural gas demand stood at an estimated 347bn cfd, up by 24% on the 280bn cfd consumed in 2006. Demand for natural gas in recent years has been driven by industrialisation in developing economies (Chinese gas demand, for example, grew at a CAGR of 13% in 2006-16) and environmental concerns the world over. Historically, the majority of trade in natural gas has been by pipeline, for instance from Eurasia to Europe. In 2015, pipelines still accounted for 68% of natural gas volumes moved globally.

However, liquefied natural gas (LNG) has become an increasingly important form in which gas is traded, even given the costs of complex liquefaction and regasification facilities. Over 50% of existing nameplate liquefaction capacity at LNG export terminals (349mtpa globally) has come online since 2005. As a corollary, from start 2006 to start March 2017, the LNG carrier fleet increased from 193 to 479 vessels and tripled in total capacity to 70.2m cubic metres of LNG.

### Shifting It Up A Gear

Growth in the seaborne LNG trade is in turn closely linked with growth in offshore gas production, as major LNG exporters such as Qatar and more recently Australia use offshore gas fields to provide feedstock to LNG trains. Qatar accounted for 30% of LNG exports and 22% of existing liquefaction capacity in 2016, all fed via offshore gas, mostly from the giant North Field. In 2006, offshore fields accounted for 28% of global gas production and by 2016, 31%. This is set to rise to 32% (119bn cfd) in 2017, mainly due to field start-ups off Australia that are to feed LNG projects like Wheatstone. Finding, developing and supporting offshore gas fields on Australia's NW Shelf has created demand for a range of vessels from the offshore fleet of over 13,500 units.



### More Gas In The Tank

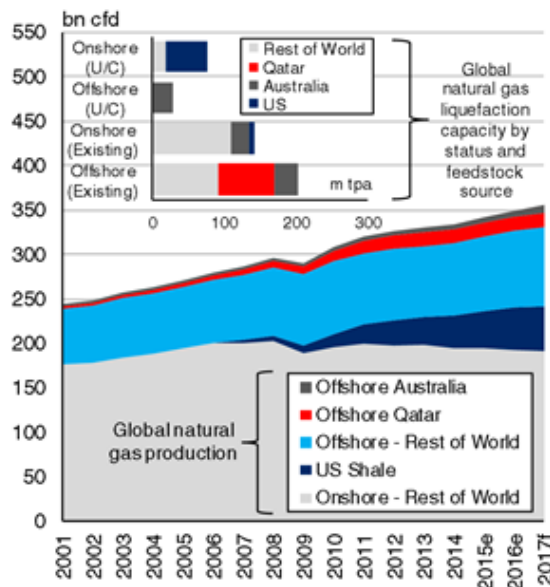
The exploitation of these remote reserves has also spawned the FLNG concept – vessels that can be used to exploit otherwise stranded gas. The LNG markets are clearly challenged at present but in the long term, planned FLNG projects in Australia, Mozambique, Tanzania, Mauritania and other areas could potentially sustain offshore gas production growth. Another major source of gas production growth has been the US shale gas sector, where production rose from 4bn cfd in 2007 to 48bn cfd in 2016. The US accounts for over 50% of liquefaction capacity under construction (while some planned projects entail liquefaction of shale gas on near-shore FLNGs) and is set to become a major LNG exporter in coming years.

So offshore gas production has grown as a share of total global gas production, as has US shale gas. Both trends can create opportunities for LNG and offshore vessels. And if, in line with consensus expectations, gas continues to grow as a share of the energy mix, then these trends may have a long and interesting road ahead.

## Graph of the Week

### Global Natural Gas Production And LNG Export Capacity

The main graph shows global natural gas production from 2001 to 2016, as well as the 2017 projection, split by onshore and offshore production with selected key production sources highlighted. The inset shows the reported nameplate capacity of existing and under construction natural gas liquefaction capacity globally, split by primary source (onshore/offshore) of gas feedstock. Detailed coverage of offshore gas production on a country-by-country basis can be found in the *Offshore Intelligence Monthly*.



Source : Clarksons Research

Source: Clarksons  
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(5) Hellenic Shipping News, 28 March 2016/ Platts

## LNG bunkering is an idea whose time hasn't come (yet)

Time passes quickly when looking into LNG bunkering. Two years ago the market talked about it as a possible solution to the introduction of a 0.1% sulfur emission control area (ECA) for ships in northern Europe. Five years before that it was the start of the 1% sulfur ECA in the same area that might have helped promote the idea.

And now the International Maritime Organization (IMO) has decided that global marine sulfur emission limits will be cut from 3.5% to 0.5% from 2020, prompting some to wonder again whether LNG bunkering

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might be the solution. Not long ago the industry gathered in Amsterdam for the annual LNG Bunkering Summit with that hope in mind.

When 2020 comes, shipowners will either be forced to install emissions-cleaning scrubbers on board their vessels or switch to burning cleaner, more expensive fuels. For most that will mean switching to a gasoil-based fuel, but switching to LNG would allow shipowners both to comply with the new sulfur regulation and with future limits on nitrogen and particulate matter emissions that are likely to be imposed.

But while a ship can burn a gasoil-based fuel straight away, using LNG would need a new engine for most—and retrofitting one into an existing vessel looks prohibitively expensive. So making the switch requires large up-front capital expenditure on new vessels from a shipping industry that isn't flush with cash at the moment.

Officialdom has been convinced of the environmental benefits of LNG bunkering. There were port authority representatives from as far away as Miami at the Amsterdam conference. And the energy majors are excited about a potential new market for their LNG, with Shell alone sending seven people to Amsterdam.

Total sees the market for LNG bunkering growing to 10 million mt/year by 2025, and Shell expects one of 30 million-35 million mt/year by 2040.

But shipowners were few and far between at the summit, and it was difficult to find a single one who hadn't already invested in LNG bunkering. There was no great body of shipowners on the fence about the idea who wanted to come and find out more.

The European ships currently using natural gas are mostly short-haul ferries operating in northern Europe. These vessels travel short distances in between bunkering and take fuel in small quantities delivered by truck.

But for large tankers, dry bulk vessels and container ships to see it as a viable option—representing the majority of global bunker demand—their operators would need a much faster delivery method. And that kind of infrastructure development has been very slow to emerge, with suppliers understandably cautious about spending money on it before they see signs of demand.

Tankers and dry bulk vessels also have more unpredictable schedules, in terms of time and geography, than other segments in the industry and would need LNG to be available at the majority of ports they might visit.

This dynamic has led to a lack of inertia all round, with shipowners and suppliers both being wary of taking the first step until the other side shows signs of a major commitment. And the crude price collapse in 2014 didn't help, as it left shipowners a lot less concerned about their fuel costs.

All of this may or may not start to change soon, with Shell's first LNG bunker barge coming to northwest Europe this summer and similar projects under way elsewhere. We're due another cycle of fleet scrapping and renewal sometime in the next few years, and some are hopeful that those buying new vessels will take LNG seriously as an option.

But not everyone is all that hopeful.

"I'm not sure there's a lot of potential yet—it's not booming, at least," a representative of a small-scale LNG technology company said at the conference. "I've been looking at this market since 2007, and every year you think this could be it, this is the year. But we're not there yet."

In a survey conducted at the S&P Global Platts London Oil Forum during IP Week this year, just under 14% of respondents said they planned to use LNG to meet the new sulfur rules in 2020. This was just about the same percent who said they would simply be non-compliant with the new rules.

The switch from coal to oil as bunker fuel around a century ago was at first driven primarily by the military needs of the British Royal Navy. But without Winston Churchill here to tell the global fleet what to do, it's hard to see what might prompt a similar shift now

Source: [Platts](#)

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(6) Clarksons Research, 27 March 2017

## Containership Scrapping: Sizing Up The Suspects...

Last year saw a record level of boxship demolition, and this rapid pace of scrapping was sustained into early 2017 with a record monthly level of boxship recycling recorded in January and nearly 0.2m TEU

scrapped so far this year. Boxship demolition in 2017 is currently projected to reach record levels, but there are a range of potential scenarios and it is hard to be precise on how scrapping will play out...

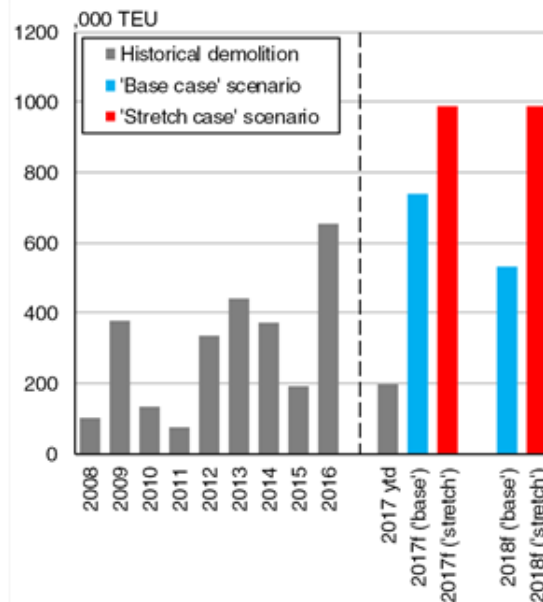
### 2016: Whodunit?

In 2016, a record 194 boxships of 0.65m TEU were demolished, and several key themes were evident. A key component of scrapping in 2016 was 'old Panamax' vessels, following the opening of the new locks at the Panama Canal in June 2016. Nearly half of capacity scrapped in 2016 was accounted for by 'old Panamax' units. Meanwhile, the duration of the charter market downturn and the collapse of the KG system has led to a rise in recycling of German owned ships; German charter owners accounted for c.50% of capacity scrapped in 2016, including both 'old Panamax' ships and other vessel sizes. Further, the average age of boxships scrapped fell in 2016 to 19 years.

## Graph of the Month

### Reviewing The Line-up: Annual Boxship Demolition

The bar graph shows container-ship demolition since 2008, with grey bars representing historical data. 2017 year to date data basis total at time of writing. The blue bars represent the 'base case' scenario for full year 2017 and 2018, and the red bars represent one possible 'stretch case' scenario (see commentary).



### Investigating Leads

Looking at these trends, and the boxship fleet at the start of March, a sizeable pool of demolition candidates appears to remain. At the start of March, there were still 61 'old Panamaxes' deployed on the Asia-USEC route via the Panama Canal, while more than 100 'old Panamax' units were without reported employment. Besides these units, the German charter owned boxship fleet older than 10 years totalled 1.4m TEU at the start of March, while the fleet of other boxships over 15 years old stood at 2.3m TEU. Taking into account historical size and age trends, as well as likely market trends in 2017, the 'base case' projection for demolition is 0.7m TEU in 2017, close to last year's total. However, a considerable degree of uncertainty surrounds demolition projections. While there has been a slowdown at the time of writing, upside potential to the 'base case' scenario definitely exists.

### The Plot Thickens

One such 'stretch' scenario could see all 'old Panamaxes' still deployed on the Asia-USEC via Panama route or currently 'idle' scrapped during 2017-18, totalling 0.9m TEU. If the proportion of the fleet of other German charter owned boxships over 10 years of age scrapped in each of 2017 and 2018 was similar to the proportion of the start 2016 fleet scrapped last year (0.5m TEU of candidates overall), and the same method was used to estimate scrapping of other boxships over 15 years old (c.0.4m TEU), with an additional allowance for a small number of ships to be recycled outside of these categories, boxship demolition in this scenario could reach around 1m TEU in both 2017 and 2018. This comes as no surprise given the run-rate in the year to date.

### **The Mystery Continues**

So, regardless of the exact total, 2017 still looks likely to be another strong year for containership scrapping. However, demolition projections remain subject to significant uncertainty, particularly with recent changes in market conditions and the volatility in scrapping volumes. It is hard to be precise, but if a firm proportion of candidates are scrapped, potential clearly exists for a 'stretch case' scenario.

Source: Clarksons

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(7) Hellenic Shipping News, 28 March 2017/ The Star

## **Strait of Malacca shows signs of strain**

There is much history surrounding the Strait of Malacca. In the 14th and 15th centuries, the Strait bore witness to conquest after conquest of the Malacca Sultanate by marauding colonial powers. Firstly it was the Portuguese, followed by the Dutch and later the British. The Japanese also had a taste of Malacca much later on.

We see the remnants left by those powers now. Some have become tourist attractions, earning the state of Malacca lucrative tourism receipts. This goes to show that history does sell when the time is right. And Malacca, being the most conquered of the many states in Malaysia, is now benefiting from the conflicts of the past!

Even now, the Strait of Malacca performs an important function as a strategic sea channel between the Far East and the West. Each day, many ships ply the route bringing goods from the West destined for the East, especially the Chinese market, and vice versa. It is the most economical route.

In fact, it is also no secret that the Malacca Strait is key to the survival of several thriving sea ports. The Port of Singapore (pic), for example, would face dire consequences if the Strait is no longer navigable the way it is now. So would the many ports dotting the west coast of Peninsular Malaysia such as Port Klang. At one time, somebody mooted the idea of cutting a canal through the Isthmus of Kra in southern Thailand much like the Panama and Suez canals. That would not only cut the travel time significantly between East and West, but would also deal a blow to the logistics business now enjoyed by Singapore and the other ports.

In this age of climate change and global warming, that would also have cut greenhouse gas emissions significantly.

However, that idea failed to materialise because it was considered too costly. But with improvements in technology, there is no stopping that idea from surfacing again. For now, the affected ports can count themselves lucky at being spared from a possible shutdown, and ships will continue plying the Malacca Strait and the ports will continue to enjoy doing business.

Tourism in Malacca and the thriving business of the ports are not the only ones which have benefited from the Strait of Malacca. Fishing communities living along the length of the Strait have also gained although, over the years, there has been an observed decline in the availability of such marine resources. Some blame it on overfishing but another theory links the decline to growing environmental pollution, including the destruction of natural breeding grounds such as the thick mangroves which cover some parts of the shores along the Strait.

The Indonesian side of the Malacca Strait has also equally benefited from it. But now there is concern that the Strait may not function as it used to much longer if some issues related to its wellbeing are not addressed soon.

The sustainability of the Strait is now under question.

Environmental pollution is viewed by many as the number one concern. It is still not clear to what extent the damage from environmental neglect is. If the decline in the population of fish and other marine resources is used as an indicator, we can say the environmental damage has reached very precarious levels. The pollution has even reached the beaches of Port Dickson and others along the Strait.

Another major concern is the shallowing of the Strait due to sediment pollution. This also needs careful study to understand the contributing factors. Lately, there has also been active land reclamation in some parts of the Strait. How this affects the sustainability of the Strait should also be further researched.

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What has become obvious is that many stakeholders have an interest in sustaining the functioning of the Strait. There is much at stake. It is therefore time for those big logistic businesses which have profited from the Strait to now contribute to a common fund to finance the necessary R&D on it. With better understanding, suitable measures can be put in place to assure the long-term sustainability of the highly-prized Strait of Malacca.

Source: The Star

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