



# ***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**

- Global shipping is dominated by **three principal ship types** – container ships, bulk carriers and tankers. Fleet growth rates have differed greatly, as emphasised by the graph in item 1.
- Two sectors have seen **remarkable expansion** in the new millennium: the container ship fleet has doubled its capacity twice within fifteen years, while the bulk carrier fleet's capacity has doubled in the past nine years although previous growth was not so rapid. Tanker fleet growth has been relatively slow but is now accelerating.
- How does the **current shipping market cycle** compare with previous experiences? Using an index based on a weighted average of vessel earnings in the main shipping sectors, a turning point towards improvement may be approaching (item 6), if some earlier cyclical patterns are any guide. But these cycles are notoriously difficult to predict reliably.
- Huge savings in fuel costs derived from **energy-efficient vessels** do not always provide an incentive for investors (item 4). In the charter markets, charterers gain benefits under the typical time charter arrangement. A new academic study by UCL Energy Institute and the Carbon War Room argues that changes are needed to facilitate more investment in these ships.

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(1) Clarksons Research, 28 August 2016

## The History Of Fleet Growth – It's Not Rocket Science...

During July 2016, the containership fleet reached a landmark 20 million TEU in terms of aggregate capacity. To many it only seems like yesterday when the boxship fleet passed the 10 million TEU mark, back in April 2007. It took less than 10 years to double in capacity to reach the new milestone. Sprightly fleet growth indeed, but how rapid is it when compared to other parts of the world fleet?

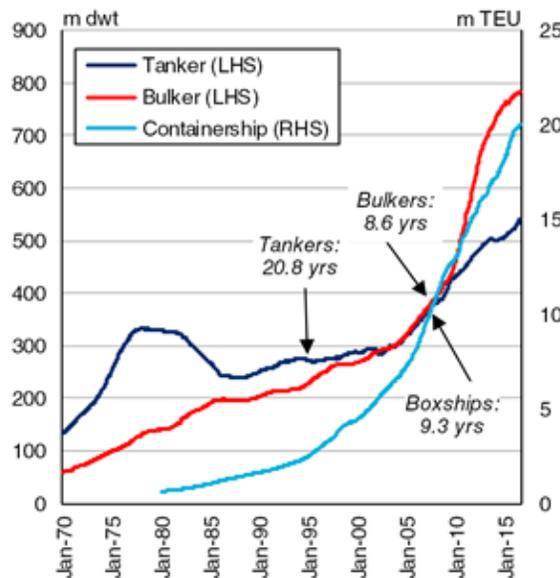
### Compound Crazy

Albert Einstein once called the impact of compound growth the 'most powerful force in the universe', and containership fleet capacity is a great example of this power. Total boxship capacity doubled from 5m TEU in size (in April 2001) to 10m TEU (in May 2007) in 6.2 years, and since then it has doubled in size again from 10m TEU to an astounding 20m TEU across just a further 9.3 years.

### Graph of the Week

#### Double Or Quits? How Fast Is Your Fleet Growing?

The graph shows long-term monthly fleet development of the tanker and bulkcarrier fleets in dwt terms (LHS) and the containership fleet in TEU terms (RHS). The arrows point to the time at which the fleet was half its current capacity and the labels indicate the number of years the fleet has taken to double to its current capacity. Tanker fleet development basis vessels 10,000 dwt and above. Data as of start August 2016. More detail on the development of the world fleet can be found on pages 14 and 15 as well as in *World Fleet Monitor* each month.



Source : Clarksons Research

This rapid growth of the containership sector is a fairly well known story. In many respects the box sector is still a youthful part of the shipping world; since the inception of container shipping in the 1950s, the fleet has grown quickly from humble origins as trade has flourished. At the same time the fleet has upsized at a phenomenal rate. The average size of containerships in the fleet stood at 1,807 TEU in April 2001 and increased to 2,425 TEU in May 2007. Today, with behemoth boxships of over 19,000 TEU on the water, the average size of units in the fleet is 3,832 TEU, and the average size of those on order is even larger at 8,030 TEU.

### Maturing Slowly

In contrast, some other shipping sectors can seem more 'mature', growing at a gentler rate. Tanker fleet capacity took almost 21 years to double to reach its current size of 540.9m dwt. In relative terms, the trade is indeed fairly mature, with average growth in volumes of 2.2% per annum over the last 20 years in

combined crude and products trade. But interestingly, this is a sector now seeing rapid capacity growth, with an uptick in trade growth in recent years driving tanker ordering. In the last 19 months tanker fleet capacity has grown by 6.5%.

### **Bulk Bulge**

However, the bulkcarrier fleet comfortably illustrates that the boxship sector has not been alone in experiencing rocketing growth. Although the vessels themselves may not have seen the same upsizing as boxships, bulker capacity expansion has been extraordinarily fast in recent times. Astonishingly, it took just 8.6 years from January 2008 to double to its current capacity of 784.1m dwt (though it had taken around 21 years before that to double previously). Nevertheless, bulker capacity expansion has slowed now, as dry bulk trade growth has hit the buffers.

### **Boom Time**

So, the latest instance of a rapid doubling of fleet capacity is not a one-off. The explosion of boxship capacity has indeed been rapid, but in a world where shipbuilding output was hitting all-time highs not long ago, such growth has been a wider phenomenon. The overall world fleet has increased by 55% in dwt terms in the period since the onset of the global financial crisis in September 2008 alone. That's a robust compound annual growth rate of 5.1%! Have a nice day, Einstein!

Source: Clarksons

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(2) Hellenic Shipping News, 22 August 2016

## **EU-led ship recycling regulation could reverse positive effect of Hong Kong Convention on South East Asian scrapyards says GMS**

Scrapyards in South East Asia are in the midst of a significant change, as they are constantly improving their operations, adhering to the norms which have been set in motion by the Hong Kong Convention for the Safe and Environmentally Sound Recycling of Ships. However, as Dr Nikos Mikelis, non-executive director, GMS, says on an exclusive interview with Hellenic Shipping News Worldwide ([www.hellenicshippingnews.com](http://www.hellenicshippingnews.com)), the European Union's Ship Recycling Regulation will see European flagged vessels only be permitted to be recycled at yards reviewed, accepted and published in the European List of approved ship recycling facilities. "GMS is very concerned that this regulation appears to re-enforce the idea that, when implemented, it will be interpreted by the European Commission as a total ban on beach recycling for European flagged vessels. If imposed in this way, the legislation will set the global recycling industry on a knife-edge and threaten a reversal of the sustainable progress set in motion by the HKC. Dividing the market with an interpretation of the EU Regulation as a ban on beaching will create precisely the false dichotomy that they say they are working to solve; poor conditions on beaches and higher standards elsewhere", said Dr. Mikelis.

**Ship recycling in South Asia has long been the "elephant in the room" for the shipping industry, at least in the eyes of many non-profit organizations and independent observers. Why has this been the case and what has been done over the course of time, to reverse this negative view?**

Ship recycling plays a vital role in the lifecycle of a ship, and is fundamental to the industry.

For the last twenty years the ship-recycling yards in Bangladesh, China, India, Pakistan and Turkey have been recycling 97% to 98% of all the tonnage that is recycled in the world. The economies of these five countries are characterised by a great appetite for scrap steel for their steel making needs.

Of these, the three South Asian countries are less developed and poorer, and this ensures that the local ship recyclers have the market to sell virtually every part of the ship: steel, machinery, fittings, equipment and even furniture. Consequently, the three South Asian countries are the most competitive in terms of the prices they pay for buying end-of-life ships and in the last ten years have dominated the international market by recycling more than two thirds of the world's recycled tonnage.

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On the other hand, underdevelopment and poverty are usually linked to lower safety, social welfare and environmental standards, giving rise over the years to pressures for the development of an international convention to regulate safety, health, environmental protection. This led to the adoption of the Hong Kong International Convention for the Safe and Environmentally Sound Recycling of Ships (HKC) by IMO in 2009.

The HKC has not yet entered into force, and so, for the time being, the growth of sustainable ship recycling is reliant upon the market dynamics between ship owners and yards. However, the scrutiny that the industry came under during the development and introduction of the HKC is part of what has been driving change. As the shipping industry becomes aware of its responsibility to improve its sustainability, ship recycling has been developing accordingly.

The demand for responsible ship recycling now exceeds supply in South Asia. As yards that invested in achieving the standards of HKC now see growth for their services based on good health, safety and environmental practices, this has incentivised other yards to also improve standards and consider HKC Statements of Compliance, ISO and OHSAS certification.

With the fifth Hong Kong Convention-compliant yard having been approved in Alang and fifteen more currently going through the Statement of Compliance process, the progressive change in the ship recycling market is clear to see. High levels of safety and environmental standards are being introduced and achieved in Alang. To keep progressing towards improvement we need to make sustainable ship recycling the 'norm' and for shipowners across the world to be holding recycling yards to these standards. In this way we can continue the virtuous cycle.

**Can one say that ship recyclers' malpractices are the exception and not the rule, i.e. some noted companies hurting the reputation of those who are working in accordance with globally accepted rules and can this be deemed as unfair competition?**

Not all yards have yet achieved desirable safety and environmental standards, and unfortunately there are many yards that still use poor practices during the ship recycling process. GMS has long been a supporter of the entry into force of the HKC so that compliance with its rigorous safety and environmental standards becomes mandatory. This would introduce a level playing field for all yards to work from. Until this is achieved, owners have the power to drive change by choosing yards that exercise good standards for safety and environmental protection (known as responsible recyclers, or "green yards"). This sends a strong market message that unsafe practices are no longer socially or environmentally acceptable, or economically prudent, and that the market will hold them accountable for such practices.

**Sustainable recycling of ships is the primary goal of the international community. What do we mean in particular when we say sustainable recycling, in the terms of the practices and processes deployed when dismantling a vessel?**

Sustainable ship recycling is the systematic prevention, and where practicable, elimination of safety and environmental risks through yard facilities, procedures and operations supported by preparatory work by shipowners, flag states and classification societies. The standards of the HKC and its guidelines are designed to be a best-practice approach to sustainable ship recycling and, although it is yet to enter into force, it defines the basis of what we mean when we talk about sustainable ship recycling.

HKC compliant recycling requires shipowners to carry and provide an Inventory of Hazardous Materials (IHM) detailing the location and approximate quantities of hazardous waste on board. The specific hazardous materials that must be covered by this IHM are specified in the two appendices in the Convention. This part of the process is also part of what is currently required from shipowners by voluntarily certified HKC-compliant yards.

A sustainable and HKC-compliant ship recycling yard will also have a Ship Recycling Facility Plan (SRFP), documenting the yard's systems and processes for ensuring safety and environmental protection. They have safe removal procedures for hazardous wastes, and have installed advanced hazardous waste handling facilities at their yards (for example, negative pressure asbestos handling units) and specialist employees have been trained and equipped for handling hazardous wastes. Each recycling project is then planned out in advance and managed according to a ship-specific Ship Recycling Plan (SRP). The SRP is developed by the yard using the design particulars of the vessel and its Inventory of Hazardous Materials provided by the shipowner to plan a safe and environmentally friendly recycling sequence.

In the period before the HKC enters into force, a shipowner who chooses to follow the standards set by the HKC will need to send his ship to a HKC-compliant yard and ensure contractually with the cash buyer that his ship will be recycled in accordance with the technical standards of HKC. The shipowner should also

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consider agreeing with the cash buyer the appropriate level of supervision and/or reporting to ensure that the recycling has taken place in the appropriate way.

**Can this be achieved in South Asia, or at least in part of it?**

Sustainable ship recycling can be and is being achieved in South Asia. It is all a matter of management. It is just as possible to have clean, safe and sustainable recycling on a beach as it is to create an unsafe and polluting environment by recycling alongside a pier. The five yards that have been awarded Statements of Compliance with HKC and the fifteen yards currently progressing through the process are testament to that fact.

**How has the Hong Kong Convention helped towards this direction?**

As I stated earlier the scrutiny that the industry came under during the development and introduction of the HKC is part of what has been driving change. In addition to this, GMS's aim is for sustainable ship recycling to become the norm, rather than an exception. The only way to achieve this across the world, is to have a single practical and workable global standard, and that is HKC.

**Do you see a possibility of negating the positive effects seen so far towards the direction of sustainable recycling?**

A significant concern in this area comes from the European Union's Ship Recycling Regulation. This will see European flagged vessels only be permitted to be recycled at yards reviewed, accepted and published in the European List of approved ship recycling facilities.

GMS is very concerned that this regulation appears to re-enforce the idea that, when implemented, it will be interpreted by the European Commission as a total ban on beach recycling for European flagged vessels. If imposed in this way, the legislation will set the global recycling industry on a knife-edge and threaten a reversal of the sustainable progress set in motion by the HKC. Dividing the market with an interpretation of the EU Regulation as a ban on beaching will create precisely the false dichotomy that they say they are working to solve; poor conditions on beaches and higher standards elsewhere.

Regulation that drives progressive change is a good thing. However, the EU regulation risks to do the reverse. If the regulation is interpreted as banning beaching, this will just create an unfair and damaging geographic gap between the beaching yards in South Asia and non-beach ship recycling yards elsewhere. It will create a two-tier and less sustainable market. In particular, it will be detrimental to the local areas surrounding the yards in South Asia, and it does not align with the HKC's high goals of raising standards at all yards across the world. Furthermore, if the European Commission in exercising its powers to interpret the EU Regulation makes the mistake to exclude from its list of approved recycling facilities all yards in South Asia, then the most likely consequence will be that it will cause large scale flagging out of end of life ships away from European flags. This way the Commission will not only have failed to improve conditions in the countries that it matters most, but will also fail to enforce the EU Ship Recycling Regulation to EU ships.

A number of Indian yards with HKC Statements of Compliance have been verified by IRClass as meeting the requirements and standards of European Union Ship Recycling Regulation and have submitted applications for inclusion in the EU approved yards list. We sincerely hope that these yards will be accepted, putting to bed this potential and absurd "beaching ban" and committing the European Union to supporting the ideal of raising standards at yards, wherever in the world they happen to be.

**With demolition activity reaching peak levels once again this year, how do you expect the market to behave in the coming months?**

Ship recycling is a natural and inevitable part of a vessel's lifecycle, and many people rely on this vital market, both directly and indirectly. The shipping industry as a whole is experiencing significant pressure to increase its sustainability, and it is important that the ship recycling sector also develops accordingly. Commodity traders are in the midst of the worst market downturn on record and as a result the dry bulk sector is experiencing one of the worst times it has seen in recent years. The Baltic Dry Index is unpredictable, and as of June 2016 was hovering around the 600 mark, down nearly 95 per cent from its peak in 2008, with too many ships to transport the supply of cargoes currently being produced. As a result of this, the number of ships that are redundant and heading to the hands of recyclers is steadily growing, highlighting the need for this vital part of the industry.

**How keen are ship owners to offload older vessels? As you find that ships headed for recycling are getting younger and younger, how does that affect your day-to-day operations?**

Following a succession of newbuildings being delivered after the boom of 2012, charterers have their pick of newer, more economically viable and efficient vessels. This is a theme throughout the industry, not just in the dry bulk sector. However, in the dry bulk sector in particular there is now a trend for younger

vessels to be scrapped, with vessels as young as 7-years-old being recycled in exceptional cases. This just highlights the current market complexities, and the pressure that is on shipowners and charterers to survive in this volatile and unpredictable market.

The heightened demand for scrapping, the increase in volume through recycling yards, and impending decisions by the European Commission on the EU's Ship Recycling Regulation mean that the need for companies who specialise in recycling to adhere to the upmost highest standards of sustainability and safety is more scrutinised than ever before. GMS, as the world's largest cash buyer of ships and offshore assets for recycling, is committed to leading corporate social responsibility and pioneering sustainability within the ship and maritime recycling field.

Nikos Roussanoglou, Hellenic Shipping News Worldwide

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(3) Hellenic Shipping News, 27 August 2016/ Reuters

## **Shipowners slash costs, leaving some crews unpaid, unsafe as downturn bites**

Unpaid, underfed, and thousands of miles from home on a rusting tanker, captain Munir Hasan says he is a victim of a shipowner who has slashed costs in the face of an eight-year shipping downturn.

Marooned on the medium-sized tanker *Amba Bhakti* that is moored close to Shanghai and is in urgent need of repair, Hasan claims he and his crew of four from India and Bangladesh have not received their wages from the owner, Varun Shipping, since February and are now owed tens of thousands of dollars. Hasan said the crew has had to rely on handouts of basic food, such as rice and noodles, from V.Ships, a company that had operated the ship under contract for the owner before resigning in July.

"In the last 29 years of my sea career, I have never faced such a situation," said Hasan, a 50-year-old sea captain from Bangladesh. Reuters couldn't independently confirm certain aspects of Hasan's account. Varun has not responded to repeated queries from Reuters via email, and it declined to comment when reached by phone. When a Reuters reporter went to its offices in Mumbai, India on Aug. 18, company officials declined to comment on the matter, saying that management was busy.

Scott Moffitt, a V.Ships representative based in Singapore, told Reuters via email on Aug. 4 that it terminated three ship management contracts with Varun, including the one for the *Amba Bhakti*, "due to unpaid fees, including crew wages."

Moffitt said that V.Ships "became increasingly worried about their (the crew's) plight" and that "legal arrangements are under way to secure the back wages."

### **ENFORCEMENT DIFFICULT**

The crew's predicament underscores the desperate time faced by an increasing number of seafarers working on so-called "sweatships" around the world, as the shipping industry faces its worst downturn in 30 years.

Slack demand at a time when the size of the fleet of ships was increasing, drove dry cargo charter rates for products like coal and iron ore to historic lows earlier this year. It has led to the collapse of several shipping firms and has left many others fighting for survival.

The result is that crews and their support groups, such as the International Transport Workers Federation (ITF), are finding it difficult to force ship owners, many of whom cannot be easily located, to meet basic obligations. While "minimum working and living standards for all seafarers" were set in 2013 by the International Labour Organization, enforcing them isn't easy.

Overall, shipping costs in the industry have come down by 20-30 percent from their peaks almost two years ago, shipping sources say. This has been achieved through savings in many areas, including fuel costs, reducing length of port stays, and cuts in provisions, crew travel costs and spending on equipment. But the overcapacity in the industry is so great that it isn't enough. Charter rates for tankers or container ships often don't cover operating expenses, and both shippers and the analysts who follow them largely agree there won't be any real improvement until 2018-2020.

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For example, the average payment for a capesize bulk carrier capable of carrying 170,000 tonnes of iron ore or coal has been \$5,393 per day so far this year, according to data from shipping services firm Clarkson. And yet, accountancy firm Moore Stephens pegs daily operating costs for a similar capesize ship at around \$7,300 per day.

Not all shippers have cut crew provisions drastically, though a number say they have been reducing costs.

Duncan Telfer, commercial director at Swire Pacific Ltd's Swire Pacific Offshore, which owns around 85 offshore support vessels, said his company was trying to trim costs where reasonable, without compromising crew safety.

"There are many ways of cutting costs. Bottled water is an example. Is it really necessary to have bottled water if you have potable water available on-board?" he asked.

#### DETAINING SHIPS

The number of ships being seized and held by the authorities because they are unsafe is rising. For example, there were 202 ships detained last year by the U.S. Coast Guard (USCG) for environmental or safety deficiencies, up from 143 in 2014, the USCG said in its 2015 annual report.

Rear Admiral Paul Thomas, assistant commandant for Prevention Policy at USCG, told Reuters that because of the low shipping rates and overcapacity, "vessel maintenance can take a back seat in order to minimize operating costs."

Shipping executives contacted in Singapore and Hong Kong also said some shippers were cutting back on food and drink costs. They said crews had faced a shift from steak to cans of spam meat, and from fresh to canned fruit, among other cost reductions.

Jason Lam, inspector for the ITF in Hong Kong, says in the first seven months of the year he dealt with 115 ship safety cases, a faster pace than the 161 cases recorded in all of 2015 and 126 in the whole of 2014, usually involving unpaid crew wages or poor working conditions. He said it was clear that some shipping companies are "refusing to supply their ships" because of the weak shipping markets.

In one case, the New Imperial Star – a large passenger ship that was used for gambling cruises in the South China Sea – failed Hong Kong safety inspections and has been detained in port since November, according to Hong Kong Marine Department records.

The ship was sold to a buyer in an auction by the Hong Kong authorities on Tuesday and the proceeds will be partly used to pay outstanding wages. The identity of the new owner couldn't immediately be ascertained.

The telephone number of the ship's previous owner, Hong Kong registered Skywill Management Limited, was not operable this week, and the company has differing addresses listed in Hong Kong company directories.

#### "LOW ON PROVISIONS"

In another case, the Five Stars Fujian, a coal carrier, has been sitting near the Great Barrier Reef, off Australia's east coast, for a month with supplies diminishing and salaries going unpaid.

The ITF in Australia said that there were 21 Chinese men onboard as of August 14, and that the crew hadn't received wages since June and were now "very low on provisions."

The Hong Kong Shipowners Association (HKSOA) said last week that it was "extremely concerned about the seafarers on the vessel, and that its crew had "effectively been abandoned by the owner."

There were no signs of the firm at Five Stars Fujian Shipping's registered address in Hong Kong.

Back at the Amba Bhakti, the crew have turned to outside groups for help.

Reuters has viewed an email that Hasan sent on Aug. 2 to the Mission To Seafarers, an international crew support group, and the ITF, in which he said that they had been "held up on board ... without wages for six months," adding: "We are requesting your immediate help to save our families."

In response, the ITF has been pressing the owners and organizing support for the crew.

The sailors have been employed on various contracts lasting from two to nine months to meet international rules governing minimum crew levels even though the ship has been languishing near Shanghai for three years. The main and auxiliary engines that would power generators and deck equipment need to be repaired.

Two crew members had already given up and gone home, including the ship's chief engineer, Mohammed Abdul Mazid, according to Hasan. Reuters was unable to reach Mazid for comment.

Hasan said Mazid left the ship in tears to return to Bangladesh in July despite being owed \$73,000 in back pay.

Source: Reuters (Reporting by Keith Wallis in HONG KONG, Aradhana Aravindan in SINGAPORE, and Rajendra Jadhav in MUMBAI; Writing by Henning Gloystein; Editing by Martin Howell)

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(4) Hellenic Shipping News, 30 August 2016/ Carbon War Room

## **Efficient ships save millions but the market fails to reward the owners**

Researchers from UCL Energy Institute (UCL) and Carbon War Room (CWR) today confirmed that vessels with high design efficiency leave millions in the pockets of fuel payers. However, the market often fails to reward owners of efficient vessels by way of premiums or preferential hiring. This does not help the industry's efforts to meet the challenges of a low-carbon future, and could challenge regulations designed to reduce total industry emissions.

In the most comprehensive research to date, UCL investigated the role of energy efficiency in vessel competitiveness by bringing together data on market dynamics and data on vessel operational patterns derived from the Automatic Identification System (AIS). The research showed that vessels with higher design efficiency, as measured by the GHG Emissions Rating, save more fuel on average than design alone would indicate. This means, for example, that in 2012 the difference in fuel costs between a B-rated and an F-rated Capesize vessel was, on average, \$5,500 per day, or nearly \$1.5 million annually; a higher difference than would be anticipated based on design.

Despite this, efficient vessels do not appear to deliver significant rewards for anyone other than the fuel payer. In the time charter market, charterers appear to be reaping rewards when they choose vessels with high GHG Emissions Ratings, but owners of efficient ships do not share in the benefits. On average, there should be a fuel saving for charterers choosing vessels with high GHG Emissions Ratings, according to the study. All else being equal, there is an incentive for charterers to hire highly rated ships. However, despite the consistency of these savings, the market does not also incentivise owners of efficient ships with premiums that reflect charterers' fuel cost savings.

Owners in the time charter market that choose to improve their fleet's efficiency by investing in efficiency technologies are not seeing a return from either price or preferential chartering. This means that in today's markets there is little financial incentive for other owners to follow their example.

James Mitchell, Senior Associate, Carbon War Room commented:

"Prior to the 2008 market crash we saw efficiency premiums in the Panamax time charter market. Those premiums disappeared with the crash, despite record-high fuel costs and record-high fuel savings for owner-operators and charterers of efficient ships."

"These results are a challenge to the industry, to its business model, and to whether markets can be harnessed to help shipping meet the challenges of a low-carbon economy." But, Mitchell said, "Robust and transparent market information offers an opportunity to help resolve this challenge. Shipowners, knowing that more efficient ships present a financial advantage, can use free-to-access data on [shippingefficiency.org](http://shippingefficiency.org) to bolster their negotiations." What is more, Mitchell explained; "Transparent data on operational efficiency would also help rebalance the power dynamic in negotiations, allowing all parties to profit from efficiency."

While charterers can play a role by rewarding the owners who help them to save fuel, financiers have the power to decide which ships are built or maintained, and which are not. Banks making investment decisions should consider how to factor efficiency into their decision-making so that it can benefit all parties, as well as the environment.

Mark Clintworth, Head of Shipping, European Investment Bank commented:

"Financiers are in a key position to reshape the makeup of the global shipping fleet through their investment decisions today and in the future. As maritime shipping is a key driver of sustainable economic development, this research represents a crucial first step in identifying how maritime financial institutions can prepare for a profitable low-carbon future and help shape it."

Tristan Smith, UCL Energy Institute commented:

“The International Maritime Organization is under increasing pressure to implement policies that will reduce the industry’s total emissions. However, this research demonstrates that market failures present significant challenges to realising emission reductions.” Smith said that “It indicates that policy tools that have contributed to the improvement of other industries, such as carbon prices or fuel levies, would have a greatly decreased impact if applied to shipping unless these observed market failures are addressed.” Smith explained; “This is because these policies work by magnifying existing market dynamics that reward efficiency and we don’t currently see those dynamics in shipping.”

“This work also demonstrates the power of data and analysis,” Smith said. “New insights were achieved using AIS data in conjunction with market data, and revealed excellent potential for advancements and refinements of the methods developed to further improve our understanding of shipping markets.”

Source: Carbon War Room

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(5) Hellenic Shipping News, 19 August 2016/ UK Department for Transport

## Maritime and shipping statistics

The UK Department for Transport produces the maritime statistics for:

- domestic waterborne freight
- ports
- sea passengers
- shipping fleets
- seafarers

An overview of maritime and shipping statistics can be seen within the maritime chapter of the latest Transport statistics Great Britain publication.

### Domestic waterborne freight

Statistics on freight traffic moved within the United Kingdom by water transport. This covers inland waters traffic, traffic carried around the UK coast, one-port traffic to and from offshore installations and sea dredging.

Produced from a combination of the sources for our ‘port freight statistics’ and an independent survey of inland waterway operators.

Statistics are updated annually.

### Ports

Statistics on freight handled by UK sea ports.

Provisional statistics on freight handled by major UK ports are published quarterly and final annual statistics are published annually in August. The statistics are based mainly on returns from port operators and shipping lines and agents.

Users should note that the ‘port freight’ publication schedule has been changed

Revision of PORT0498 and PORT0499 tables

Since the publication of the 2014 port freight statistics in August 2015, a minor processing error has been discovered. This has affected the port freight figures in tables PORT0498 and PORT0499, particularly the classification of small flows.

This has led to the revision of figures in these tables for the years 2000 to 2014. There has been no impact on or changes to any other table.

At the same time as correcting this processing error, the definition of a small flow was also updated to improve the disclosure control method for small flows.

### Sea passengers

Statistics relating to international and domestic passenger traffic handled at UK ports. Data are published annually, except for international short sea (ferry) passenger totals which are updated monthly in table SPAS0107.

### Shipping fleets

Statistics relating to UK and world shipping fleets.

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Statistics are produced annually, based mainly on DfT analysis of world fleet data provided commercially by IHS Global. Since they are derived from a commercial source, the statistics are not considered to be National Statistics, but they are considered to be of good quality.

### Seafarers

Annual statistics relating to the estimated number of UK seafarers, including some statistics on non-UK seafarers, qualified to serve on UK registered vessels, and indicative projections of the future number of UK certificated officers.

Statistics are updated annually and based on a combination of administrative sources and industry surveys.

### National statistics

All of the statistics published, apart from shipping fleet statistics, are National Statistics. The maritime and shipping statistics were assessed by the UK Statistics Authority and confirmed as National Statistics in February 2013.

Since the shipping fleet statistics are derived from a commercial source outside of the Department for Transport's control, the statistics are not classed as National Statistics. The department's view is that all statistics which are not designated as National Statistics are robust and have been produced to a suitable standard.

Source: UK Department for Transport

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(6) Clarksons Research, 19 August 2016

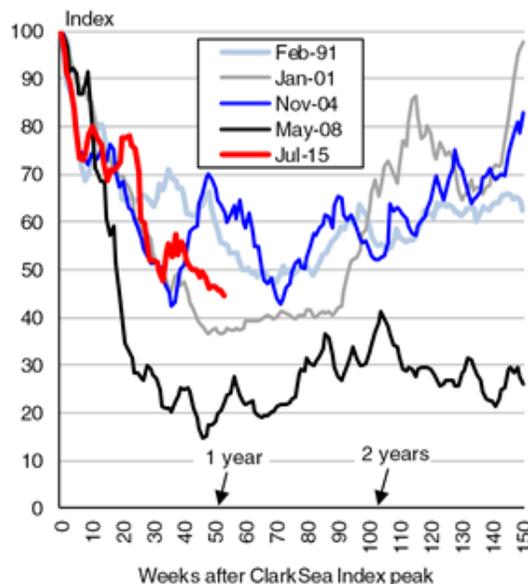
## A Holiday Season Question: Are We Nearly There Yet?

Shipping is a cyclical business. For many years, Clarksons Research has tracked the ups and downs of its cycles via the ClarkSea Index, a weighted average of vessel earnings in the main shipping sectors. In the first half of August, the index averaged less than \$7,500/day, around 60% down on July 2015's 'mini-peak', with most sectors having weakened. But how long should one expect a downturn to last?

### Graph of the Week

#### ClarkSea Index: Is It A Long Drive To A Better Place?

The graph shows the progress of the ClarkSea Index (a weighted average of earnings in the tanker, bulkcarrier, gas carrier and containership sectors) through selected major downward movements and the subsequent developments across separate periods of time occurring over the last twenty-five years. The x-axis shows the number of weeks following the point of time indicated in the legend, with the lines indexed to 100 at that point in time.



Source : Clarksons Research

### **Tired...**

As summer 2016 has progressed, owners could be forgiven an element of downturn fatigue. Average bulkcarrier earnings from January to July 2016 were 21% down year-on-year, whilst the equivalent containership index fell by 37%. Average weighted LPG carrier earnings lost 49%. Even the tanker sector, which had been buoyed by lower oil prices stimulating demand, was down by 35% in terms of its component element of the ClarkSea Index. Both crude and product tanker earnings levels have softened over the course of Q2 2016. Nor is the decline restricted to the major sectors. Offshore drilling rig dayrates are down by a further 30% or so year-on-year, and OSV term rates about the same amount. LNG carrier spot charter rates are 24% lower. Multi-purpose vessel charter rates have also come under further pressure. Amongst the few areas to have shown signs of improvement have been the ro-ro and ferry markets, but these are far from volume sectors.

### **...Crotchety...**

So, the industry is undergoing a downturn, and it would be reasonable to ask: how long might the pain last for? Clearly, there are external macro-economic factors, such as the policies of the Chinese state, actions by OPEC or the effects of the Brexit decision, which might have specific influences on the future. However, perhaps past cycles could provide an indication. As the graph shows, the progress of the current weaker market has followed the trend of some previous downward moves – with the clear exception of the 2008-09 crash.

### **...And Emotional**

The graph shows that, over the last 25 years, major downward movements in the ClarkSea Index have tended to begin to be reversed around a year to eighteen months after they began. Of course, the picture is complicated by seasonal factors. Additionally, a “dead-cat bounce” is also never off the cards: for example, the first signs of recovery in the aftermath of the 2008 crisis. This improvement, between the one and two year marks on the graph, was quickly snuffed out, partly by the heavy ordering of bulkcarriers, helping to prevent a continued recovery along a similar trajectory to previous cycles. In 2016, the market has probably learnt this lesson, with newbuild ordering numbers lower than at any point in the last two decades. Other actions are also being taken to try to turn the market balance around: ‘non-delivery’ of newbuild tonnage in the first seven months stands at 45%, whilst owners scrapped 30.2m dwt, 33% up when annualised with potential to get close to the record of 58.4m dwt set in 2012. So, it is possible that the index may follow previous trends, and begin to reverse course. But as well as a more controlled supply side, short-term demand will also help determine whether the market stalls, or can embark on the road to recovery. Have a nice holiday.

Source: Clarksons

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(7) BIMCO, 2 September 2016

## **Dry Bulk Shipping: Poor freight rates despite strong demand growth from China**

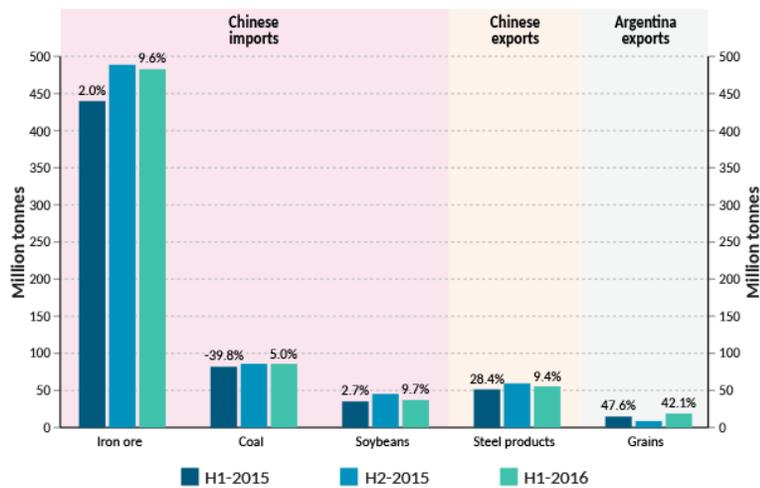
The dry bulk commodity imports into and exports out of China we have seen in the first half of 2016 are very positive – and nothing short of extraordinary. But, putting it into perspective, compared to the devastating freight rate levels over the same period, it highlights that something is very wrong in the dry bulk market. The market is nowhere near balanced.

BIMCO’s data on seaborne iron ore imports into China, shows a growth of 9.6% for H1-2016 as compared to H1-2015. With seaborne coal volumes shipped into China during H1-2016 being on par with H2-2015, this represents a 5.0% growth on H1-2015. A continued surge in thermal coal imports seems limited, as hydropower electricity generation due to heavy rainfall is likely to squeeze coal consumption (used for power generation) yet again.

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## Seaborne trade in dry bulk commodities

Volumes and year on year growth rates



Source: BIMCO, Clarksons, Chinese Customs

Among the minor seaborne commodities, Chinese steel product exports continue to support its high steel production – and therefore also the elevated imports of iron ore. Exports are up by 9.4% in H1-2016 compared to the same period last year. Trade barriers being set up against Chinese steel, primarily in the Western hemisphere, have little impact as most steel is exported to other Asian countries. Steel exports have been a steady and solid trade compared to Chinese coal imports, which were down in Jan/Feb but very strong in May/June.

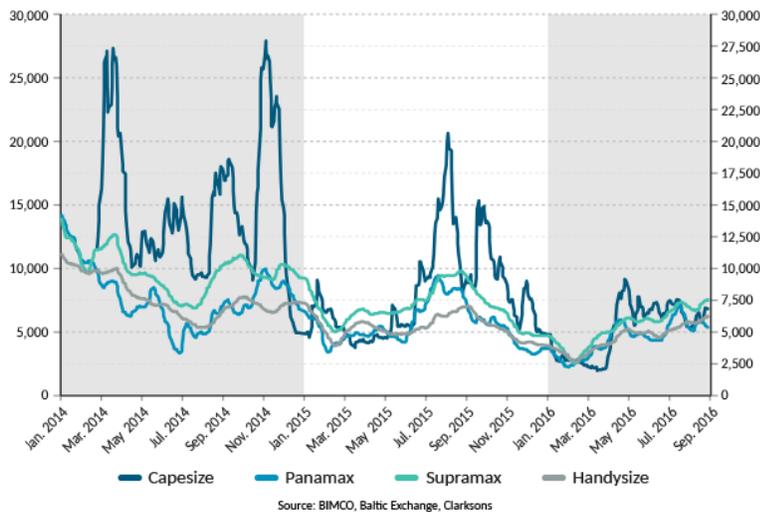
Also as expected we saw a new record of grain exports out of Argentina during H1-2016. Up by 42.1% year on year.

At the same time, we witnessed appalling freight rates during the worst quarter ever (Q1-2016) making it a terrible first half of 2016. Year to date, the Baltic Dry Index is down by 26% on last year's performance, which was already dreadful.

On 10 August, freight rate levels are merely covering operational expenditures (OPEX), with no contribution to cover overhead and financing costs. BIMCO expects the industry to be lossmaking for the full year.

## Baltic Exchange time charter averages

USD per day, 2014-2016



Source: BIMCO, Baltic Exchange, Clarksons

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The devastating freight rates have left asset values for dry bulk ships battered. A 2010-built capesize ship was valued by VesselsValue.com on 1 August 2014 at USD 49.75 million. Two years later, that same ship had lost 57.3% of its value and is now worth only USD 21.25 million. The pain is felt across the fleet; worse for older ships and slightly less severe a drop in value for newer ships.

### Change in valuation of dry bulk asset prices

from 1 August 2014 to 9 August 2016

DWT	Year of build	2016	2015	2014	2013	2012	2011	2010
Capesize	180,000	-41%	-45%	-48%	-50%	-52%	-55%	-57%
Panamax	80,000	-27%	-34%	-39%	-42%	-45%	-48%	-51%
Supramax	60,000	-38%	-43%	-46%	-48%	-50%	-52%	-57%
Handysize	30,000	-52%	-54%	-55%	-56%	-56%	-57%	-58%

Source: BIMCO, VesselsValue.com

### Supply

As 31 million DWT of new capacity has entered into the fleet since 1 January 2016, the order book is slowly emptying. Currently standing at 110 million DWT, the order book is now down at a level not seen since late 2006. Forget about the order book-to-fleet ratio being at a 13-year low, that ratio is irrelevant. What matters is that the fleet will not stop growing unless an equal amount of capacity is demolished at the same time.

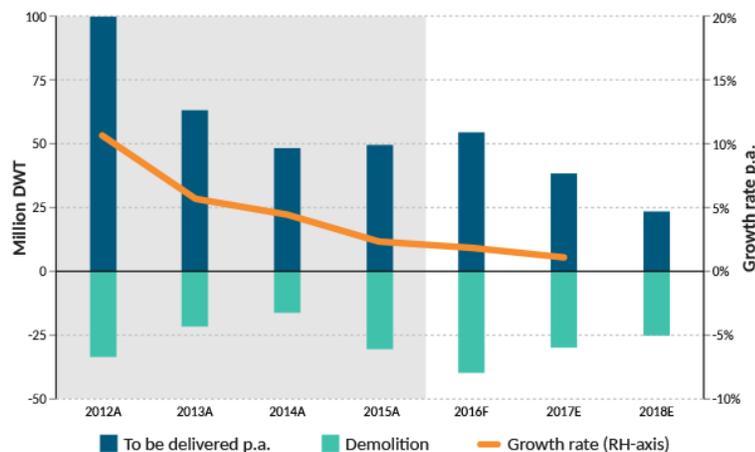
So far in 2016, 23 million DWT has been taken out of the fleet and sold for scrap. This means the fleet, year to date, has grown by 1.1% by early August. This level of scrapping is as expected. Nevertheless, it is still worrying that the level of demolition is not higher. The dry bulk industry is faced with the lowest earnings ever, with overcapacity being the main problem and demolition the silver bullet. Difficult as it is to part with your ship, it's what the industry needs the most [make this sentence a callout].

Over the course of the past two years, the dry bulk fleet (excluding handymax ships) has grown by just 2.3%. In contrast, the handymax fleet has grown by 12.9% – a net inflow of 308 new ships. None of the other dry bulk segments have grown substantially in numbers, but new ships have larger capacity than the scrapped ones, ensuring fleet capacity continues to grow.

This trend is set to continue for the rest of the year, despite the fact that demolition of handymax and panamax ships has been the strongest in 2016 – relatively. As handysize demolition has cooled off, while capesize capacity is steadily leaving the fleet, compared to the full year in 2015.

The rate of slippage in deliveries remains very high, but is slightly reducing from the 50% seen during Q2-2016. If this development continues, the fleet growth could reach 1.8% in 2016, which does not support an improvement in the market.

### Dry bulk supply growth



Source: BIMCO estimates on Clarkson's raw data

A is actual. F is forecast. E is estimate which will change if new orders are placed. The supply growth for 2016-2018 contains existing orders only and is estimated under the assumptions that the scheduled deliveries fall short by 10% due to various reasons and 50% of the remaining vessels on order are delayed/postponed.

## Outlook

Positive demand growth rates across the board for dry bulk commodities are high, and there is one that is ruling them all – iron ore. In H1-2016 we saw a volume growth of 42 million tonnes of iron ore going into China, compared to a combined volume growth of 12 million tonnes for coal, soybeans and steel products on other Chinese trades.

Increasing demand for iron ore is strong on the best trade lane of them all – Brazil to China. Shipments on that trade were up by 24% to reach 98 million tonnes in H1-2016 compared to H1-2015. Such a development used to mean much higher freight rates, but as 2015 passed, spot rates for capesize ships were only modestly buoyed by volume growth on this trade. BIMCO believes that a significant part of the iron ore has been transported on “Vale’s conveyor belt of Chinese-owned VLOCs”. If this continues to remove cargoes from the open market, volume growth on the Brazil to China iron ore trade – once the greatest driver of freight rates in the spot market – will no longer affect the spot market on this trade nor the general freight market significantly.

Handymax ships, on the other hand, have seen a flurry of new ships delivered and have fared well due to the broad-based demand growth outside the iron ore market. They will continue to do so. The fast growing handymax fleet, however, will also going forward put a lid on shipowners and operators’ chances of lifting freight rates into really profitable levels.

Growing iron ore imports have not meant higher steel production in China. We can conclude that some of the much needed substitution away from domestically mined, poor quality ore towards the import of higher iron content quality ores, and is happening at a fair pace.

This has stirred a surprising move by the Metallurgical Miners’ Association of China (MMAC) who say the big three iron ore producers are “using low-priced dumping to crowd out higher-cost producers [in China]”. They claim 329 mines were shut last year and another 793 closed in the first five months of 2016. The MMAC crying foul is unprecedented. But for the dry bulk shipping industry, substituting the higher cost produced ore in China delivers much needed volume growth at sea.

For the coming months: September-November, BIMCO expects transported volumes to stay put – as the high volumes transported in recent months may have run ahead of underlying demand. Expect the freight rates to move up, down and sideways before moving up again in the fourth quarter of the year.

Source: BIMCO

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(8) Hellenic Shipping News, 12 August 2016/ Maritime Strategies International

## **MSI forecasts ‘short, sharp shocks’ for shipping despite returning demand growth**

Excess shipyard capacity and a slowing but still considerable orderbook are the negative factors overhanging brighter prospects for shipping demand growth.

London, August 11, 2016. Maritime Strategies International (MSI), a leading independent research and consultancy firm, has forecast a structural change to future shipping cycles, driven by increased volatility in newbuilding activity.

In an article by Dr Adam Kent, MSI notes that as a consequence of the current glut of excess shipyard capacity, many yards will be well-positioned to take orders and deliver within two years, should freight markets show improvement.

“This may mean that we are set to see a something of a structural change in the shipping cycles going forward, with shorter, sharper cycles with any bull run culled by the relative rapid delivery of legions of ships via the new dynamic shipyard capacity landscape,” suggests Dr Kent.

The speed at which shipyard capacity is able to react to increased contracting volumes was witnessed during the eco ship ‘boom’ of 2013, he explains.

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“After the rapid reduction in shipyard capacity, when the Chinese-led contracting explosion ended in 2008, shipyard capacity was shown to be very elastic and responsive and increased again to meet the requirements of owners wanting to place new orders.”

This elasticity will act to dampen the outlook for earnings, which in many trades are expected to show improvement over the next five years as the demand-side improves, compared to the last five years.

“Looking at Compound Annual Growth Rates based on MSI’s assessment of demand in a number of major shipping sectors, crude tankers, containers, chemical tankers all have better prospects over the next five years,” he adds.

Convert this into growth in shipping requirements by factoring in distances, speed, port times, waiting time and ballast ratios, the picture becomes even more positive for crude tankers and containers, chemical tankers and LNG carriers.

However, the supply side remains the source of most problems and despite some recent corrections, the orderbook still casts a long shadow over most sectors. Across all the main commodity sectors the orderbook significantly outstrips the ageing fleet with MPP, Ro-Ro and PCTC the only sectors where there is a better balance of replacement tonnage requirements.

But shipyards will still be hungry for orders because, based on scheduled orderbooks and maximum historical output, the three main shipbuilding nations are only fully utilised for 2016. In 2017 utilisation drops to around 70% in Korea and Japan and is close to 50% in China.

The effect of this combination of factors on second-hand prices can be seen from Net Replacement Value (NRV) depreciation which normalises second-hand prices for movements in newbuilding price and nets out the scrap steel value to capture the intrinsic value of the vessel, with a very good correlation to earnings.

Where earnings are strong the depreciation approaches a straight line – as recently seen in tankers and other specialised sectors – but in weak markets the depreciation curve exhibits more of a convex shape and asset life expectancy is also reduced.

“Looking forward, we expect the NRV metric to improve from today’s position. Bulkers will see roughly a 20% improvement by 2018 versus today’s position and containers increases of between 5% and 10%.

Although we expect the tanker markets to soften over the course of the next two years the actual reduction in NRV will be limited to around 5%,” he concludes.

Source: Maritime Strategies International (MSI)

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(9) Lloyd’s List, 4 August 2016

## Improving outlook for container sector

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- by [James Baker](#)

### Supply and demand heading towards balance as volumes increase

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AN INCREASING level of containership demolition and a slight growth in global trade has helped push the supply and demand equation closer towards equilibrium this year, according to new analysis of the market by Clarksons Research.

“Container trade growth appears to have improved in 2016 so far, having slowed to an estimated rate of just 2.2% in 2015 — the slowest pace of growth since 2009,” Clarksons said. “Whilst global economic risks clearly remain, total container volumes are estimated to reach 182m teu in full-year 2016, representing growth of 3.8%.”

That has been balanced by growing demolition levels and reduced deliveries, Clarksons added, which meant that supply growth was just 1.1% in the first half of this year.

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“By the end of 2016, the containership fleet is expected to total 20.2m teu, representing growth of just 2.4% year on year, which would be the slowest pace on record, following a rate of 8.1% in 2015,” Clarksons said.

This would lead to a reversal of last year’s trend and could see containerised trade growth this year outpace expansion in the containership fleet.

“This will help to erode some of the overcapacity generated last year, although further significant changes to the balance will be needed before market conditions improve,” Clarksons said. “The freight market remains under significant pressure, and where improvements have been achieved, gains have been limited. Charter rates have languished at historically low levels in 2016 so far, and while supply side fundamentals remain positive for some parts of the market, a sustained and significant improvement in box trade growth will be needed for rates to increase.”

Clarksons said mainlane trades, which expanded just 0.6% in 2015, were projected to grow 3.2% to 53.1m teu this year as the Asia-Europe trade improved. After contracting by 3.1% in 2015 on the back of Russia sanctions, slow growth in European economies and readjustment of inventory levels, Asia-Europe trade picked up in the first half of the year and is expected to grow by 3.9% in the full year.

On the transpacific trade, peak volumes grew more slowly, but were still expected to reach 16.1m teu this year, an increase of 4%, Clarksons said.

Meanwhile, a strong US dollar relative to European currencies is forecast to boost headhaul traffic to the US across the Atlantic as well, with volumes expected to increase by 3.6% to 4m teu.

Elsewhere, on the non-mainlane trades, Clarksons expects volumes to grow by 4% to 128.6m teu, and said east-west trade, particularly between Asia and the Indian sub-continent, would be among the fastest growing.

On the north-south trades, however, the collapse in commodity prices hit import levels to producing countries last year, and this continued into 2016.

“Imports into both Latin America and sub-Saharan Africa appear to remain under pressure, although box exports from these two regions to the northern hemisphere are estimated to have at least exhibited fairly firm growth,” Clarksons said.

Recovering growth in Asia is expected to see intra-regional volumes accelerate by 4% this year as the high-volume intra-Asia trades pick up again following disruptions last year brought about by China’s economic turbulence.

“While China appears to be continuing its transition towards a more diverse economy and away from a focus on heavy industry, prospects for intra-Asian container trade remain positive,” Clarksons said.

“Developing Asian economies continue to hold growth potential, and the multi-location assembly of manufactured goods is expected to continue, particularly with developments in wage differentials across the region.”

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