Southampton
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Global Maritime Weekly Digest

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06 April 2016 **issue 26**

The ***Global Maritime Weekly Digest***, based at ***Southampton Solent University***, provides a regular flow of maritime news and analysis, of significance in a global context. Topics covered include shipping fleets and management, seaborne trade, ports, shipbuilding, ship recycling, maritime policy and regulations, and seafarers' labour.

Contents

Editorial comments

- Two useful **resources for maritime teaching and research** have been published within the past few days (***see additional comments below which include website links***, also items 3 and 4).
- Renewed emphasis on the **human rights at sea responsibilities** of maritime businesses, and raising awareness of these, is the purpose of a new publication now available (item1).
- A regular quarterly survey of **shipping industry confidence** globally found that, unsurprisingly, another very low level has been reached recently (item 7). Survey respondents expressed concerns about 'overtonnaging' (surplus carrying capacity in a number of sectors, especially the bulk carrier and container ship markets). However, the narrative offers some encouragement for the future:"nobody doubts the ability of the shipping industry to bounce back..."
- The **bulk carrier market** may have reached the bottom of the current cycle, based on a brief analysis in item 5. But this article suggests that any real (sustainable) recovery still needs a significant readjustment of ship demand and supply trends.
- A pattern of **slowing global seaborne trade growth** has become more visible (item 8). Growth in the overall volume of all seaborne cargo trade averaged almost 5% annually between from 2010 to 2013, followed by a sharp deceleration to only a 2% increase last year. This contributed to weakness in shipping markets.

Richard Scott MA MCIT FICS
Editor

Additional editorial comments on useful resources

- Arguably one of the most useful free analyses of world shipping and shipbuilding markets is the annual review published by major shipbroking firm Barry Rogliano Salles (**BRS**). The latest edition entitled ***2016 Annual Review*** (English, French and Chinese language editions are available) was published last week and can be downloaded from the company website at: www.brsbrokers.com

- This 125-page detailed report provides highly readable commentary and statistics on the following sectors: shipbuilding, dry bulk, tankers, gas carriers, offshore, cruise shipping, super and other yachts, container ships, rollon-rolloff vessels, car carriers and marine insurance. Thus a wide variety of diverse maritime businesses are covered. And there are some nice pictures of ships!
- Last week also, ***Maritime Country Profiles*** was launched as a new maritime information resource on the **UNCTAD** (United Nations Conference on Trade and Development) website, at www.unctad.org and http://unctadstat.unctad.org/CountryProfile/en-GB/index.html
- A Maritime Country Profile (most countries around the world are included in the list) is described as "a basic snapshot of a country's situation regarding maritime transport and international trade, facilitating convenient cross-country comparisons." This new resource complements UNCTADS long-established 'Review of Maritime Transport' published annually towards the end of each year.

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(1) Hellenic Shipping News, 30 March 2016/ Human Rights at Sea

Human Rights at Sea delivers new publication on UN guiding principles on business and human rights in the maritime environment

Today, the independent maritime human rights charity Human Rights at Sea delivers the first in a series of new publications specifically focused on the implementation of the 2011 UN Guiding Principles on Business and Human Rights in the maritime environment.

Titled as: 'AN INTRODUCTION & COMMENTARY TO THE 2011 UN GUIDING PRINCIPLES ON BUSINESS AND HUMAN RIGHTS & THEIR IMPLEMENTATION IN THE MARITIME ENVIRONMENT', the charity has worked with key stakeholders and human rights experts over a period of six months to provide a free and professionally produced publication in support of its Charitable Objectives expressly covering the topic.

The publication covers the background to the subject, the emerging need in the maritime environment, examples and case studies, as well as suggested self-help guidance for all maritime business enterprises and their senior management.

Reviewed by the team at the London-based Business and Human Rights Resource Centre, as well as the UN Global Compact (UK) and drafted alongside CLTenvirolaw, the new publication demonstrates the increasing need for the implementation of the UNGPs in the maritime environment for all maritime business enterprises as a matter of course, not as a matter of exception.

The Foreword has been written by Phil Bloomer, Executive Director of the Business and Human Rights Resource Centre, who says: "This Human Rights at Sea publication is a welcome and important contribution to raise awareness about human rights responsibilities of businesses among a sector that has been largely absent from most discussions around the UN Guiding Principles on Business and Human Rights."

The Charity's CEO, David Hammond, commented: "We are very grateful for all expert input by key stakeholders contributing to yet another one of our expanding core publications. Unfortunately, to date, the subject matter has not received the kind of engagement with that one would expect from businesses operating ethically and socially responsibly within the maritime supply chain. We therefore aim to drive change and we hope that leadership on this matter will start to be shown more widely by the shipping and fisheries industries. Meantime, our charity will continue to deliver relevant supporting guidance and free publications concerning human rights at sea that are well researched, objective and independently produced."

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(2) Lloyd's List, 22 March 2016

Shipping continues improved safety trend, AGCS annual survey finds

Losses down 45% since 2006, according to statistics from insurer

SHIPPING last year continued its secular trend towards improved safety, with just 85 ships over 100 gt lost worldwide in 2015, down by 45% over a decade, according to figures released today by Allianz Global Corporate & Specialty.

In particular, Britain reversed the unexplained 29% jump in casualties seen in 2014, and has returned to its downwards path.

Meanwhile, economic and market conditions continue to put pressure on costs, raising safety concerns, the insurer added.

Although the number of losses was down only slightly on the 88 seen in the previous year, 2015 was the safest year in shipping for a decade. Losses have declined by 45% since 2006, thanks to an increasingly robust safety environment and self-regulation.

However, disparities by region and vessel-type remain. The British Isles, North Sea, English Channel and Bay of Biscay region has been the location of the 4,314 shipping casualties since 2006. Nearly one in five of all incidents (17%) have occurred in this region.

It was also the scene of the second-highest number of casualties during 2015, with casualties numbering 341 overall, placing it behind the eastern Mediterranean and Black Sea on 484. However, total losses declined nearly 50%, down from 7 to 4, last year bringing the total since 2006 to 91.

January represents the worst month for losses in the region, accounting for 20% of annual losses over the past decade.

Most prominent last year, of course, was the deliberate grounding of the 2000-built 51,770 gt pure car carrier *Höegh Osaka*, which developed a list shortly after departing Southampton for Bremerhaven.

According to a report into the incident published by the Marine Accident Investigation Branch last week, *Höegh Osaka's* actual cargo weight and stowage were significantly different to the final cargo tally supplied to the ship.

More than a quarter of all losses occurred in the South China, Indochina, Indonesia and Philippines region, which saw 22 vessels lost. Its losses increased year-on-year, unlike other major regions.

The most common cause of total losses is foundering, accounting for almost 75% of losses, up 25%, and often the result of by bad weather.

There were 2,687 reported shipping incidents globally during 2015, a 4% reduction year on year. Activity is spread across all days of the week, although Thursday sees the most incidents and Saturday the fewest.

“While the long-term downward trend in shipping losses is encouraging, the continuing weak economic and market conditions, depressed commodity prices and an excess of ships are pressurising costs, raising safety concerns,” AGCS added.

The insurer has noted an increase in frequency losses over the past year, which can likely be attributed to some extent to this environment.

As well as impacting investment in vessel maintenance, cost pressures can impair crewing conditions, passenger ship safety and salvage and rescue.

AGCS also pointed to an increase in fatigue-related insurance claims over the past decade. With crew numbers already often at their lowest possible level, and a future staffing shortage anticipated, longer shift patterns could exacerbate this issue.

The appetite for ever-larger container ships has seen cargo-carrying capacity of the largest vessels increase by 70% over 10 years, with some boxships now able to load more than 19,000 containers.

Two such megaships – the *CSCL Indian Ocean* and *APL Vanda* – were grounded in February 2016, raising questions about what would happen in the event of a more serious incident.

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(3) UNCTAD, 1 April 2016

UNCTAD launches novel Maritime Country Profiles

A maritime country profile provides a basic snapshot of a country’s situation regarding maritime transport and international trade, facilitating convenient cross-country comparisons. The Maritime Country Profiles will be updated regularly as new data becomes available.

Throughout most of history, “maritime nations” had their own national fleets, which were built, owned, operated, and manned by nationals of the same country whose flag the ship flew. Today, different countries mostly participate in different maritime businesses. Policy makers have an interest to identify those maritime sectors where their countries participate at present, or might participate in future. To assist policy makers in depicting their country’s market shares and trends in its maritime sectors, UNCTAD in March 2016 launched a novel set of Maritime Country Profiles.
Each Maritime Country Profile consists of six blocks:

1. Basic Data: The UNCTAD Maritime Country Profile provides core data on each country’s economy, trade and maritime sectors.
2. Market shares: A key component of the UNCTAD Maritime Country Profile is each country’s share in selected maritime sectors (ship registration, owning, building, demolition and container port traffic) as well as its population, gross domestic product, coastline and merchandize trade.
3. Merchandize trade: Each profile gives a snapshot of what commodities are traded (all modes of transport), what is the trade balance, and who are the main trading partners.

4. Trade in transport services: Another component of each country profile is a table on basic trade in services data, including trade in transport services, and the trade balance in these services.
5. The nationally flagged fleet: The country profile shows trends in the nationally flagged fleet, as well as the composition as regards types of ships.
6. Liner shipping connectivity: The Maritime Country Profiles also illustrate each country's position within the global liner shipping network. It includes a time line of the national Liner Shipping Connectivity Index, as well as a list of the countries with the highest bilateral connectivity.

Example of the nationally flagged fleet for Marshall Islands.

NATIONAL FLEET

+9.7 %

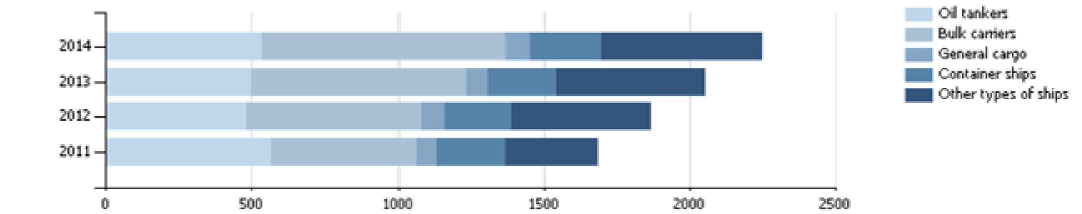
Fleet growth rate in 2014

Carrying capacity by type of ship [4]

(Thousands DWT)	2005	2010	2013	2014
Total fleet	42 105.5	77 827.4	138 861.9	152 355.4
Oil tankers	27 483.3	39 960.5	57 557.8	59 486.8
Bulk carriers	8 352.9	23 604.9	55 962.2	65 275.0
General cargo	1 125.8	1 567.3	1 242.1	1 474.1
Container ships	3 748.2	5 314.4	8 672.0	9 292.4
Other types of ships	1 395.3	7 380.3	15 427.8	16 827.1

Fleet by type of ship [4]

(Number of ships)



The Marshall Islands are one of the fastest growing open registries. A large share of its fleet are oil tankers and dry bulk carriers.

The Maritime Country Profiles will be updated regularly as new data becomes available.

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(4) Lloyd's List, 4 April 2016

Shipping in all its forms has lost its lustre, says BRS president

Shipbroker estimates shipping asset values dropped $65bn in 'tempestuous' 2015

SHIPBROKER Barry Rogliano Salles Group has painted a dire picture of shipping markets in its 2015 annual review, a year BRS president Tim Jones summarised as "as bad as expected".

The 128-page review of shipping and shipbuilding markets is littered with figures showing markets at their worst since the aftermath of the global financial crisis, earlier in some cases.

"Massive scrapping in almost all segments would be needed to rebalance the markets," the report claimed.

Ordering activity at shipyards fell by 20% to 104.7m dwt in 2015 compared to 131.1m dwt in 2014, according to the report.

China's share of the shipbuilding market fell for the first time since becoming the world's largest shipbuilding nation in 2010, although it still commands 43% of the market with 121.6m dwt.

Its loss was Japan's gain due to the weakened yen, with Japanese yards edging up 5% to take 22% of the total market.

Financing newbuilding became more difficult as "traditional ship financing banks accumulated huge losses and are more reluctant to continue trading in shipping and shipbuilding", said the review.

The dry bulk sector's record lows in 2015, since beaten by plumbing new depths below operating costs in early 2016, were reflected in slippage. According to the report, 48% of dry bulk ships due for delivery in 2015 did not hit the water, leading to the lowest level of tonnage joining the fleet since 2008.

China's coal imports fell by 29% in 2015, and India's coal demand was zero. "The year for forward freight agreements has been one of the most depressed in recent memory," the report summarised.

Total losses for the seven largest listed dry bulk companies totalled $760m in 2015, while the seven largest listed tanker owners brought in just over $1bn in profits.

Better times were had in the tanker sector overall, where earnings were up and costs driven down by low bunker prices. For very large crude carriers, one-year period charter rates rose by 75% in 2015, and time charter activity was up by 22%. Chemical tankers generally returned to profit, boosted by lower bunker costs.

Current activity levels would mean the market could absorb the expected 8% fleet growth for the crude and product fleet in 2016, BRS claimed. It expects product tankers will enjoy a third good year in a row, while VLCCs may see earnings ease off at the end of 2016 as new deliveries affect market balance.

For tankers, comparisons were drawn to the boom year of 2008; but for the container market, BRS drew comparisons between 2015 and "the dark days of 2009".

A lack of trade growth and severe overcapacity still plague the container sector, with no signs of easing, the report claimed.

The near-term outlook for the box sector "remains bleak, with negative signals on all fronts: weak demand, historically low cargo freight rates, some of the worst ever charter rates, a continuously high orderbook, especially for very large vessels, and comparatively low scrapping levels", the report said.

Adding to market woes, 255 vessels, including 60 ultra large containerships, were ordered in 2015, spurred partly by deadlines of environmental regulation that increased the cost of vessel ordered after January 1 2016.

Demand growth was at its lowest level since 2009, and although fleet growth is expected to ease from 8.5% in 2015 to 5.2% in 2016, that growth is still ahead of global transportation demand growth forecasts.

Across shipping sectors, China's reduced heavy industrial activity and sluggish economies are cited as reasons for lower demand for marine transportation. For the longer term, Mr Jones said the world is realising energy use must be restrained to meet environmental targets, a change that he believes is bad news for shipping.

Adding to pressures from external factors, the industry itself added to supply problems by building larger vessels to reduce transport costs and increase efficiency. “Each actor made its decisions as if it was the only player,” Mr Jones said.

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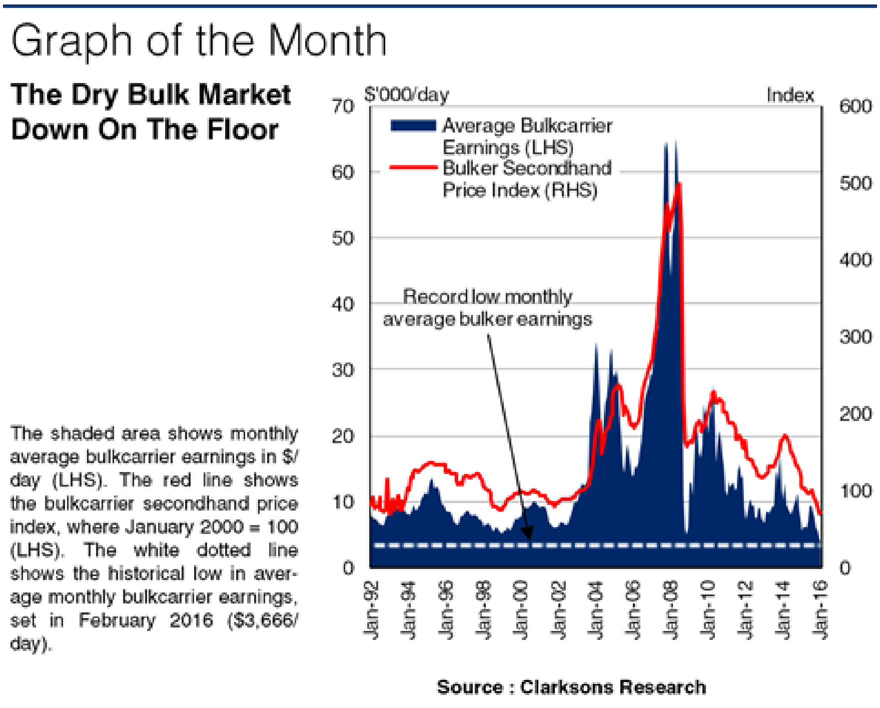
(5) Clarksons Research, 1 April 2016

Assessing the Dry Bulk Market at Rock Bottom

While the opening months of the year are typically a weak period for the dry bulk market, the downturn so far this year has been severe. Earnings hit record lows, while asset prices fell sharply. In a bid to reduce their exposure to the depression, bulker owners have demolished and idled increasing volumes of capacity, while contracting activity has stalled. The market appears to have hit the bottom of the cycle.

Depressed Earnings



Over the past decade, bulkcarrier earnings in the January-February period have averaged 15% lower than the levels for the rest of the year, reflecting a seasonal slowdown in dry bulk trade. However, the weakness so far this year has been particularly stark. Average earnings dropped 41% y-o-y in January 2016, before hitting a record low of $3,666/day in February. Similarly, the Baltic Dry Index fell 48% y-o-y to a record low of 290 points in mid-February 2016, while the 1 year benchmark Capesize timecharter rate also slumped to a historical low of $6,025/day at the end of the month. In short, this has been the worst start to the year on record for bulker owners.

Slumping Prices
The depressed dry bulk market conditions and bleak outlook have also seen asset prices reach multi-year lows. The Clarksons Bulkcarrier Secondhand Price Index fell 39% y-o-y to 71 points in January 2016:

the lowest level since 1987. By the end of January 2016, a 5 year old Capesize could be purchased for $23m, which was also the lowest level in 29 years. This represented 50% of the guideline Capesize newbuild price ($46m), compared to 67% in January 2015, further highlighting the depression in the market.

Getting Destructive
Collapsing bulker earnings and declining asset prices have exerted severe financial pressure on owners. As such, many have removed large volumes of tonnage from their active fleets. In the first 11 weeks of 2016, 134 bulkcarrier units of a combined 11.1m dwt were scrapped, which when annualised exceeds 52m dwt. Demolition is currently projected to surpass the 2012 record (33.4m dwt) in full year 2016. The total confirmed number of idled or laid-up bulkers has also increased firmly in the past six months, totalling 214 units of a combined 11.2m dwt by mid-March and accounting for around 1.4% of bulkcarrier fleet capacity.

Little Interest in Ordering
Meanwhile, bulker contracting has stalled in the year to date. While orders for 30 Valemaxes are expected to be confirmed this year, in total only 4 bulkcarrier orders of a combined 0.3m dwt were reported in the first two months of the year. This compares to 41 units of a combined 2.8m dwt in the same period in 2015.

So, the chronically imbalanced market fundamentals have seen earnings hit record lows and the market appears to be at the bottom of the cycle. Some might assume that the only way is up, but any real recovery in the dry bulk market is likely to require a significant readjustment of supply and demand trends over a sustained period of time. Overall, the dry bulk market seems in desperate need of this kind of shift to see better days.

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(6) Hellenic Shipping News, 29 March 2016/ Port Strategy

Do your homework

Investing in ports can be anything but the conservative investment that normally characterises infrastructure or utilities, as some have found to their cost. Terminal operators, shipping companies, pension funds, private equity companies, infrastructure funds and insurance companies are all now active in the ports market, but a key question is what degree of due diligence they undertake to underpin their investment?

There have been successes and failures. When Hutchison bought the IIHC portfolio of terminals from ICTSI it conducted detailed due diligence on each terminal property and got the “mother” port authority to sign over each concession. There were no problems after acquisition.
On the flip side, Hutchison’s expansion in Australia involved excessive costs in trying to take on an established duopoly. The implication is that they did not drill down enough to ensure they would put in place a highly-competitive operating entity.

When DP World bought P&O Ports it is well known they only undertook corporate-level due diligence, rather than detailed due diligence of each individual business unit. Subsequently, a problem arose in India when its Mundra International Container Terminal, previously owned by P&O, lost its sub-concession with the Mundra Port and Special Economy Zone.

DP World had not sought permission from the state port regulator, the Gujarat Maritime Board, which was mandatory under the concession agreement. While DP World managed to negotiate a continuation of its operations at MICT, it was overlooked when the second container terminal was developed.

Further failings
An earlier example of failure was the-then Dubai Ports Authority signing a management contract for the Beirut Container Terminal in 1998, but a few years later pulling out after miscalculating throughput and revenues.

A more recent dud was the Chinese consortium's acquisition of a majority shareholding in Kumport, Turkey. Immediately afterwards the terminal lost the business of Maersk and MSC – MSC had opened its Asayaport facility and also has shares in Kumport's neighbour MARPORT. It is understood that about 40% of the terminal's throughput disappeared – no joke when you have paid top dollar for a majority stake in the business.

Other investors have had marked successes in port investments.

New Zealand and Australian-based listed company Infratil acquired a 25% shareholding in the Port of Tauranga when local understanding of the port sector was still developing and sold at a marked profit as the company matured. Another investment was in the Port of Portland in Australia.

James Waldie of H.R.L. Morrison & Co – Infratil's investment manager – tells Port Strategy that it seeks long-term returns when considering a port investment. These are primarily but not solely analysed based on a detailed 30-plus year discounted cashflow valuation, translating underlying demand drivers (e.g. trade volumes/ship visits) into earnings forecasts.

The growth outlook and international competitiveness of the export products sourced from the port's hinterland are analysed, as well as likely growth of imports.

"It is important to overlay any physical constraints (including both within port precinct, and external limitations such as road/rail congestion) of the port's capacity into the forecasts, and make allowance for major expansionary capital expenditure which will improve the port's long-term ability to handle trade flows – as well as assess and provide for adequate maintenance capital expense given the harsh marine environment."

All-time high
Recent Australian port transactions have occurred at all-time-high earnings multiples, as institutional capital seeks low-risk yielding assets in a low-interest rate environment plus leverage from businesses with GDP-plus growth prospects and relatively fixed-cost bases.

Mr Waldie says a key determinate is the relative riskiness of the port's business.
"A major container port typically has material barriers to entry, strong pricing power and a diverse range of customer and commodity volumes. An investor will be able to obtain a level of comfort in the port's earnings potential and long-term viability and will ascribe a lower return hurdle/higher valuation.

"In contrast, smaller regional ports can be reliant on a more concentrated set of commodity flows which tend to be more volume volatile and, in some cases, more competition from neighbouring ports.
"In these circumstances, an investor will require a higher return, implying a lower valuation.

"Sometimes what's on offer is not the port itself but specific port operations, such as container stevedoring or bulk liquid storage. These are also considered as investment prospects."
Importantly, Morrison & Co believes that infrastructure assets such as ports benefit from an active management approach.

“For us this means making sure that we have board representation at a minimum and an active role in recruiting and incentivising senior executives. We also deploy our executives to support key strategic initiatives in the business where the business does not have sufficient in-house resource.”
What about ports seeking to entice an investor? Mick Payze, director of Australian-based Shipping and Freight Enterprises P/L, recently spoke on the effectiveness of public private partnerships (PPPs) to an industry conference in Papua New Guinea. He said many countries have moved to involve the private sector in port management to achieve operational improvements, to answer challenges such as the ever-increasing size of vessels.

Get together
A possible way forward is a joint venture between a private investor and a landlord port authority in a PPP (although terminal operators may have reservations as it gives the port management strings to interfere).

A PPP may be where the parties join as equals to operate the port functions or may be more a master-servant relationship where the state or public authority retains control but financial accountability is shared.

From a government perspective, the advantages of a PPP include easing the burden on the national budget, attracting foreign investment, transferring all or part of the risk to the private sector, and freeing up capital. A government may also look to regulatory oversight to ensure that the public interest is protected, including the ability to retain control over tariffs and the KPIs for the port or terminal.

Mr Payze says the governance can adopt one of several structures: management contracts can assure public ownership of assets is retained with operational management outsourced to the private sector, whereas lease and rent contracts also retain public ownership of the main terminal infrastructure with the private sector using those assets under licence.

Alternatively the government may act as both regulator and landlord, or the private sector may assume operational responsibility and operational and financial risk. Lease payments can be set either on a fixed basis or with some combination of a cargo-throughput levy.

How can a port initiate the search for a concession holder? Two key steps may involve requesting Expressions of Interest – which involves technical and financial qualification – and (from qualified parties) a Request for Proposals.

Usually two envelopes are involved: technical and financial. In mature economies usually the winner emerges not just based on the financial offer but also for technical competence/innovation, business plan, operational plan, and environmental management and safety systems and so on.

Mr Payze says there should be a set pattern of information collation and disclosure to meet with due diligence standards set by finance institutions. The data required will cover existing and projected cargo demands, institutional and management arrangements, options for a port management structure and ownership model, preliminary costs of building and developing the required port facilities and the cargo-handling costs, and the projections of FIRR (financial internal rate of return) and EIRR (economic internal rate of return) to ensure a viable result.

Generally, it is preferable for the terminal operator to be a lead partner in the successful consortium.

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(7) Hellenic Shipping News, 25 March 2016/ Moore Stephens

New low in shipping confidence

Overall confidence levels in the shipping industry fell to a record low in the three months to February 2016, according to the latest Shipping Confidence Survey from international accountant and shipping adviser Moore Stephens.

The average confidence level expressed by respondents in the markets in which they operate was 5.0 on a scale of 1 (low) to 10 (high). This compares to the 5.6 recorded in November 2015, and is the lowest rating in the life of the survey, which was launched in May 2008 with a confidence rating of 6.8. All main categories of respondent with the exception of brokers (up from 4.6 to 5.1) recorded a fall in confidence this time, most notably charterers (down from 5.5 to 3.9), which is the lowest confidence rating by any category of respondent in the history of the survey. Confidence on the part of owners and managers was also down, from 5.7 to 4.8 and from 5.8 to 5.5 respectively.

Geographically, confidence was down in all major areas covered by the survey – in Asia from 6.0 to 4.4, in Europe from 5.4 to 5.1, and in North America from 5.7 to 4.7.

A number of respondents continued to express concern about the level of overtonnaging, with one pointing out, “Newbuilding deliveries for 2016 will increase the total fleet by 10.5%, 7% of the current fleet is older than 20 years, and cargo volumes in 2015 were just 4.5% higher than in 2014, so the expected available fleet per metric ton of dry cargo available will be higher at the end of 2016 than it is now. As a result, there is no chance of freight levels improving.” Another respondent said, “As long as shipowners operate based on hope rather than on solid economics, there will always be booms and busts.”

Particular concern was expressed about the state of the dry bulk market, with one respondent commenting, “No dry bulk business makes any remote sense. There are too many players, too many operators, and too many vessels chasing too few cargoes. Most fixtures are concluded merely to keep the banks happy in the belief that some tiny amount of cashflow is coming in.” Elsewhere it was noted, “Dry bulk is simply at the bottom of the bottom, and actually a little lower than that.”

The need for accelerated demolition was also identified by a number of respondents, one of whom noted, “Scrapping activity is far from sufficient to compensate for incoming new tonnage.” Another observed, “Low scrapping prices provide little motivation for owners to demolish ships,” although another still said, “Increased scrapping may help achieve equilibrium in the dry bulk sector sooner rather than later.”

Falling oil prices were also a recurring topic in responses to the survey. One respondent said, “Global bulk oil movements will be the key to conditions in the tanker market over the next 12 months. With storage facilities almost full to capacity, there will be nowhere to stock additional supplies unless global economies pick up and oil production is regulated.” Other respondents, meanwhile, saw some solace in soft oil prices, typified by the comment that, “The wet markets stand a better chance of remaining profitable on the back of weak crude oil prices.” Elsewhere, however, there was concern about the effect of falling oil prices on the offshore maritime sector, with one respondent noting,

“There are companies in the offshore shipping market which are under pressure and in potential danger of being shut down.”

The likelihood of respondents making a major investment or significant development over the next 12 months was down on the previous survey, on a scale of 1 to 10, from 5.2 to 4.8, which equals the figure recorded in February 2009 as the lowest in the life of the survey to date. Owners, managers and brokers were less confident in this regard than they were three months ago, but the confidence of charterers was up, from 4.8 to 5.1. One respondent said, “We are paying for excessive investments over the past five years by speculative funds that would win an Oscar for the quickest/largest destruction of capital in the shipping world.” Another said, “Weak demand is undermining confidence and investment.”

The number of respondents who expected finance costs to increase over the next 12 months was down by five percentage points on last time, to 42%. The number of charterers anticipating dearer finance fell by 11 percentage points to 56%, but the number of owners of like mind rose by one percentage point to 36%. The number of brokers expecting a rise in finance costs, meanwhile, fell from 75% to 36%. One respondent said, “Millions of dollars are lost each day by owners, and soon will be by bankers. We are navigating very risky waters.” Another noted, “There is no future in this industry unless all sectors, including financiers, take a more in-depth approach.”

Demand trends, competition and tonnage supply featured as the top three factors cited by respondents as those likely to influence performance most significantly over the coming 12 months. Demand trends, which were up by two percentage points to 26%, remained in first place, with competition (unchanged at 21%) in second place. Tonnage supply, at 15%, occupied third place, one percentage point ahead of finance costs. Operating costs, up by six percentage points to 12%, featured in fifth place, ahead of fuel costs and regulation at 4%, the latter representing a five percentage-point drop on the figures for November 2015.

One respondent said, “Demand has let us down at the most inopportune moment possible,” while another predicted, “Competition will remain fierce and only by aggressive marketing will we achieve growth.”

There was a 16 percentage-point increase in the number of respondents anticipating lower freight rates in the tanker markets. But there was a small increase in the number of respondents anticipating higher rates in the dry bulk and container ship sectors, compared to the figures for November 2015. The net sentiment in the tanker market was -23, but +22 and +8 in the dry bulk and container ship sectors respectively.

“Tankers should be able to benefit in 2016 from the lack of market consensus over oil price movements, with longer-term decisions delayed as operators search for direction,” noted one respondent, while another commented, “Dry bulk provides opportunities for investment only for cash-rich owners who can afford to lose in the near term.” In the container ship sector, meanwhile, the point was made that, “Sometimes it seems that container ship operators are guided more by market share considerations than by sound economics.”

Respondents were asked a stand-alone question concerning the level which they expected crude oil prices to be at in 12 months’ time. 31% predicted that the price would be between $30 and $39, while 26% put the figure at between $40 and $49. 10% of respondents thought the price would fall between $20 and $29. One respondent said, “It would be no surprise if crude tops $50 in the next 12 months, but anything significantly above that is unlikely.”

Shipping continued along its volatile course in the three months to end-February 2016, with the confidence of industry participants reaching the lowest level since our survey was launched in May 2008. This is disappointing and unsurprising in equal measure.

When the Baltic Dry Index drops to an all-time low it is a real indication of the problems facing the shipping industry. The BDI doesn't lie, and any doubts about the extent of those problems would have been dispelled over the past three months when reports of the fall in the BDI started to appear in the mass media, which generally carries only bad news insofar as it impacts the shipping industry.
Most recently, however, there is better news, with the BDI starting to move upwards once more, gaining over 100 points within six weeks of plumbing the depths. Moreover, there is a reasonable expectation that the approaching peak harvest season will bolster demand for ships to carry grain and other commodities on international trade routes. This should boost the BDI further and, while shrinking demand for raw materials from China will continue to have an effect, the world will always need shipping to move its trade staples.

Overcapacity in any industry will inevitably lead to price-cutting and eventually to financial difficulties for the weakest, the least well-prepared, or sometimes simply the unluckiest. Shipping has had its share of bankruptcies, foreclosures and restructurings during the past few years, and it is likely that we will see more over the coming months, with negotiations doubtless enlivened by the fact that shipping's purse-strings today are often controlled by an intriguing mix of private equity and traditional shipping finance.

The simple answer to overcapacity is to reduce the numbers, but ships are too big to hide and disposing of excess units is more difficult in shipping than in most other industries, particularly when there are record numbers of new cabs just waiting to come off the rank. Increased ship recycling is one obvious answer, although current low scrap prices mean that fewer numbers of most tonnage types are being recycled.

In a climate of continuing overcapacity, increased regulation, ongoing political unrest and economic instability, the shipping industry must find a way to supplement the bread-and-butter of its livelihood – the freight markets. Current indications are not good. The tanker industry may still be reaping a somewhat perverse benefit from low crude oil prices, but that window of opportunity may be starting to show the first signs of closing. Roughly a quarter of respondents to our survey predicted that crude prices would be between $40 and $49 in 12 months' time which, whilst it would have bought you only just under half a barrel less than two years ago, is more in line with the current price level.

The dry bulk sector, meanwhile, looks especially troubled, with one respondent to our survey claiming that new historic lows in dry bulk freight rates are being set every day. Reports suggest, however, that more and younger dry bulk vessels are being recycled in spite of weak demolition rates, and contrary to the trend with other categories of tonnage.

In any industry, the price of a service or product must exceed the cost of providing that service or product in order to achieve a return on investment. In shipping, that is simply not happening at present. Operating costs are going up while freight rates generally are not even keeping pace. Nobody doubts the ability of shipping to bounce back. It has a long history of doing just that. This time, the only question is when.

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(8) Clarksons Research, 22 March 2016

Seaborne Trade: Checking Up On The Trends

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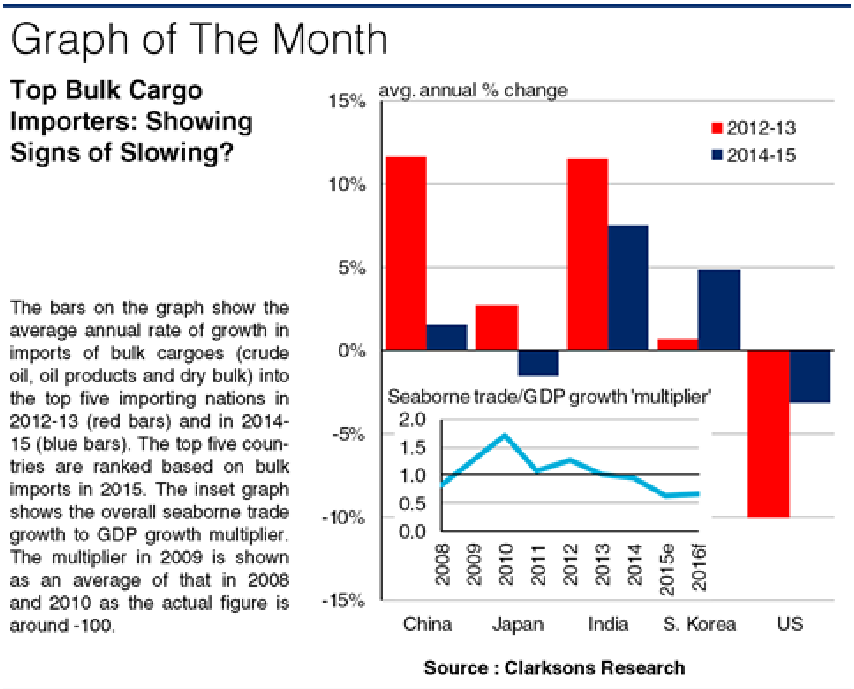
Following a decline in 2009, seaborne trade grew on average by 4.9% p.a. in 2010-13, reflecting booming import demand in a number of key importing countries and faster than global GDP growth. However, recent shifts in demand trends contributed to slower seaborne trade growth in 2014 (3.2%) and 2015 (2.0%). How has this reflected changes in demand for bulk shipments into major importing countries?

Multiple Problems?



The ratio between global seaborne trade growth and GDP growth (the 'multiplier'), when considered over a long time period, can be a useful indicator of the impact of drivers in shipping. Following the economic downturn, the ratio averaged 1.3 in 2010-13, partly as strong Chinese GDP growth drove a surge in raw material imports, and globally production was outsourced to regions more distant from demand centres. Since 2014, the ratio has fallen below 1. The drop was most marked in 2015, with the ratio reaching 0.6, as world seaborne trade is estimated to have grown 2.0% and GDP by 3.1%, partly reflecting shifts in import demand. Growth in bulk imports (dry bulk and oil) to the five biggest importing nations in 2015 (see graph) slowed from an average of 5.5% p.a. in 2012-13, to 1.6% p.a. in 2014-15, with cargo totalling 3.7bt, equivalent to 49% of global bulk trade.

Sluggish Demand

Of course, China, the world's largest importer of bulk cargoes, had been key in supporting the multiplier. The country's bulk imports, which account for 23% of world seaborne bulk trade, grew on average by 11% p.a. 2010-13. However, the maturing Chinese economy's shift, diversifying away from heavy industry, led to a stark slowdown in growth in bulk imports. Shipments to China rose 3% in 2014 and remained fairly flat y-o-y in 2015. Seaborne coal imports to the country fell 30% y-o-y to 188mt in 2015, while growth in iron ore imports slowed to 3%, from 15% in 2014. However, some of the loss was offset by robust crude import growth, partly supported by the oil price collapse.

Not Only China

While China is frequently highlighted as a key driver of slower global trade growth, the expansion in imports into some other major nations was also more sluggish in 2014-15. Japan's bulk imports, which account for 8% of the world total, grew on average by 3% p.a. in 2012-13, and fell 2% p.a. in 2014-15, to 588mt in 2015. Elsewhere, although expansion in Indian bulk imports has been firm, it is slowing. Growth slowed to 8% in 2015 due to a decline in coal imports.

In contrast, the rate of increase in Korean bulk imports picked up in 2014-15, largely underpinned by firmer growth in dry bulk shipments, although this was not enough to offset the slowdown in other countries. Elsewhere, the rate of decline in US imports eased, with most of the fall in oil imports having already taken place.

So, whilst the maturing Chinese economy has contributed to slower trade growth recently, it has not been the sole driver. Seaborne trade has still grown robustly since the start of 2009, by around 30%. But the world fleet is now 48% larger in GT terms. Surplus capacity today evident in many sectors is a clear reflection of concerted pressure from slower growth in shipments across key importers.
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