Global Maritime Weekly Digest

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

6 June 2017 **issue 77**

....

*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

- Scrutiny of ***tanker-to-ore carrier conversions***, a sizeable category of big ships, has intensified. After the sinking of one vessel with most of the crew lost earlier this year, and defects identified in other ships converted from single hull tankers, monitoring is being stepped up (item 3).
- Oil output cutbacks and price changes have implications for the global ***tanker market*** (item 1) with potential for affecting demand for carrying capacity as well as the cost of transportation as bunker prices are affected.
- Strong pressure on global shipping to ***reduce carbon emissions*** is likely to continue, with the IMO a central focus of efforts to achieve a cleaner marine environment (item 6).
- A debate about ***disruptive changes*** affecting shipping activities concluded that such disruption was not just likely but inevitable, with significant effects on businesses (item 4). Reservations were expressed, however, and opinions varied about the precise components, and to what extent some opinions reflected 'disruption denial vs fanciful futurism'.
- Among new vessels entering the markets, the ongoing wave of ***giant container ships*** deployed on the Asia-Europe route has been especially notable (item 5). Together with the Panama Canal expansion a year ago, trading patterns in the global container ship fleet have been rearranged.

Richard Scott MA MCIT FICS
editor (email: bulkshipan@aol.com)
+++++++++++++++

(1) Clarksons Research, 28 May 2017

Cut To The Chase – Oil Price Dynamics And Shipping

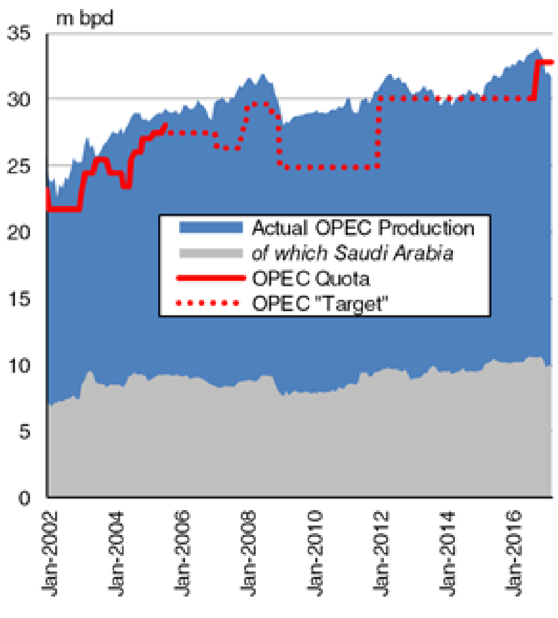
Global oil prices were buoyed in Q4 2016 by OPEC's decision to cut production. Perhaps more surprising still was the extent of compliance with quotas, for an organisation with a past track record of over-production. At their recent meeting, OPEC overcame some members' objections and agreed to extend the cuts until March 2018. How will this affect the oil price and how does it impact the shipping industry?

Cutting To The Quick

Twenty years ago, OPEC had substantial control over the supply side of the oil market. Today, the rise of shale oil has created doubts that OPEC retains the power to influence the market in a lasting way. This question is still to be resolved, though it is true that the cuts have allowed shale producers a new lease of life in terms of spending (up c.50% in 2017) and drilling (the US land rig count is up 120% y-o-y).
However, OPEC are making the most concerted attempt for more than a decade to control supply. As the Graph of the Month shows, past quota compliance has been poor, and indeed for a decade this was effectively acknowledged by the lack of a formal quota.

Graph of the Week

Cut Through The Headlines : OPEC's Production Quota



The area graph shows production of crude oil by OPEC members, with output by Saudi Arabia shown separately. Note that production of natural gas liquids (an additional 6.7m bpd as of early 2017) is not included in these figures. The line overlaid on the graph shows the OPEC quota, or unofficial 'target' for production, demonstrating that, until recently, OPEC countries tended to over-produce relative to the aim.

Source : Clarksons Research

Cutting Down

The difference recently is that OPEC has actually succeeded in cutting to below the level of the quota, despite allowing some members (such as Iran) to avoid formal cuts. The collective reduction has partly been down to outages (notably in Nigeria and Venezuela). However, it also reflects Saudi Arabia shouldering a lion's share of cuts (c.0.75m bpd or 55%).
Expectations of an extension to cuts boosted oil prices in the run up to the announcement (though after the meeting, prices fell as investors took profits). Higher prices have a range of ramifications for shipping. One consequence is higher fuel prices, increasing shipowners' costs unless they can pass this on. Previous periods of high fuel costs pushed owners to slow steam. This mitigated the problem, to some extent, but few ships sped up when prices came down. So currently this would be a difficult trick to repeat.

Cut And Run?
The cuts could also affect tanker demand, either via lower crude and product exports (27% of seaborne trade), or lesser import demand if high prices moderate demand growth. So far, price increases have been moderate, and it seems as if the Saudis in particular have been doing their best to curtail domestic oil usage to protect long-haul export customers (more than 18m bpd, of 47%, of crude trade is exported from the Middle East Gulf).
Perhaps most obviously, the OPEC cuts have brought a modicum of more bullish sentiment to oil companies' E&P investment decisions. This has helped offshore markets a little, notably through a small upturn in tendering and fixing activity for drilling rigs (Clarkson Research's average rig rate index is up 2% since end-2016). However, there has been little to no effect on rates in related markets such as OSVs, and most would acknowledge the extreme fragility of any improvement.
So, the widely-trailed extension to OPEC production cuts boosted oil prices during May, although it remains to be seen if shale production quickly offsets this. Oil price dynamics have a mixture of positive and negative effects for shipping, but certainly remain crucial given the key role of oil both for shipping and for the wider economy. Have a nice day!
Source: Clarksons
+++++++++++++++

(2) Hellenic Shipping News, 29 May 2017/ Roar Adland

Updated: Where to, Baltic Exchange?

Over the past month, the Baltic Exchange and it's new owner, SGX, has been outlining its ambitions for the future. The most interesting part in the press release is the following statement:

> The Baltic Exchange has ambitious plans for assisting in the development of a digital maritime market infrastructure to integrate the risk management of cargo and freight. This will involve working with the industry to develop tools that deliver real-time cargo and freight contract management, messaging workflows and data standards.

Why is market infrastructure and messaging workflows key? While pre-fixture negotiations do not seem to be an explicit target here, this is where the most valuable commercial information sits – and this is in some sense the only bulwark that shipbrokers have left before they are digitalized away. Liquidity in the physical market is not high enough – particularly when you disaggregate down to individual routes – to support algorithmic daily index generation based only on concluded fixtures. Thus, today's Baltic indices are more often than not based on the brokers' opinion on what the rate level "should be", had there been any activity. However, if you have a digital market infrastructure that captures and structures such discussions in real time, you are suddenly in a position to generate market indices in a semi-automated fashion based on a broader information set.

For now, The Baltic Exchange is utterly dependent on the brokers for the production of their freight rate indices and, ultimately, their position as the leading freight information provider in the market. If the Baltic Exchange and SGX does not execute this properly, then there are others waiting in the wings, notably AXSMarine who is already embedded in most of the major broking houses, as well as startups such as Ocean Freight Exchange, Shipamax and others. Any chartering manager or broker worth his salt will of course know that private commercial information is extremely valuable, which is precisely why it has been largely "siloed" and inaccessible at an aggregate level. I do not know whether digital tools by themselves will change this and create a sudden willingness to share. Certainly, the Baltic Exchange has advantages in a deep-pocketed and forward-leaning owner, commercial independence and – still – the support of the brokers.

Addendum
Based on the comments to this article thus far, let me expand on why I think this is a necessary development for the Baltic Exchange, aside from potential competition.

A brokers' assessments is itself a "black box". As Simon Francis illustrated so well in the comments below – we cannot be assured that all the factors differentiating fixtures (e.g. cargo type, place of delivery, fuel consumption, ballast bonus etc.) are consistently factored into the assessment – indeed different brokers will have different level of experience with the particular route and differing opinions on the impact and importance of such factors. A more objective approach may improve consistency and therefore the quality of the indices over time. We have actually written a piece of academic research on this, downloadable here, albeit on the offshore markets.

The Baltic spot indices are often "stale" because not all brokers are involved in ongoing negotiations and are therefore unaware of market changes. When trading FFAs in the past, I could often observe that FFA prices changed direction about a day prior to the index. This is of course because the big physical players that also trade FFAs will have the most up-to-date information – information that may not feed through to all the brokers on the panel until later. Thus, capturing such information in a more timely manner also ensures the quality of the indices – and a digital infrastructure for negotiations controlled by a neutral player may help.

Subjective market indices are, under new financial regulations, inherently problematic. Reducing the amount of subjectivity – if only when it comes to converting from fixture/negotiation information to a consistent standardized Baltic index – might help with regards to the regulators. This, of course, does not help the issue that some routes are, by nature, extremely illiquid, and so the composition of the indices may have to be more dynamic.

Ultimately, the biggest challenge to status quo – which in my opinion has served both the physical and FFA markets extremely well – would be that the freight markets "go crude" in the sense that there are no spot indices at all – only forward prices – with everything (including physical) priced off the short-end FFA curve. There are London brokers already working on this, and it has its own set of challenges, but this would cut the Baltic spot indices and broker panels out of the loop altogether.
For the market, this disruption would have all kinds of implications – some good and some bad – but that's a post for another day.

Source: Roar Adland, Shipping chair professor at Norwegian School of Economics (NHH)
+++++++++++++++

(3) Hellenic Shipping News, 31 May 2017/ Bloomberg

Shipwreck Casts Shadow Over Fleet of Vale Iron-Ore Carriers

A second vessel contracted to haul iron ore for Brazilian miner Vale SA was delayed for repairs following the loss of a similar ship that mysteriously sank en route to China leaving 22 people presumed dead.
The Stellar Queen departed Vale's port terminal in northeastern Brazil on May 7 carrying almost 300,000 metric tons of ore, according to the Rio de Janeiro-based company's website. However, the ship then stayed anchored in a nearby bay for nearly three weeks after the commandant discovered cracking on the main deck and decided to delay the voyage until repairs could be made, the Maranhao state port authority said last week by email. The port authority finally authorized the ship's departure on May 26.
Korean Register, the agency responsible for regularly surveying the Stellar Queen, said last week the ship underwent a survey and was being repaired in Brazil at the request of the owner. Vale declined to comment on the delays.
A third vessel carrying Vale iron ore, the Stellar Unicorn, was also forced to have repairs after a crack was discovered on the outer hull of a tank in April, its owner said at the time. That vessel was surveyed before moving on to China for discharge, according to Korean Register.
All three vessels are more than 20-year-old dry-bulk carriers owned and operated by Polaris Shipping Co. and all were converted from crude-oil tankers. Seoul-based Polaris didn't respond to requests for comment.

Very Large

The Stellar Daisy went missing about 1,700 miles (2,700 kilometers) off the coast of Uruguay while carrying 260,000 tons of Vale iron ore, Polaris said in a statement in April. All but two members of the crew are presumed dead. Polaris hasn't officially said what caused the accident.

The Stellar ships are so-called Very Large Ore Carriers, or VLOCs, that were converted from crude-oil carriers. Polaris, which calls itself the largest VLOC company, said in April it had initiated an internal inspection of all 18 VLOC vessels in its fleet, and would subject each to an independent inspection.

"Polaris Shipping is fully committed to ensuring the safety of its VLOC converted fleet and their crews following the loss of the Stellar Daisy," the company said on its website.

The press office from Vale, which also uses giant so-called Valemax ships to transport ore, said that investigations into the Stellar Daisy's sinking are being conducted by the competent authorities.

'Ripple Effect'

The conversion of single-hull crude carriers into VLOCs "was an attractive option as it extended the assets' life by at least 10 years, especially during the mid- to late-2000s, when dry bulk rates were elevated," according to BI senior analyst Lee Klaskow.

"A number of issues with Polaris Shipping's fleet could have a ripple effect on dry bulk rates if not swiftly rectified," Klaskow said in a May 14 note.

Polaris was reportedly planning an initial public offering this year, Klaskow said, but now "any offering will likely be pushed out until the issues facing its fleet are addressed." The company didn't respond to a request for comment on IPO plans.

The disappearance of the Stellar Daisy and news reports of inspections on other VLOCs has raised concern about similar ships.

"It's my opinion that all converted VLOCs, regardless of owner, should not be used until a very thorough examination of all of these vessels in circulation is first completed," Jeffrey Landsberg, a dry-bulk shipping researcher and consultant for Commodore Research, said last week by email.

Source: Bloomberg

+++++++++++++++

(4) Lloyd's List, 30 May 2017

Disruption denial vs fanciful futurism: Nor-Shipping debate continues

Panellists in Oslo agree disruptive change is inevitable, but have very different details in mind

IS shipping in a state of denial when it comes to disruption — or has the echo chamber of glib futurist forecasting misunderstood the inherent adaptability of an industry built on constantly changing trade patterns?

That was the crux of the debate as Nor-Shipping's opening conference got under way in Oslo on Tuesday.

Disruptive talks had been promised by the event organisers and were duly delivered in bulk as keynote speaker and self-styled 'disruptive guru' Tony Seba launched into a compelling treatise on the inevitable epoch shift looming large for shipowners.

"Why do smart people at smart organisations consistently fail to anticipate or lead market disruption?" he asked, before explaining why interlocking technological advances will result in self-driving electric vehicles dominating the global market by 2030.

Electric vehicles are 10 times cheaper to power than their fossil fuel equivalents, he argued, adding that self-driving models effectively render the decision to own a car economically senseless.

“It’s a basic economic choice and we have already gone from ownership to on-demand models everywhere else,” he said.

“By 2030, 95% of passenger kilometres will be in autonomous electric vehicles, resulting in 80% fewer cars on the road.”

The implications of such a shift are obvious enough, not least in terms of massively reduced oil demand, radically reduced component shipping and significant shifts in trade patterns.

However, Mr Seba took the argument further, suggesting that electric, autonomous shipping was not the fanciful prediction of a far-out futurist, but an economic inevitability.

Heading up the counter-argument to the increasingly herd-like disruptive lobby, Grieg Group chair Elisabeth Grieg pointed out that change has been something of a constant theme in shipping over the centuries and disruption was hardly an alien concept to most shipowners.

Profound change is happening and will fundamentally change how we do business, she conceded, but those with the foresight to adapt and change will always survive.

“Digitalisation will change what our businesses do, but global transportation will remain in some form,” she said.

Tsakos Energy Navigation president Nikolas Tsakos was less measured in his response, arguing that autonomous very large crude carriers were never going to happen and shipowners were “always on their feet” when it comes to shifting markets and ‘black swan’ risks.

“I would like to start smoking whatever you’re smoking,” he quipped in response to the Californian professor’s forecast.

Nevertheless, the shipping representatives all conceded that disruptive change was not just likely, but inevitable and the impact on their businesses would be significant.

“I see an acceleration in the changes we are facing as an industry,” said Gulf Navigation chief executive Khamis Juma Buamim. “Shipping is going through a transformation right now, but a significant part of it is cost cutting, not just technology and digitisation”.

One point that did strike a chord with both the panel and the wider audience was Mr Seba’s response to the question of whether there was any room to invest in ships any more.

“Do you need to invest in ships? Yes. Just not the ones you have now,” he said referring to a slew of forecasts anticipating a gravitational shift towards different vessel types, smaller parcel sizes and, in many segments, fewer cargoes shipped.

+++++++++++++++

(5) Clarksons Research, 26 May 2017

In The Wake Of Giants: Boxship Fleet Deployment Trends

Trends in containership deployment are driven by several key factors, including trade growth, the ‘cascade’ of ships from one trade lane onto another, and infrastructure capabilities. In the midst of rapid growth in the ‘mega boxship’ fleet, and nearly a year on from the opening of the new expanded locks of the Panama Canal in June 2016, it is a good time to take a look at recent trends in boxship deployment.

From The Top

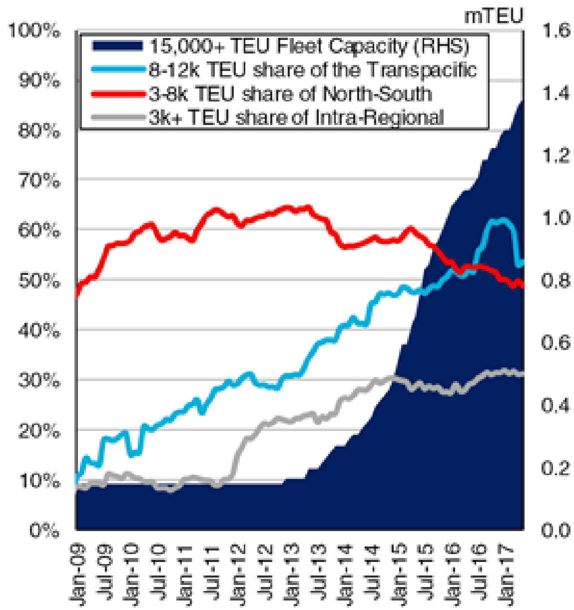
The 15,000+ TEU ‘mega boxship’ fleet has expanded rapidly in recent years, and stood at 76 ships of 1.4m TEU at the beginning of May, up 29% y-o-y in TEU terms. Deployed solely on the Asia-Europe route, and representing 36% of capacity on the route at the start of May, up from 27% a year earlier, growth in the 15,000+ TEU fleet has caused ‘cascading’ of smaller (but still relatively large) containerships off this trade.

New Ranges

The rising proportion of 8-12,000 TEU vessel capacity deployed on the Transpacific is owed in part to the displacement of these units from the Far East-Europe route and new deployment opportunities on Asia-US East Coast routes via the new expanded locks at the Panama Canal. In May 2017, 8-12,000 TEU ships accounted for 54% of deployed capacity on the Transpacific trade, whereas the 3-8,000 TEU sector, including 'old Panamax' ships, accounted for 32%. This compares to 52% and 40% respectively one year earlier. From around mid-2016, the 'cascade' of larger units onto Transpacific routes has also been supported by firm trade growth. Enhancements to US East Coast port capability to handle larger 'Neo-Panamax' units have been ongoing, supporting cascading of larger ships into the Far East-US East Coast route, now including ships of 12,000+ TEU.

Graph of the Month

Deployment Trends And 'Mega Boxship' Fleet Capacity



The lines show trends in the proportion of deployed capacity accounted for by 8-12,000 TEU boxships on the Transpacific, 3-8,000 TEU boxships on North-South trades and 3,000+ TEU vessels on intra-regional routes (left hand axis). Fleet capacity in the 15,000+ TEU sector is shown on the right hand axis.

Source : Clarksons Research

Crowded Skies

On North-South routes in May, the 8-12,000 TEU sector accounted for 32% of deployed capacity, up slightly from 29% a year earlier, while the proportion of 3-8,000 TEU capacity fell from 53% to 49%. Further deployment opportunities for ships in these sectors on North-South routes have been limited by weak trade growth. However, with the relative improvement in commodity prices, trade growth is expected to improve gradually on North-South routes in 2017, potentially providing more opportunities for the 'cascading' in of larger units.

Holding A Steadier Course

Further down the size hierarchy, deployment of 3,000+ TEU vessels on intra-regional routes has remained relatively steady at c.30%, while intra-Asian trade recorded robust growth throughout 2016 and Q1 2017. Although there remain some additional opportunities for larger vessels on these routes, these appear to be diminishing over time on the back of port capability limitations.

Eyes On The Horizon

So, the ongoing delivery of 'mega boxships', trade growth and infrastructure capability are all important drivers of deployment. These factors are shifting all the time, and to keep track of vessel sector trends market watchers must still keep a close eye on cascading.

Source: Clarksons

+++++++++++++++

(6) Hellenic Shipping News, 3 June 2017/ Seas At Risk

Trump withdrawing US from Paris agreement puts more pressure on IMO

The deal – signed off in December 2015 by 195 countries – aims to limit global warming to well below 2C above pre industrial levels, a ceiling deemed dangerous by scientists. It's important to note the White House decision does not directly impact climate talks at the International Maritime Organisation (IMO). Shipping was not included in the Paris Agreement and negotiations on maritime pollution control, the use of HFO in polar waters and CO2 cuts are the focus of IMO. On Friday the EU and China will announce a new range of collaborative measures on climate, including a pledge to "reinforce cooperation" at the IMO. But with the US accounting for 14% of global greenhouse gas emissions, Trump's decision raises the pressure on all major industrial sectors to deliver their fair share of carbon cuts.

John Maggs, Senior Policy Advisor, Seas At Risk said: "As the US shirks its climate responsibilities the importance of action by other big emitters like international shipping only grows".

Dan Rutherford, marine director at the International Council on Clean Transportation said: "Since shipping isn't covered in the Paris Agreement, it seems unlikely that this will slow down progress in IMO. For example, the US remains bound by its promises to reduce black carbon emissions and dirty marine fuels in the Arctic. Trump's move doesn't change that."

Bill Hemmings, Director, Aviation and Shipping, Transport & Environment said: "US pullout puts even greater pressure on the shipping industry to act. We will be watching and pressing all IMO member states, particularly some of those flags of convenience representing such a large proportion of the world's fleet not to backslide. Already proposals on the table from the International Chamber of Shipping (ICS) and others hardly deviate from business as usual. It's now or never for the IMO to act and time for the EU to implement an "insurance policy" should IMO fail."

Aron Cramer, President and CEO, BSR (Business for Social Responsibility said: "U.S. withdrawal from the Paris Agreement is a major mistake that will serve as a setback for climate action, global cooperation, and business, which overwhelmingly supports Paris. This decision not only damages the global consensus on how to address climate change, but also the innovation, competitiveness, and job creation that can flow from the steps outlined in Paris. Despite this deeply regrettable decision, I am confident that business—very much including American companies—will remain resolute in showing how the transition to low-carbon prosperity can be achieved and can improve livelihoods. BSR will continue to work with businesses that understand this and that are leading the way to 21st-century business models."

Bas Eickhout, Dutch Member of the European Parliament said: "It is astonishing that Trump has decided to pull out one of the most important global tasks ahead of us in fighting climate change. Trump's action is both economically and environmentally backward looking. At the latest G7 summit it already became clear how alone Trump stands. Now he decides to pull out of the Paris Agreement, he chooses to stand together with Syria and Nicaragua. We need all parties to stand together. France and Germany in particular have key roles to play with regard to the next UN climate conference. It's of critical importance that financial support for the climate fund does not cease."

Dietmar Oeliger, Head of Transport Policy, NABU said: "Donald Trump is making a mistake ignoring the facts of climate change. He is making a mistake isolating his country from the chances that a transition to cleaner technologies and energies will deliver. That does not necessarily mean that the rest of the world and especially the IMO should follow. To the contrary, the shipping sector in many ways will be effected by climate change and must take over responsibility."

Dr Sian Prior, Lead Advisor, Clean Arctic Alliance said: "It is unbelievable that Trump is pulling back on international consensus on the climate at a time when the Arctic is facing unprecedented change linked to climate and ocean warming. What we are seeing in the Arctic is scary and it is imperative that world leaders unite in their isolation of the US position and that the shipping industry faces up to its responsibilities and starts cutting carbon dioxide and black carbon emissions immediately – a quick first-step should be to stop using HFO in the Arctic."

Source: Seas At Risk

+++++++++++++++

(7) Lloyd’s List, 31 May 2017

Good luck, One Belt One Road

Industry leaders see positive impact on shipping from Chinese grand project despite challenges

CHINA’S One Belt, One Road initiative is likely to benefit shipping demand in the long run, especially in the dry bulk sector, even as economical, geopolitical and social challenges remain, attendees of a forum at Nor-Shipping heard.

In general, the shipping industry should look positively on Chinese president Xi Jinping’s flagship project, despite China’s underlying domestic and geopolitical motives behind this grand idea to improve infrastructure and logistics links in Asia, the Middle East, Europe and Africa.

That was the summary of the opening session at the Asian Belt podium at Nor-Shipping, where a number of industry leaders shared their views on what Mr Xi has claimed will be “the project of the century”.

While not clearly defined by Beijing, the OBOR initiative, whose full name is the Silk Road Economic Belt and 21 Century Maritime Silk Road, broadly consists of a network of ports, railway lines, energy pipelines, electricity generation plants and other human development projects.

Several panellists pointed out that infrastructure development would generally have a positive effect on demand for maritime transport, even if the impact was indirect and took time to materialise.

“Anything related to infrastructure [development] will extract some long-term benefits,” said Foresight executive chairman Ravi Mehrotra.

Clarkson Research president Martin Stopford pointed out that seaborne imports per capita in most parts of developing Asia, while far below current levels in Europe and Japan, could increase in the coming decades, with the region’s economic weight expected to continue to grow. China is therefore playing a long game.

“China’s Maritime Silk Road policy would help with ports and infrastructure for improving logistics,” Mr Stopford said. “This could be very powerful.”

The infrastructure projects would also boost demand for raw materials, benefitting the dry bulk sector the most, some panellists said.

“Projects for the OBOR underpin demand for raw materials. That’s obviously very important for our industry,” Western Bulk chief executive Jens Ismar said.

Precious Shipping managing director Khalid Hashim also predicted increased demand for dry bulk shipping, but he said crude tanker demand could be pressured by the commission of oil pipelines.

As for the containership sector, the OBOR’s land logistics projects are “not exactly competing with sea trade lanes” but with existing land transport, he added.

Still, the OBOR will likely face challenges on many fronts, as China seeks to expand its geopolitical influence and export its excess capacity in infrastructure production.

“[The initiative] presents many political challenges in an area of US influence, which is older and more culturally diverse than the north Atlantic,” Mr Stopford said.

On the economic front, BW Group chairman Andreas Sohmen-Pao said companies in the OBOR nations would also want to utilise their infrastructure even as Chinese companies want to export their excess capacity.

Development of infrastructure would take time, and OBOR countries that receive Chinese investments may be worried that their sovereignty could be compromised, Mr Sohmen-Pao said.

Still, there could be scenarios where everyone gets a fair slice of the pie.

According to the Asian Development Bank, developing countries in Asia and the Pacific need to invest $26trn in infrastructure from 2016 to 2030 to maintain growth momentum, eradicate poverty and fight climate change.

“I think the OBOR will come,” said Maritime and Port Authority of Singapore chief executive Andrew Tan. “No other countries have that much [investment] capacity.”

On an individual level, “it's about how to plug ourselves into that connectivity” with the OBOR initiative, Mr Tan added.

Speaking on a macro level, Mr Sohmen-Pao said: “Shipping depends on the world economy; the world economy depends on China; China depends on the OBOR.”

“We should wish them luck.”
+++++++++++++++