Southampton SOLENT University

Global Maritime Weekly Digest

Publishing Director: Prof Minghua Zhao Editor: Richard Scott

7 February 2017 issue 61

*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

- A new report focuses on ***shipbreaking yards' working practices*** (item 1). It draws attention to safety and environmental issues, and shipowning countries which are implicated, but the press release does not mention improvements in standards achieved by some recyclers.
- The global ***bulk carrier market*** strengthened in the final months of last year, prompting optimism about a recovery. Analysts at BIMCO caution that more pain is likely in the early months of this year, however, when further fleet expansion could overwhelm any demand growth (item 2).
- At a recent conference, participants considered the ***maritime 'new normal'*** and how to adapt to this new era. Although many interesting ideas were discussed, resulting in proposals for action, some key concepts may prove difficult to implement. A note by the GMWD editor examines the merits of these arguments (item 3).
- An enormous volume of ***seaborne imports into China from Australia*** comprises a sizeable part of world bulk commodity trade (item 4). It is an arrangement of vital significance for both nations.
- Global ship fleet and seaborne trade ***comparisons with twenty five years ago*** emphasise the sheer scale of enlargement which has evolved (item 7). The fleet has grown threefold during that period, while trade increased by almost one hundred and fifty percent.
- Over the past twenty five years ***China's economy and trade*** grew massively, contributing much of the world growth occurring, and stimulating enormous merchant fleet expansion.

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

(1) NGO Shipbreaking Platform, 1 February 2017

Platform publishes list of ships dismantled worldwide in 2016

The list of all ships dismantled around the world in 2016, which the NGO Shipbreaking Platform has compiled and analysed, shows no improvements of the shipping industry's management of its end-of-life vessels. Far from it: the Platform today releases data that indicate an increase in the number of ships sold for polluting and unsafe shipbreaking on the beaches of South Asia. In 2016, a total of 668 vessels were broken on tidal beaches, that is as much as 87% of all tonnage dismantled globally.

"The shipping industry is nowhere close to ensuring sustainable ship recycling practices. Last year, we saw not only an increase in the market share for dangerous and dirty shipbreaking, but also a record-breaking number of EU-owned vessels on the South Asian beaches. A jaw-dropping 84% of all European end-of-life ships ended up in either India, Pakistan or Bangladesh. Beaching yards are not only well known for their failure to respect international environmental protection standards, but also for their disrespect of fundamental labour rights and international waste trade law," says Patrizia Heidegger, Executive Director of the Platform.

A higher number of ships beached means that workers, the environment and local communities in South Asia are exposed to ever increased hardship. 2016 saw the worst catastrophe in the history of the industry: on 1 November, at least 28 workers were killed instantly and more than 50 injured when an explosion and a massive fire shook a tanker beached in Gadani, Pakistan. The death toll in the Bangladeshi yards, which the Platform was able to document, reached 22 in 2016, with another 29 workers having suffered serious injuries. Whilst accident records in Indian shipbreaking yards are kept a secret, the Platform was informed of at least two fatal deaths in Alang.

DUMPERS 2016 – Worst practices

It may seem a big surprise for a country whose industry is proud of green technology and engineering solutions, but GERMANY is responsible for the worst shipbreaking practices amongst all shipping nations when one compares the size of its fleet to the number of ships broken irresponsibly. German owners, banks and ship funds had a staggering 98 ships rammed up on the beaches of South Asia out of a total of 100 vessels sold for demolition: 98% of all obsolete German ships ended up on a beach! That not being enough, close to 40% were broken in Bangladesh, where conditions are known to be the worst. Amongst the most irresponsible owners are Hansa Mare with 12 ships, Alpha Ship, F. Laeisz and Peter Doehle with 7 each, and Dr. Peters, König & Cie, Norddeutsche Vermögen and Rickmers with 6 each. Even Dr Oetker, a famous food brand, shamefully sold its old container ship CAP STEWARD to the Bangladesh breakers.

The German shipbreaking practices come with a high death toll. During the breaking period of the RENATE N. at Seiko shipbreaking in Chittagong, Bangladesh, three workers were killed and three more injured (see "Accidents" in the Platform's South Asia Quarterly Update). The vessel owned by Neu Seeschifffahrt had been traded through cash buyer Wirana. Even the UN Special Rapporteur on Toxics and Human Rights expressed serious concerns in a submission to the German Government, criticizing the substandard practices of German owners. In November, another Bangladeshi worker was killed during the demolition of the only 10 year-old, loss-making container ship VIKOTRIA WULFF.

"It is not the first time that shipbreaking workers pay with their lives for the failed business practices of German ship owners and their ship funds. Due to numerous bankruptcies resulting from short-sighted and high-risk investment, insolvency administrators appointed by the courts quickly trade the unprofitable ships to the beaches of South Asia, and the bill for the shipping industry's greed is paid by people and the environment", comments Patrizia Heidegger.

GREECE was responsible for the highest absolute number of ships sold to South Asian shipbreaking yards in 2016: 104 ships in total. Since the Platform has started to compile data in 2009, Greek shipping companies have unceasingly topped the list of owners that opt for dirty and dangerous shipbreaking. Backed by the Greek government, they continue to refuse liability for the damage done to workers and the environment. A Greek ship beached in Pakistan in December 2016 caused the death of five workers in January when a fire broke out on the GAZ FOUNTAIN owned by Athens-based Naftomar.

The worst corporate dumper prize goes to the UK-based ZODIAC. The company is operated out of London and owned by Eyal Ofer, son of late shipping magnate Sammy Ofer. Zodiac alone has sold 12 ships for breaking on the beaches in 2016, mostly to Bangladesh, and the company has been linked to severe accidents. During the demolition of Ofer's ship SNOWDON, beached in Pakistan in October, a worker was killed in January this year. Eyal's brother Idan, owner of the QUANTUM PACIFIC GROUP and holder of a controlling stake in the ISRAEL CORPORATION, received the worst dumper award in 2015 for selling most of his end-of-life vessels to Bangladesh breakers – a more than dubious practice for a family that wants to be known for its philanthropy.

"It is scandalous that the burden to deal with Europe's profit-greedy shipbuilding boom is shifted to communities and workers in South Asia: first the shipping industry creates a large overcapacity on the market, and then it fails to find responsible solutions for its obsolete ships," says Heidegger. In 2016, also Maersk decided to take a U-turn on its previously progressive ship recycling policy: the Danish container ship giant decided to go back to the shipbreaking beaches of India where it is offered higher prices for its unwanted ships. Being one of the catalysts of the overcapacity on the shipping market itself, Maersk has to get rid of 75 – 100 ships in the coming years. "This move to boost profits does not only help to rubberstamp the beaching method, but, very regrettably, it is also stalling real progress and innovation in India to move ship recycling to the next level – off the beach – to modern ship recycling facilities," says Heidegger.

The data compiled by the Platform also show that ship owners continue to shield themselves from responsibility through the use of cash buyers such as GMS and Wirana. These scrap dealers reflag end-of-life vessels to last-voyage flags of convenience, such as Palau, Comoros and St Kitts and Nevis, and sell them off for the highest price offered by the worst yards. "Looking at the flags used at end-of-life, it is clear that legislation based on flag state jurisdiction will not be able to bring substantial change to the current practices: who believes that a non-compliant flag and a cash buyer benefitting from the worst conditions will enforce improvements in shipbreaking yards?," says Ingvild Jenssen, Policy Director and founder of the Platform. "The global shipbreaking crisis can only be solved through measures that go beyond flag state jurisdiction. That is why we call on the EU to demand a ship recycling licence from all vessels visiting EU ports."

In 2017, the EU will publish a list of ship recycling facilities around the world that comply with high standards for environmental protection and workers' safety. The list will be the first of its kind and an important reference point for sustainable ship recycling. German container line Hapag-Lloyd has already committed its end-of-life ships off the beach, and has announced that it will only use EU listed facilities. A financial incentive affecting ships trading with the EU is however needed to ensure that irresponsible ship owners are directed towards the facilities listed as approved by the EU. A proposed Ship Recycling Licence scheme is now being discussed. The many scandals involving European shipping companies are also a driver behind the strong interest that various financial institutions have started to show in ship recycling: to ensure responsible business practices some are now setting criteria for shipping companies they finance while looking at the EU Ship Recycling Regulation for guidance.

Source: NGO Shipbreaking Platform

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

(2) BIMCO, 31 January 2017

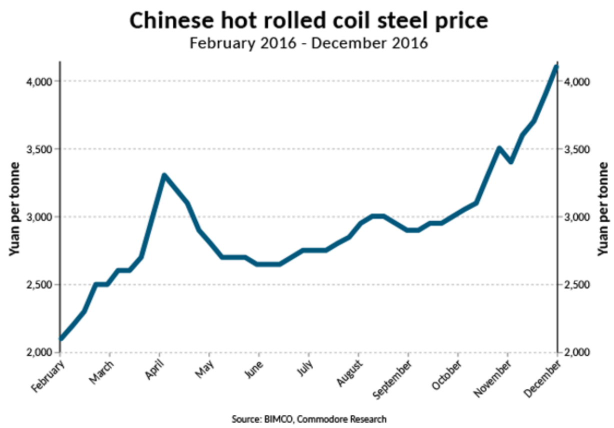
Dry Bulk Shipping: Q4 provided optimism, Q1 will make sure we don't get carried away

Iron ore provides 30% of the demand for the dry bulk market and, during 2016, its related tonne-mile demand went up by 6%. This was the key factor behind the overall demand side growth of 2.2%.

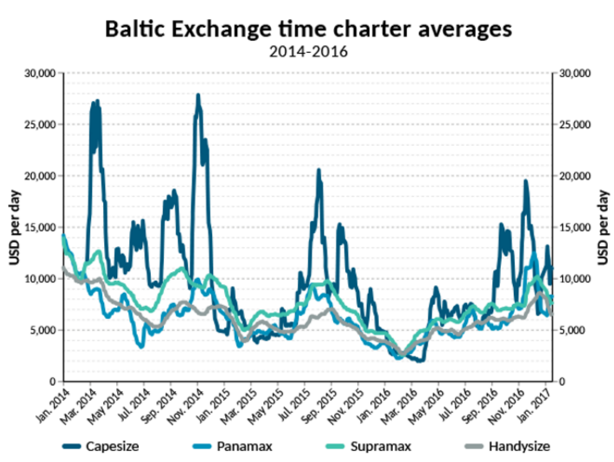
Demand

Iron ore provides 30% of the demand for the dry bulk market and, during 2016, its related tonne-mile demand went up by 6%. This was the key factor behind the overall demand side growth of 2.2%.

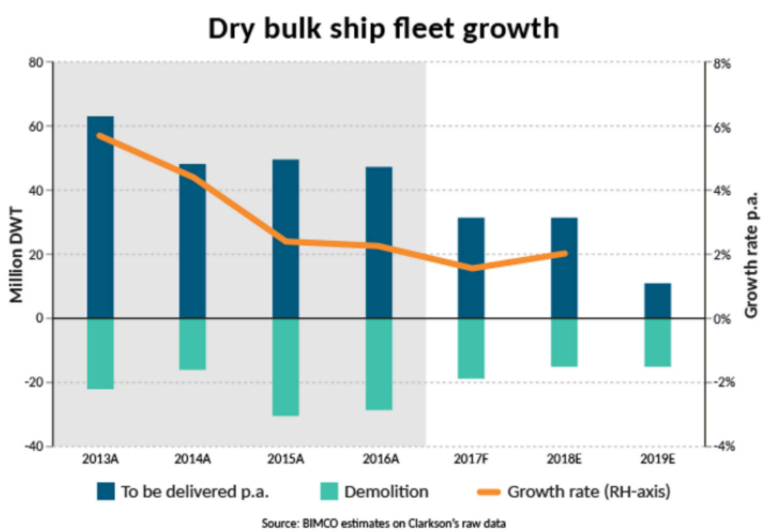
From January to December 2016, Chinese iron ore imports went up by 7.5%. This means that, for the first time, imports (sea and land borne) exceeded 1bn tonnes in a calendar year. In 2016, all other regions except for China imported less iron ore.
This increase was influenced by Chinese steel prices, which have been on the rise since June when a tonne was priced at Yuan 2,705 (USD 390). By mid-December, the average price of hot rolled coil in China hit Yuan 4,060 (USD 585) per tonne. This has doubled in the last year, and represents a four-year high. It is due to an increase in demand for steel – coming from construction and from increased public spending on physical infrastructure works.



China's coal import volumes were higher than expected but, as Indonesian exporters grabbed the lion's share of the demand growth, the dry bulk sector could not reap the full benefit of this upside. This marks a significant change from 2013, when China offered many tonne-miles to the market by importing coal on long haul routes such as the US [read more on this story]. More recently, world coal imports decreased, bringing tonne-mile demand down by 0.6% in 2016. Despite this, there was a slim demand side improvement for the total dry bulk market, due to grains and other minor bulks.
Legislative actions by Chinese authorities were the swing factor behind higher coal imports in 2016. Their enforcement of the 276 working days per year policy in mid-April had an immediate effect. This policy was later suspended to secure domestic coal supply for the winter season, causing prices to decline.
Freight rates have improved gradually over the year for nearly all segments since the all-time-low we saw back in February 2016. Capesizes were the exception, experiencing a more volatile year as freight rates started to respond to increased demand – as the supply growth rate was no longer sky-high. The rise and fall of capesize rates showed their dependency on Brazilian iron ore cargoes. Rates on 25 November stood at USD 15,000 per day – only to sink to USD 6,500 per day three weeks later.
As BIMCO expected, Q4-2016 delivered the highest level of demand for dry bulk ships ever.



Supply
As the supply side grew by 2.25% in 2016 against a slightly weaker growing demand side (2.17%), the most recent data indicates that the market fundamentals worsened. 2016 saw 29 million DWT being scrapped, while 47 million DWT of new capacity was introduced. BIMCO's forecast for next year is a supply growth rate of 1.6%. This is higher than the zero-supply side growth rate that BIMCO identified as necessary for market recovery in the dry bulk sector in our "road to recovery" analysis last year. It comes on the back of a continued slowdown in demolition interest – which is itself alarming. The work needed on the supply side is substantial and the low level of demolition merely postpones the recovery.
2016 saw the handymax (40,000-65,000 DWT) sector expand the most as it grew by 5%. In contrast, the capesize and panamax sectors had much lower growth. In 2016, the panamax sector almost neutralised its newbuild deliveries with its demolition activity, expanding by just 0.6%. Capesizes grew a little less with a fleet average of 1.9%.
In the newbuilding market, two things are worth mentioning.
The 31 x 400,000 DWT orders backed by 25-27 years of CoA deals with the Brazilian miner Vale. Of these, 30 were placed by Chinese state-owned interest and one was a Japanese deal.
Just 17 ships were ordered by other owners/investors.
All of which is unprecedented.
2017 will see more orders being placed. Newbuild prices for dry bulk ships have flattened out since mid-August 2016, but owners and investors may be tempted by low prices to go back to the yards for new ships. Lack of activity from the newbuilding yards has meant the second-hand market has been red hot. According to Vesselsvalue, 648 dry bulk 'trading sales' happened in 2016. The panamax segment was the busiest with 154 ships traded, equal to 7% of all panamax dry bulk ships. Average price and age of the traded ships was USD 8.4m and 10.2 years.
February saw an all-time low BDI and a record low in second-hand prices. This was an opportunity for those who engage in the asset-play and trusts in a mean-reversion of prices. For example: A linear decline in asset values from a newbuild at USD 25m, with a lifetime of 20 years to a scrap value of USD 3m, implies a 10-year-old ship has a value of USD 14m (the example is to be boxed out on the page).
Those buying for trading may also benefit in the longer run as they re-set the cost levels, at least for some parts of their fleet. While those buying for the asset-play at USD 8.4 million may sell it again if prices revert to the mean.



A is actual. F is forecast. E is estimate which will change if new orders are placed. The supply growth for 2017-2019 contains existing orders only and is estimated under the assumptions that the scheduled deliveries fall short by 10% due to various reasons and 40% of the remaining vessels on order are delayed/postponed.

Outlook
The first quarter always has an overall lower level of demand than any fourth quarter due to seasonality. 2016/17 is no different in that respect. Key indicative commodities (according to SSY) in combination, indicate that demand may contract by as much as 5.4%, from Q4-2016 to Q1-2017.

But normal seasonality will also play its part, as coarse grain exports out of Argentina, soya exports out of Brazil and wheat out of Australia will go higher in Q1-2017 compared to Q4-2016.
Another noticeable seasonality is the fact that January/Q1 always shows a disproportionate amount of newbuilds delivered. During 2013-2016, January deliveries accounted for 17% of the year's total additional DWT-capacity and Q1 deliveries were 35% of the year's total. If this is anything to go by, 2017 will see 5.3 million DWT delivered in January and 10.9 million DWT in Q1-2017.
China's five-year plan involving transport connectivity will not only boost the economy in a "traditional" sense by increasing public spending, but also the planned investment into physical infrastructure improves the forecast for dry bulk imports. In support of the One-Belt, One-Road (OBOR) initiative, USD 259 billion is set to be spent on highway and waterway projects in 2017.
Moreover, as China expands its railway system in 2017-2020, plans to spend USD 503 billion on infrastructure investments also supports both OBOR and dry bulk shipping. As in past years, China's investments in housing and connectivity is critical for the dry bulk shipping sector as the rest of the world isn't growing its dry bulk imports.
Usually, by 15 March 2017 the Chinese winter heating period is at an end. During this period, Chinese coal mines benefit from an extension to the official national limit on the number of working days they can operate (from 276 to 330 days). This is to allow them to increase domestic production and thereby 'control' the coal price during peak demand seasons. The end of this extension during March may benefit dry bulk shipping if domestic demand for coal exceeds domestic supply while coal prices do not increase significantly as they did in the run from April to the start of the winter heating period.
For the coming months January-April, BIMCO expects supply to outstrip demand and a level of loss-making freight rates will follow in its wake.
BIMCO will provide more details on the "road to recovery" for the dry bulk shipping industry, with a new status update in February 2017.
Source: Peter Sand, Chief Shipping Analyst; BIMCO

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

(3) Notes for *SOLENT Global Maritime Weekly Digest* by Richard Scott, GMWD editor, 5 February 2017

Grappling with the maritime 'new normal'

A report published two weeks ago, entitled ***The New Normal***, revealed ideas and proposals emerging from a shipping conference held in Copenhagen during the autumn of last year. This international conference, which included participants from many countries, aimed to find ways of 'unleashing the potential of the global maritime industry to increase long term development and human wellbeing'.

While seemingly a very worthy all-embracing aim, setting a desired goal of such enormous magnitude presents considerable challenges. How will it be tackled to produce tangible and workable suggestions of action? The objectives suggest a search for a new and inspiring process. Some people, however, might argue that striving to achieve this aim is precisely what the shipping industry collectively has been doing with considerable success for many years.

The background against which the conference took place is well known. A prolonged period of subdued freight markets and, for much of this period, depressed freight rates, has unfolded. Some of the key influences shaping the global shipping industry's operational mode have been changing, apparently fundamentally. More change can be anticipated. Industry participants are looking closely at what should be done to cope with the new era.

Based on the conference report, some useful discussion was conducted. But many of the conclusions reached by the various working groups seem to be broad generalisations of what might be desirable in an ideal world, rather than reflections of solid reality. There is an element of intangibility in the reported outcomes, although these do provide an incentive for further analysis. Recommended action involving setting up more industry groups and bodies would add to the large number already existing.

Is there a 'silo' mentality?

Another aspect invites comment. In the opening remarks of the report by the conference chair, the shipping industry is roundly criticised for having a detached stance:

> *What has become clear to me in the last couple of days is that shipping until now has been in something of a silo. People inside the shipping industry tend to spend their whole life working there and looking at shipping really almost in isolation. What is clear now is that there needs to be a wider economic evaluation of shipping, it needs to be put into a political context, into a social context, into an environmental context. Above all else the shipping industry needs to take a joined up view of its own role in the wider economy.*
> (Danish Maritime Forum 2016 chair: Gillian Tett, US Managing Editor, Financial Times)

This characterisation can be contested. Is it a fair assessment of the industry's position? Is the shipping industry a rather insular, inward-looking activity imbued by a 'silo' mentality', where sharing of information and knowledge is restricted? It is, perhaps, a somewhat puzzling remark.

Evidence can be easily found to refute this view. It can be demonstrated that the global shipping industry tends to be fully engaged with, and aware of the contexts mentioned: its economic, political, social and environmental surroundings. Because these have such a prominent direct and fundamental impact on the industry's functioning and performance, there can be few participants who do not consider such matters to varying degrees. Some players, however, may choose to understate or even ignore their relevance.

Moreover, several international maritime bodies – such as the International Maritime Organization, International Chamber of Shipping, BIMCO, among others – are prominently proactive in discussing and emphasising these matters. The organisations are at the forefront of highly publicised debates which seek to fully evaluate the wider aspects, and to develop policies which address concerns about the shipping industry's conduct.

Unleashing the potential: an achievable ambition?

The quoted 'unleashing the potential of the global maritime industry...' objective has the unfortunate impact of sounding more like management-speak style guff. So what concrete ideas and suggestions came out of this Forum?

More platitudes are offered. The report mentions several 'cross-cutting takeaways' which apparently emerged from the conference. An 'opportunity for transformation' was identified and 'learning from other industries' was recommended. A suggestion that 'the industry, regulators and other key stakeholders must work together' seems unimaginative when it is already happening widely. Finally, according to the report, to fully unleash the potential of the maritime industry 'it must be proactive, agile, innovative and transparent'. An observer might ask how these 'takeaways' can contribute further when they seem to be largely a re-statement of already known worthy principles, many of which are happening already.

A global ship recycling fund: is this workable?

It may seem unfair to single out just one of the many ideas to emerge from the conference, as an example of a suggestion of perhaps questionable value. But a press release by the organisers about the report specifically highlighted this aspect as a notable outcome of the conference.

One of the conference working groups outlined a ‘bold and tangible proposal to deal with over-capacity’ in shipping markets. It was suggested that a fund should be set up, entirely financed by the shipping industry, to subsidise scrapping of older vessels. A newly-formed Global Sustainable Shipping Body (GSSB) would create financial incentives to accelerate scrapping and slow down building of new ships.

Levies on shipowners and cargo interests, with contributions from shipbuilders when new ship orders were placed, were seen as the mechanism for raising funds. It was proposed that the organising body arranging the scheme would be backed by governments. To qualify for the subsidy, only high-standard ship scrapping yards meeting the requirements of the Hong Kong convention on ship recycling would be permitted to be used.

How useful is this as a practical proposition? Based on historical observation of how much time is required to get full global agreement on new international maritime policies, especially when these are controversial, many years might be needed to effect such a change. If the time elapsed is up to a decade, the usual market mechanisms probably will have achieved the same result (as now gradually under way), making such an effort redundant. The complexity, scope and scale of the global scheme outlined would seem to make it almost impossible to put into action within any reasonable timescale.

Conference revelations

The ship recycling subsidy scheme was one of the suggestions emerging from a total of fourteen working groups at the conference. Groups focused on diverse topics: decarbonising shipping; remedies for over-capacity in the cargo and offshore sectors; embracing a transparent, customer-driven business model; leveraging technology to transform the maritime industry; and creating a shared platform for innovation.

Other groups looked at bringing together a fragmented industry; mitigating the adverse effects of globalisation; increasing the value of the maritime industry to society; scope for autonomous decision-making; contributing to the UN sustainable development goals; and strengthening involvement in shaping future regulations.

Surprisingly, some pressing issues relevant to future maritime activities do not seem to have been examined in any detail at this conference, based on the reports of the discussions. For instance, what ramifications could ensue from further growth of China’s seaborne trade and national shipping fleet, and how will the global maritime industry accommodate and embrace this process? The outcome could have substantial implications for many facets of the world maritime scene.

As an outline of the maritime industry’s problem areas, the conference list of topics discussed has some merit. If all or most of the ideas and proposals are implemented, it could be argued that these will be instrumental in approaching the identified requirement to ‘unleash the potential’ of the global maritime industry. But the workability of many components is not altogether obvious. The entire process envisaged could prove extremely protracted, requiring extensive international agreement in numerous aspects.

source: article by Richard Scott

Conference report details:

The Danish Maritime Forum 2016 was held in Copenhagen, 26-27 October 2016, organised by Danish Maritime Days, a non-profit public-private partnership. A conference report, ‘The New Normal’ was published on **19 January 2017**, downloadable on the link below:
http://www.danishmaritimedays.com/wp-content/uploads/2016/12/Danish-Maritime-Forum-2016_The-New-Normal.pdf

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

(4) Clarksons Research, 3 February 2017

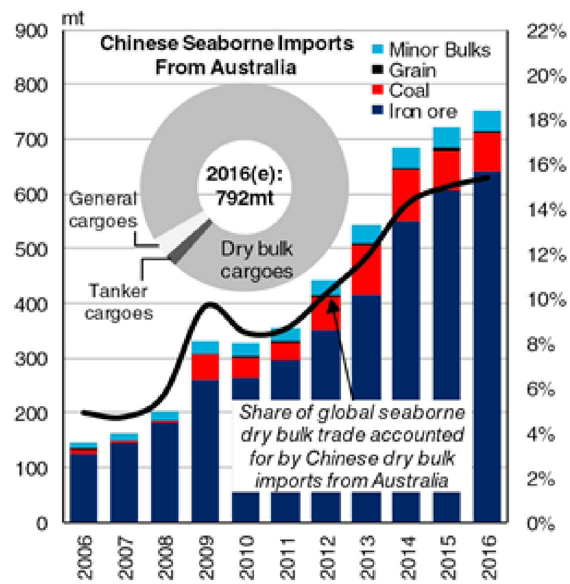
China's Prime Partnership With The Land Down Under

Australia has long been a major supplier of raw materials to China's rapidly growing economy. In recent decades, trade between the two nations has made an increasingly significant contribution to growth in global seaborne trade, and the signing of the China-Australia Free Trade Agreement in 2015 is driving further co-operation. But just how important has the impact of trade between these two countries been?

Graph of the Month

Sino-Australian Trade: A Matter Of Great Importance

The bars show annual Chinese seaborne dry bulk imports from Australia (LHS) spilt by cargo type. The black line shows the share of global seaborne dry bulk trade accounted for by Chinese imports from Australia (RHS). The inset graph shows total estimated Chinese seaborne imports from Australia in 2016 by cargo type.



Source : Clarksons Research

A Maritime Match

Between 2006 and 2016, Chinese imports from Australia grew by a CAGR of 17% p.a. to reach an estimated 792mt in 2016. The sheer volume of trade flowing between the two countries has meant each now fulfils a vital role for the other. Australia is China's top trade partner by some distance in terms of tonnes, with more than a third of China's seaborne imports in tonnes sourced from Australia in 2016, up from a fifth in 2006. Australia has thus played a key role in feeding China's growing appetite for raw materials, as China's economic miracle unfolded. China is also Australia's top trade partner, accounting for a larger proportion of Australia's exports and imports in terms of value than any other country, providing a key source of national revenue.

Out Of The Outback

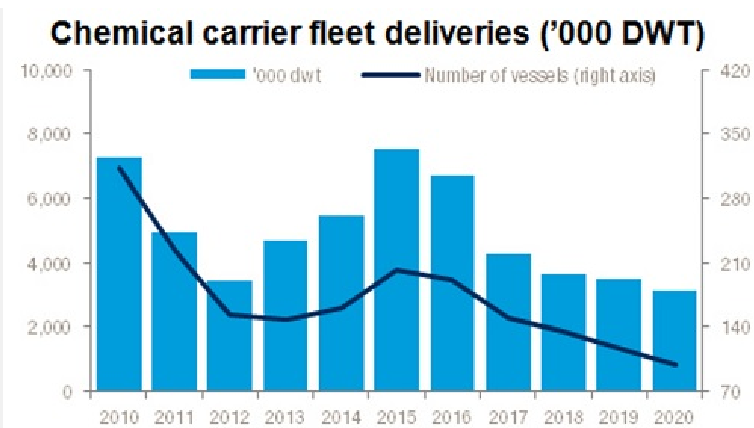
Australia's vast mineral deposits mean that most of China's imports from Australia are dry bulk cargoes. China's dry bulk imports from Australia grew from 146mt in 2006 to 751mt in 2016, with around 85% of this growth accounted for by surging iron ore imports as China's steel industry blossomed. Meanwhile, China's swing from a coal exporter to major coal importer in the late 2000s as trading opportunities opened up saw Australia quickly emerge as China's top supplier of coking coal, while Australia is also now China's largest foreign provider of barley and wheat. Australian exports of minor bulks to China have also increased, by a CAGR of 13% p.a. in 2006-16, to reach 35mt last year, supported by growing bauxite exports. Overall, Chinese dry bulk imports from Australia now account for a significant 15% of global seaborne dry bulk trade in tonnes, up from 5% in 2006. This share could well grow further if China's stricter environmental policies see a continued preference for Australia's high-quality iron ore and coal.

Pacific Side Story
While China's imports of other cargoes from Australia are relatively limited, some are still seeing rapid growth. China's imports of LNG from Australia more than doubled y-o-y in 2016 to around 12mt, with further significant growth expected in coming years as additional Australian LNG projects start up.
Overall, including all cargo types, one in every fourteen tonnes shipped by sea in 2016 globally was exported from Australia to China, with growth in trade between these two nations alone accounting for an astonishing 20% of the total expansion in global seaborne trade over the last decade.
So, the importance of Australia-China trade is clear to see from a range of perspectives, with this one route playing a major role in shaping trends in global seaborne trade. While there remain concerns over the outlook for growth in Chinese raw material demand, there can be no doubt over how important this particular trading partnership has become.
Source: Clarkson Research Services Limited
+++++++++++++++

(5) Hellenic Shipping News, 4 February 2017/ ICIS

Global chem shipping problem to persist for years

The too-many-ships problem is not going away anytime soon, at least for the chemical tanker fleet.
London-based maritime consultant Drewry said in a report issued on Thursday that freight rates on long-haul routes will continue to be challenged by a surplus of large vessels over the next two years.
"The chemical fleet grew by 5.2% in 2016 and is expected to expand by 3.3% to the end of 2017, which will continue squeezing rates on major routes over the next two years," said Hu Qing, Drewry's lead analyst for chemical shipping.
"New orders and deliveries are also expected to decline further because of the depressed market and financial woes of shipyards."

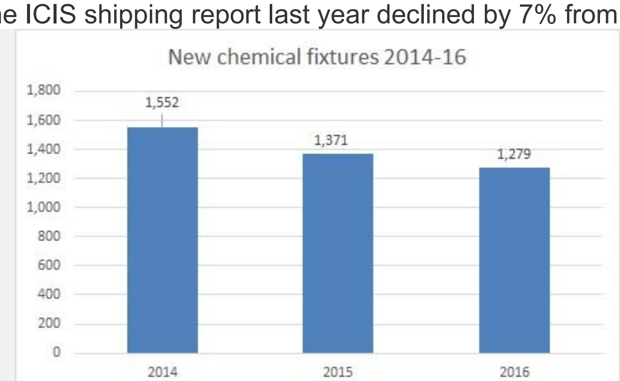


Source: Drewry's Chemical Forecaster

Too many ships chasing too few cargoes has plagued chemical shipping off and on for years, and this dilemma is expected to continue.
Drewry's Chemical Forecaster study used similar language in late 2016, stating that rising fleet growth and softening seaborne trade will depress chemical shipping freight rates over the next few years.
Chemical shipper Stolt Nielsen has referred often to the problem in earnings reports over the past few years and did so recently.
"There is still an oversupply of tonnage, and with significant new building deliveries in 2017, combined with a weak product tanker market, we believe the year will be challenging," said CEO Niels G Stolt-Nielsen.
Freight rates on the two major chemical shipping routes in the Americas – the transatlantic eastbound and the US Gulf to Asia trade lane – declined by 9% during 2016, though some rates turned up in

January this year. The chart below shows rates for 2,000-tonne shipments in blue and 5,000 tonnes in gold.

New fixtures reported in the ICIS shipping report last year declined by 7% from 2015.



Source: ICIS Weekly Chemical Tanker Shipping Report

There has been a surplus of chemical shipping vessel supply on major routes, with many new building deliveries and swing tankers flooding the market, said Drewry's latest report.

Time charter rates weakened in 2016, especially for larger tankers, and freight rates on major long-haul routes dropped. While trade volume from the US to Europe and northeast Asia surged in 2016, the addition of speculative vessels brought rates down.

The chemical fleet will continue to expand because of the large number of new vessel orders placed in previous years, but growth will be subdued compared to 2015-2016, Drewry said.

While deliveries and ordering have declined in 2016, there are still many ships scheduled to be delivered in the next five years because of heavy ordering during 2014 and 2015.

More demolitions are expected because of new regulations that will come into force in 2017.

Coupled with the implementation of the Ballast Water Treatment System (BWTS) in September 2017, the adoption of the global 0.5% sulphur cap may potentially accelerate the rate of vessel demolition towards the end of 2020.

However, this is likely to have little impact on fleet supply, as most of the older ships are of less than 10,000 dwt (deadweight tonnes), and thus, the capacity that can be scrapped will be a small percentage of the total fleet.

Time charter rates weakened further in the fourth quarter of 2016, more so for larger tankers.

"We expect fleet oversupply to persist in 2017 and time charter rates for larger ships, especially MRs [medium ranges], to decline because of stiff competition. However, rates for vessels in the smaller

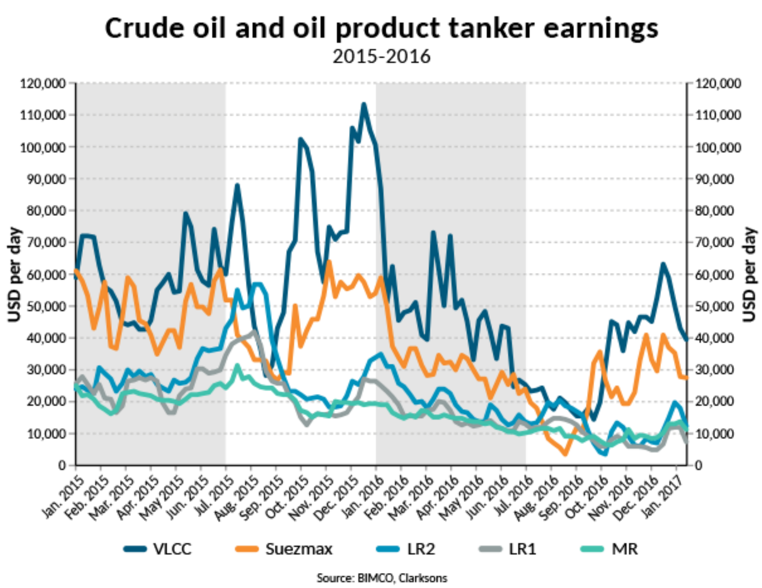
categories are likely to remain stable in 2017," said the Drewry analyst.
Source: ICIS (By Lane Kelley)
+++++++++++++++

(6) BIMCO, 31 January 2017

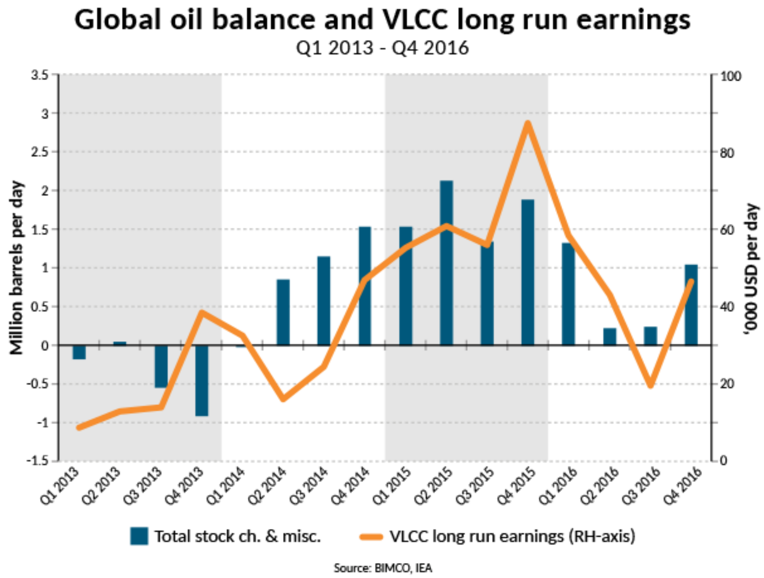
Tanker shipping: A strong season lifts crude oil tankers before it is expected to hit the fan in 2017

From a crude oil market perspective, 2016 can be summed up as "eventful". In January, the international sanctions on Iran were lifted, resulting in a very swift increase of their oil production capacities and subsequent re-entry into the global oil export market.

Demand
Seasonality has certainly been a friend of crude oil tanker owners during Q4. Since global refining crude throughput bottomed out in October due to regular annual maintenance, the demand for crude oil tankers has been high. After sliding most of the year, with suezmax earnings falling below USD 5,000 per day in August and VLCC earnings dropping to USD 15,000 per day by the second half of September, a strong comeback came as a bonus after a run of strong earnings ended. Stock piling of oil benefits the tanker market, and a reversal will certainly harm it.
For oil product tankers, the party seems over for now. LR1 and MR tankers have seen freight rates at or below USD 10,000 per day since mid-September. The fact that LR2 rates on Ras Tanura – Chiba trading fixed at USD 20,000 per day in the last days of 2016 and early days of 2017, is likely to be a "one-off". Nevertheless, some years do provide an extension to the winter season, where a peak in demand is so strong that the fundamentals in the shipping market get side-lined.



From a crude oil market perspective, 2016 can be summed up as "eventful". In January, the international sanctions on Iran were lifted, resulting in a very swift increase of their oil production capacities and subsequent re-entry into the global oil export market.
Spot oil prices plummeted by 48% from 2014 to 2015 and a further 11% from 2015 to 2016 on an annual average. In December 2016, OPEC and selected non-OPEC members agreed to the first cut in output since 2008 (OPEC only) and 2001 (OPEC and non-OPEC) respectively.
Between Q1 2014 and Q4 2016, global oil supply grew by 6.5% while demand increased by only 5.3%, creating an imbalance in the market and triggering stock piling.



According to the International Energy Agency (IEA), oil stock piles could reduce following the agreement to decrease oil production by OPEC and some non-OPEC members in December 2016. But this will only happen if:

1) Demand does not shift in tandem with supply; or

2) if the decreased supply by OPEC and some non-OPEC members (which might result in increasing oil prices) is not encouraging other oil producing countries, like the US, to ramp up their production. There is great uncertainty surrounding this.

Supply

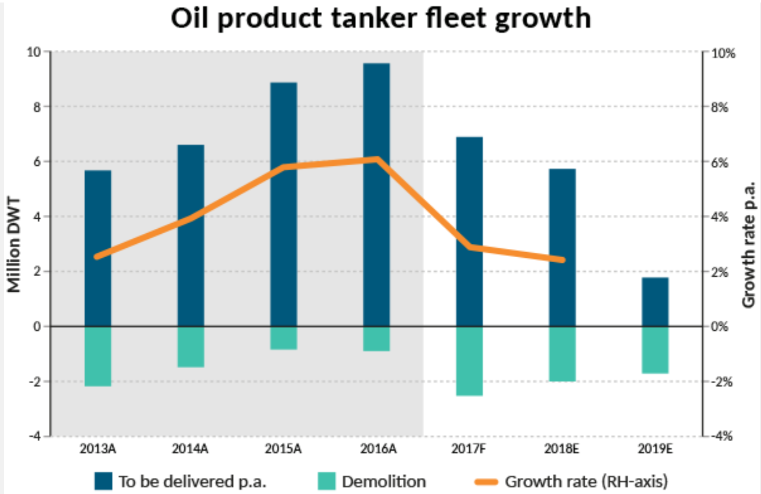
It was a busy year for the tanker shipowners taking delivery of newbuild ships in 2016. For crude oil tankers, it was the busiest year since 2012, while product tankers had not seen as much DWT capacity added to the active fleet since 2010.

Owners were so busy taking delivery of new ships that they “forgot” to prepare for future market conditions and sold ships for demolition at the same time. We must go back to the late 80s to see such low level crude oil tanker capacity being sold for demolition and back to the late 90s for the oil product tankers. Cutting deep into excess capacity by demolishing a lot of ships during 2011-13, the ground was laid for the freight rates to climb during 2014-2016. That medicine has now been prescribed again, as 2017 and 2018 are set for significant capacity to be delivered while the demand side eases.

Oil tanker shipping was the only profitable shipping market in 2016, and owners still managed to avoid spending all the profits made in the freight market on newbuilds (for future delivery). Out of the 9.2m DWT orders placed, crude oil tankers were by far the most popular choice.

Both tanker segments had high fleet growth in 2016, as crude oil tanker fleet capacity increased by 5.7%, while the oil products’ fleet expanded by 6.1%. For 2017, BIMCO forecasts lower supply growth levels – but still greater levels of growth than from the demand side – bringing pressure on freight rates

.



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 2017-2019 contains existing orders only and is estimated under the assumptions that the scheduled deliveries fall short by 10% due to various reasons and 35% of the remaining vessels on order are delayed/postponed.

The crude oil tanker supply growth outlook is also available in the online version.

Outlook

If the decision made by the OPEC (and some non-OPEC nations) has a constraining effect on global oil supply – potentially no longer outstripping global oil demand – refineries cannot take advantage of low and volatile crude oil prices and will not contribute to further stock building of oil.

This in turn results in drawing down stocks and poses further risks to a tanker market that is already seen to be struggling due to a high inflow of new capacity in 2017. Bloated oil product stocks especially are limiting trading activity and thus placing demand on transports to level out local imbalances.

We have said it many times before, much of the present and future oil demand growth will come from Chinese cars, as the rest of the world is not demanding as much these days. Alternative sources of energy are, in some places already cost-competitive, and therefore gaining market share at the expense of fossil fuels. Still, recent subsidies to support the purchase of cars in China have proven effective. More cars will enter the streets, not the very 'thirsty' ones, but they will still push Chinese oil demand higher.

That is why Chinese crude oil imports are also a factor for tanker shipping in 2017. As refined oil exports out of China are also becoming a factor, product tankers may look increasingly to China too, shying away from the traditional big oil consuming regions in the west.

In the full 12 months of 2016, China imported 381 million tonnes of crude oil – up by 13.6% from 2015.

Source: BIMCO

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

(7) Clarksons Research, 27 January 2017

SIW: Looking Back Across A Quarter Of A Century

This month marks the 25th anniversary of the publication of the very first edition of Shipping Intelligence Weekly. So, this week we take a look back to 1992 and compare the shipping industry then to its profile today. If this reveals anything it's that whilst many things change dramatically, in an industry like this some things don't appear to change too much at all…

Wonderful World Of Trade

Seaborne trade provides the platform upon which the shipping industry operates. Back in 1992 world seaborne trade stood at an estimated 4.6 billion tonnes and in comparison current projections suggest that in 2017 it will reach 11.3 billion tonnes. That's 2.5 times bigger than 25 years ago (see table). Iron ore trade is projected to be 4.3 times larger than back in 1992, LNG trade 4.5 times larger and container trade a mighty 6.3 times more voluminous. The 2017 seaborne trade estimate represents about 1.5 tonnes per person on the planet. That's quite some performance all round and keeps the world of shipping turning.

My How Big You've Grown
Meanwhile, shipping capacity has also expanded equally rapidly. The fleet has grown by a multiple a little greater than that registered by trade over the 25 year period. At the start of 2017 the global fleet totalled 1.86 billion dwt compared to 621 million dwt at the start of 1992. That's a multiple of 3.0 times larger. Of course, over the period there have been changes to vessel productivity, not in the least the moderation of service speeds in many sectors in the post-Lehman downturn.

What Things Cost These Days
Alongside these significant changes, the value of shipping assets has seen more mixed trends. A 5 year old VLCC was 8% cheaper at the start of 2017 (in current terms) than at the start of 1992 but such is the state of play in the bulkcarrier market that a 5 year old Capesize is 43% cheaper. Adjust these for inflation and the values look even lower. On the other hand the scrap value of ships is higher than in 1992 on the back of an 81% higher $/ldt ship steel scrap price.

Economic Activity
Despite the recent commodity price downturn, raw materials overall are substantially more expensive than back in 1992. Brent crude stood at $54.8/bbl at the start of 2017 compared to $18.2/bbl in early 1992 and iron ore at $76.3/tonne compared to $33.1/tonne. Bunker prices (380cst Rotterdam) have increased from $69.0/tonne to $312.5/tonne.
Elsewhere only $1.24 of shipping's universal currency is now needed to buy one pound sterling, compared to $1.83 back in 1992, but USD borrowing (6-month LIBOR) is much less dear at 1.3% rather than 4.2%. The world economy is still growing more quickly than back in 1992, projected at 3.4% in 2017 compared to 2.3%, and is over 3 times bigger at about $79 trillion. The size of the Chinese economy has rocketed from $0.5 trillion to $12.4 trillion, and the world's population has expanded from 5.5 to 7.4 billion.

Nothing Changes?
Last of all, some things never seem to change. At the start of 1992 the ClarkSea Index of vessel earnings stood at $11,700/day. At the start of 2017 it stood just 5.2% lower at a remarkably similar $11,092/day. In between the index once tipped over $50,000/day; that's a cyclical business for you! Now let's see what changes the next 25 years throw up. Many happy returns SIW!

(detailed table on next page)

25 Years Not Out

	1992	2017	Multiple
1. World Seaborne Trade (m. tonnes) [1]			
Iron Ore	345	1,478	4.3
Coal	357	1,128	3.2
Grain	224	486	2.2
Minor Bulk	798	1,886	2.4
Crude Oil	1,332	1,937	1.5
Oil Products	381	1,090	2.9
LNG	60	272	4.5
LPG	37	90	2.5
Containers	283	1,798	6.3
Others	783	1,173	1.5
Total Seaborne Trade	4,600	11,339	2.5
2. World Fleet (M. Dwt), start year [2]			
Tankers	265.5	554.6	2.1
Bulkcarriers	214.9	794.0	3.7
Combos	32.2	2.6	0.1
Gas Carriers	12.4	59.8	4.8
Containerships	30.7	245.6	8.0
MPP	17.7	29.7	1.7
Ro-Ros	6.7	7.7	1.1
PCC	4.1	12.2	3.0
Reefers	8.1	5.0	0.6
Total Global Fleet	621.0	1,861.9	3.0

	1992	2017	+/- %
3. Vessel Earnings ($/day), start year [3]			
ClarkSea Index	11,700	11,092	-5.2%
VLCC 1 Year T/C Rate	34,000	31,750	-6.6%
Capesize 1 Year T/C Rate	22,000	9,350	-57.5%
4. Asset Values, start year			
Newbuilding Prices ($m)			
VLCC	90.0	84.5	-6.1%
Capesize	56.0	42.0	-25.0%
5 year old price ($m)			
VLCC	65.0	60.0	-7.7%
Capesize	42.0	24.0	-42.9%
Scrap price ($/ldt)			
ISC Dry Cargo	160.0	290.0	81.3%
5. Economic Indicators, start/full year [4]			
Brent Crude ($/bbl)	18.2	54.8	202.1%
Iron Ore ($/tonne)	33.1	76.3	130.4%
Coal ($/tonne)	39.5	86.7	119.5%
380cst Rotterdam	69.0	312.5	352.9%
US LIBOR (6 mths)	4.2%	1.3%	
USD/GBP Exchange Rate	1.83	1.24	-32.1%
Yen/USD Exchange Rate	128.30	115.54	-9.9%
Global Population (bn)	5.5	7.4	35.4%
World GDP Growth	2.3%	3.4%	
World GDP ($tn)	25.1	79.5	216.6%
China GDP ($tn)	0.5	12.4	2393.9%

Notes: 1. 2017 world seaborne trade basis latest projections. 2. Total global fleet includes vessel types not listed. 3. Vessel earnings as at the first week of the year. 4. Commodity prices basis January average for 1992 and the first week of the year for 2017. Commodity price data from various industry sources; coal spot price basis FOB Australian thermal coal, iron ore spot price basis CFR China. Interest rates and exchange rates basis start year. Population estimate basis UN Population Division data. GDP data basis IMF historical data for 1992 and latest IMF projections for 2017.

Source: Clarksons