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

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- Among ships' cargoes, **transporting energy commodities** forms about two-fifths of all the trade carried by sea around the world (item 2).
- A new statistical bulletin just published provides an overview of, and useful insights into, **changes in the global energy market** – oil, gas, coal, renewables – which are having a large impact on various parts of the shipping industry.
- Looking at the performance of key shipping sectors over many years (tankers, bulk carriers, container ships) it is clear that **market cycles** are not always sychronised, as described in item 1. Although background factors such as global economic activity are common to all, other influences vary greatly, often causing a lack of correlation.
- Is this **a good time to buy cheap ships?** Some Greek shipowners who attended the recent Posidonia shipping exposition were convinced that buying good quality, cheap, secondhand tonnage as a counter-cyclical play makes sense, although others recommended a more cautious approach, especially about

newbuilding vessels (item 7). Ignoring analysts' advice was seen as the appropriate attitude in this matter.

- The difficulties encountered by **South Korea's shipbuilding industry**, one of the world's top two countries in this sector, are emphasised by the Korean government's decision to set up a huge fund to support the banks providing finance (item 6).

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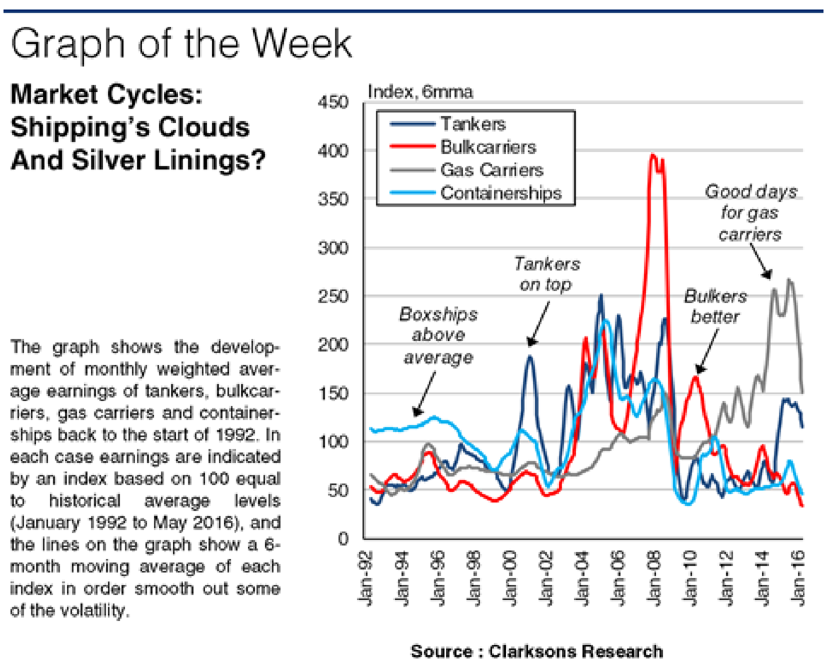
(1) Clarksons Research, 3 June 2016

Is There Often A Rose Between Shipping's Thorns?

Historically, a prime characteristic of the shipping industry has been that when one sector is performing weakly there is generally another that is strong, and that even when most of the markets are down there is often one which provides at least some counterbalance by performing more robustly. Today's market climate suggest that it's worth taking a look at this interesting element of the industry's make-up.



Interesting Indices

One way to examine this is simply to look at the performance of the key sectors over time. The graph shows six-month moving averages of indices representing earnings in the four major volume sectors, with each index based on the 100 mark being equivalent to the historical average. This allows a quick view of the relative health of each sector in historical terms compared to the other key sectors at any point in time. Today, the bulker and containership earnings indices are at a low ebb. Yet, though not quite at last year's heights, the tanker market continues to perform robustly with the index above 100, and gas earnings, though sliding, still look strong in historical terms.

Looking back, this type of landscape is not new. In the 1990s, for 60 months in a row, the containership index stood above 100 whilst the other market indices lingered below the 100 mark. For over half of the period between May 2001 and March 2003, the tanker market index stood above 100 whilst the other sectors experienced earnings below historical averages. In the aftermath of the credit crunch, in 17 of the 18 months between May 2009 and October 2010 the bulker market index stood above 100 whilst the other indices remained below that level.

Different Drivers
This behaviour should not be unexpected. Only some market drivers are common across sectors. On the demand side, although macroeconomic factors can prove general, commodity-specific trends are often key. On the supply side, whilst shipbuilding, finance and steel industry developments can have a common impact, sector-specific building and demolition trends are very important too.

Clear Coefficients
To some extent this can be measured in statistical terms. The 'correlation coefficient' measures the strength of the relationship between two series (+1 represents the most positive correlation, 0 no correlation and -1 the most negative correlation). The average coefficient between the pairs of indices here is just 0.26, implying little correlation. Removing the more 'niche' gas sector index from the comparison, the average coefficient between the remaining three series is 0.52, still not really indicative of a particularly significant positive correlation.

Helpfully Out Of Sync?
So, shipping markets are highly cyclical but the cycles are not always in sync. In less than 20% of the period here were earnings in all four sectors concurrently below historical averages. With some sectors today looking fragile and demand growth sluggish overall, history might offer some reassurance if the brighter spots start to fade, by suggesting that something else might eventually have its time in the sun. Have a nice day.

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(2) Note for GMWD by **Richard Scott**, GMWD editor, 10 June 2016

Changing global energy markets greatly affect shipping: some statistics

A large part of the global shipping industry is involved in carrying energy commodities. Changes in international energy trade are having a big impact.

Publication last week of the annual ***BP Statistical Review of World Energy*** by oil and gas company BP drew further attention to the vital importance of energy trends for the global shipping industry. Estimates from other sources show that **about two-fifths of all cargoes carried by sea around the world consists of energy commodities** – mainly oil, natural gas and coal.

http://www.bp.com/en/global/corporate/energy-economics/statistical-review-of-world-energy.html

The BP Statistical Review, published regularly over more than six decades, and available free-of-charge, has gained a solid reputation for accuracy and reliability and is widely regarded as one of the best and most useful sources for this information.

Highlighted in the latest edition are changes which are making a big impact on seaborne trade volumes and patterns. **Oil trade** has regained momentum, greatly benefiting tanker owners. **Natural Gas trade** has resumed growth, helping to restore confidence in a market segment employing ships which are hugely expensive assets. **Coal trade** by contrast has been heading in the opposite direction, downwards, as many countries shift towards cleaner fuels, adding to the woes of bulk carrier owners in a depressed freight market for these ships.

Of particular relevance for shipping demand are the following key points from the BP Review:

- Global **primary energy consumption** increased by only 1% in 2015, similar to the 1.1% growth of the preceding year but much slower than the 10-year average of 1.9% annually.
- In 2015 **global oil consumption** increased by 1.9 million barrels per day, or 1.9%, almost double the historical average of +1% annually. Two-fifths of the total rise occurred in China.
- Total world **trade in crude oil and products** expanded robustly by just over 5% in 2015, reaching 3006 million tonnes (1977mt crude, 1029mt products), altering the pattern of annual changes after a decade of generally small increases or in some years decreases.
- World **trade in crude oil** last year was boosted by large rises in imports into Europe and China, among other countries, and exports from the Middle East grew strongly.
- Among exporters, **oil products trade** growth last year was led by the USA.
- World **liquefied natural gas (LNG) trade** rose by 1.8% in 2015, amid much higher exports from Australia (up by 25%), and higher imports into Europe offset by a decrease in Japan.
- Global **coal consumption** fell by 1.8% last year, a sharp contrast with 10-year average growth of 2.1% annually. The BP Review does not provide **coal trade** statistics, but estimates by reputable independent analysts suggest that world seaborne coal trade fell sharply by 5-7% in 2015.
- Another large expansion (+15%) of the world's **renewable energy** in power generation was seen last year, including big increases in China and Germany.

Although BP's statistics are not specifically designed for analysis of global seaborne trade movements, the figures provide a valuable perspective on changes in trends which are reshaping the tanker, LNG and bulk carrier freight markets.

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(3) Hellenic Shipping News, 9 June 2016/ International Energy Agency

IEA sees major shifts in global gas trade over next five years

The next five years will bring a reshaping of the global gas trade, the International Energy Agency (IEA) said Wednesday in its 2016 Medium-Term Gas Market Report. New liquefied natural gas (LNG) supplies are coming online just as demand growth in some major markets weakens, resulting in major shifts in global gas trade patterns. A weak outlook for Japan and Korea – the world's top two LNG buyers – means that new supplies will need to find other markets. China, India and ASEAN countries will emerge as key buyers.

"We see massive quantities of LNG exports coming on line while, despite lower gas prices, demand continues to soften in traditional markets," said IEA Executive Director Fatih Birol. These contradictory trends will both impact trade and keep spot gas prices under pressure." Dr. Birol added that the combined factors of cheaper coal and continued strong renewables growth were blocking gas from expanding more rapidly in the power sector.

The annual IEA report, which gives a detailed analysis and five-year projections of natural gas demand, supply and trade developments, sees global demand rising by 1.5% per year by the end of the forecast period, compared with 2% projected in last year's outlook. Slower primary energy demand growth and the decline in the energy intensity of the world economy are lessening demand growth for all fossil fuels, including gas. As demand growth for coal and oil also weakens, the share of gas in the energy mix is still expected to increase – albeit modestly – by 2021.

While gas demand is projected to remain weak, global LNG exports will increase substantially. Between 2015 and 2021, liquefaction capacity will increase by 45%, mostly from the United States and Australia. New projects in both countries have commenced ramping up production. Several others are at an advanced stage of development. By 2021, Australia will rival Qatar as the world's largest LNG exporter and the US will not be far behind.

Fundamental developments point to oversupply in the market over the forecast horizon of this report which should keep spot gas prices across the globe under pressure: "unwanted" LNG supplies will look for a home in Europe, due to the flexibility of its gas system and well-developed spot markets. As a result, intense competition will develop among producers to retain or gain access to European customers. "We are at the start of a new chapter in European gas markets" Dr. Birol said.

Ample LNG supplies will also affect markets outside Europe. Weaker-than-expected demand in Asia is leaving several large LNG buyers in the region over-contracted. This should help accelerate a transition towards more flexible contractual structures. Moreover, with oil markets expected to rebalance before gas markets do, renewed pressure to move towards hub pricing and reduce oil exposure in long-term contracts will likely re-emerge before the end of the decade.

Dr. Birol warned that today's oversupply could foreshadow a number of supply-side challenges and security risks down the road, noting that a growing level of LNG export capacity had gone offline during the past five years due to technical and security issues and that such problems could get worse with low oil and gas prices. As producers slash investments to refocus on cost reductions and budget savings, he said that such efforts may be too late for global gas markets to rebalance during this decade, but could sow the seeds for tighter markets into the next decade.

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(4) Hellenic Shipping News, 8 June 2016/ NGO Shipbreaking Platform

European ship owners played a crucial role in 2015 global shipbreaking

In 2015, a globally total of 768 vessels had to be dismantled. These ships represented a scrap volume of around 20,4 million gross tonnage. As in previous years, South Asia remained the preferred dumping ground for ship owners looking to make the highest possible profits with end-of-life sales: Out of the total 768 large commercial vessels dismantled around the world in 2015, 469 were sold to South Asian beaching yards.

The world's leading shipping nations account for the biggest amount of end-of-life vessels scrapped in 2015. The major ship-owning countries Greece, Germany, Japan, South Korea and Russia sent nearly all of their old vessels for breaking in substandard yards on the beaches of South Asia, that is, ship owners from these countries rarely care about proper recycling and have very little legal or economic incentives to changes their practices. Chinese ship owners sold the majority of their end-of-life vessels to ship recycling facilities within China, for which they receive subsidies from their government, while still dumping more than a fourth of their old ships on beaches.

Main ship breaking destinations (Source: NGO Shipbreaking Platform)

European ship owners play a crucial role in the global shipbreaking scenario. The total number of EU-owned and/or EU-flagged vessels dismantled worldwide were 217 in 2015. Out of the total of ships dismantled throughout the year, EU ships represented 28,2 per cent. 138 European ship were beached in South Asia. In terms of tonnage scrapped, European-owned ships thus represented more than one third of all end-of-life vessels hitting the beaches. While some European owners show responsibility and have pledged to ensure clean and safe recycling in modern facilities, close to 64 per cent of all European vessels dismantled in 2015 ended up on a beach.

Out of the 138 European vessels beached, only 31 were still flying a European flag. 9 European-flagged vessels were flagged out to flags of convenience just before their last voyage. The most popular end-of-life flags amongst all vessels scrapped on the beaches in 2015 were Panama, St Kitts and Nevis, Liberia, Comoros and the Marshall Island, amongst which St Kitts and Nevis and the Comoros are known as end-of-life flags.

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(5) Hellenic Shipping News, 14 June 2016/ China Daily

China’s ship-breaking industry swimming through troubled waters

China’s ship-breaking industry is feeling hemmed in by low steel prices, scrap oversupply and green production methods

In 2014, the ship recycling industry was grey; it turned black in 2015; but, this year, it will go blood red.

That’s not a dramatic line from a Hollywood take on some imminent industrial tragedy. It’s the writing on the wall that workers of Zhoushan’s ship-breaking yards in East China’s Zhejiang province cannot escape but notice.

The room for profit will continue to be squeezed this year by declining steel prices and the high cost of environment-friendly ship-breaking methods. Yet, pain will come despite favorable policies of the past three years to encourage higher ship-breaking in response to overcapacity and sluggish global trade.

The ship-breaking industry supplies raw materials to infrastructure projects in a number of sectors such as hydropower, housing, bridge and railway construction, particularly in developing countries. The process starts when scrap-yard owners buy ships from owners.

To help China’s shipping companies reduce the pressure caused by overcapacity over the past four years, the central government issued a subsidy policy to encourage the nation’s shipping companies to reduce the number of aging vessels and replace them with technically advanced vessels in 2013.

Owing to complex global market conditions that continued to pose challenges to domestic shipping, shipbuilding and ship-breaking companies, this policy had been extended in June last year till Dec 31, 2017.

China, therefore, will keep offering cash subsidies of 1,500 yuan per gross metric ton to shipping companies that scrap their vessels before their operational expiry dates.

Ship owners such as China COSCO Shipping Co or Sinotrans & CSC Holdings Co are entitled to receive 50 percent of the cash subsidies upon scrapping their vessels and the other 50 percent when a new replacement vessel is built. The owners of all aging ships scrapped between 2013 and 2017 qualify for subsidies.

Zhang Yongfeng, deputy director of the market research office of the Shanghai International Shipping Institute, said Chinese ship-breaking yards have been adopting new technologies to carry out their work, which involves higher costs for equipment, materials, storage and workers’ protective wear.

Compared with China, other major ship-breaking countries such as Turkey, India and Bangladesh are still relying on manual methods and outdated equipment to dismantle ships. Many scrap vessels are even dismantled on beaches.

Zhang suggested the government should consider offering more encouraging policies, such as tax cuts or financial help to those buying steel-cutting equipment or materials, as many ship-recycling companies bear heavy financial burdens in operating their businesses in an environment-friendly manner.

“It was like riding a roller-coaster,” said Yang Jianchen, general manager of Zhoushan Hongying Shipbreaking Co. “The period between 2006 and 2013 was good for the industry. The decline in global steel prices including scrap has pushed many ship-breakers in Zhejiang into the red.”

Yang said since China’s steel products are being shipped to many developing countries such as India, Brazil, South Africa and Turkey at lower prices now compared with previous years, it has pulled down the price of their domestically made steel products. It has also affected scrap prices at the yards.

A typical scrap yard used to employ 230 workers in 2013. Now, their number has plummeted to around 170 due to cost-cuts, delayed payments and attrition.

Yang said even though the government offered subsidies to ship-breaking companies to buy vessels, it is extremely hard to make any profit. And banks are not willing to lend because they are aware how sluggish the business is.

“Just like shipbuilding, ship-breaking is listed as a high-risk industry by banks.”

The latest figures show China’s ship-breaking industry’s revenue dropped 15 percent to 3.4 billion yuan ($519 million) last year.

Wu Jun, vice-president of the Beijing-based China National Ship Recycling Association, said because China is taking action to scale down infrastructure and real estate investment while using restrictive measures to cut production capacity in its steel plants, the country currently does not need a large amount of scrap as a source of steel at the moment.

“Under such circumstances, it will be cumbersome for Chinese ship-breaking yards to sell scrap even at a bargain price to the market this year,” Wu said. “Last year was the fourth consecutive year that the industry has suffered financial losses.”

The association’s findings showed as the world’s largest recycler of material from ship-breaking yards, China dismantled 5.1 million dead weight tons in 2015, accounting for 22.14 percent of the world’s total. India, Bangladesh, Pakistan and Turkey were its main rivals in this business.
Chinese companies signed contracts with both domestic and foreign shipowners to dismantle 6.84 million DWT of scrap vessels in 2015, down 28.7 percent from the previous year.
“The relatively high prices of both foreign and domestic scrap ships are also cutting the profit margins of Chinese companies as many have been reporting financial losses for the past several years,” said Zhao Ying, a researcher at the Institute of Industrial Economics under the management of the Chinese Academy of Social Sciences in Beijing.
China’s ship-recycling yards are mainly located in Zhejiang, Jiangsu, Shandong and Guangdong provinces, collectively employing around 120,000 workers. Their jobs are now under threat.
The drop in scrap prices has seen firms storing supplies in increasing amounts, rather than offloading it cheaply to steel plants, said Zhao.
Affected by low commodity and crude oil prices, the China National Ship Recycling Association said the number of bulk vessel and offshore oil rigs actually being dismantled has grown more than 30 percent in the past year, adding to the oversupply of underpriced scrap.
Copenhagen-based Baltic and International Maritime Council, the world’s largest international shipping association, predicted that 2016 would be the busiest year for breaking of dry ships. Around 40 million DWT of bulk ships will be dismantled, up 25 percent year-on-year.

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(6) Hellenic Shipping News, 9 June 2016/ Reuters

S.Korea creates $9.5 bln fund for banks exposed to shipyard troubles

South Korea’s government and central bank will create an 11 trillion won ($9.50 billion) fund to support two state-run banks most exposed to the country’s struggling shipping and shipbuilding firms.
“Our key industries like shipping and shipbuilding are being aggressively caught up by countries like China and management conditions have worsened due to weak global trade,” Finance Minister Yoo Il-ho said in a speech announcing the corporate restructuring plans on Wednesday.
South Korea expects a 20 percent drop in major shipbuilders’ capacity and a 30 percent drop in their workforce by 2018 from 2015, after the restructuring process.
The two state-run banks to be capitalised are Korea Development Bank (KDB) and the Export-Import Bank of Korea (KEXIM).
Following the announcement, the International Monetary Fund said it supported Korea’s corporate reforms and urged the government to implement additional fiscal stimulus and the central bank to ease monetary policy.
The Bank of Korea will lend a maximum 10 trillion won for the state-bank fund via a conduit bank, the Industrial Bank of Korea (IBK), and that fund will later purchase contingent convertible bonds (CoCos) from the two state-banks.
Contingent convertible bonds are hybrid assets that can be switched by the borrower from bonds into shares if a pre-set trigger is reached.
The rest of the capital for the state-bank fund will be provided by loans from Korea Asset Management Corporation (KAMCO), a state-backed distressed assets bank, which will also be in charge of setting up the actual fund.
The fund is expected to be operational by end-2017.
Separately, the government plans to transfer 1 trillion won worth of assets to KEXIM by September, which will be reflected in next year’s budget.
The central bank will also consider direct capital injections into KEXIM in the future, if needed.
South Korean markets were unmoved by the announcement as the measures were widely expected.
SHIPPERS, SHIPBUILDERS’ EFFORTS

South Korea's top three shipbuilders have also come up with plans to weather the difficult market conditions, which they see lasting for the next two to three years.
The world's three largest shipbuilders, Hyundai Heavy Industries, Samsung Heavy Industries and Daewoo Shipbuilding & Marine Engineering, have submitted additional plans to sell up to 4.8 trillion won in combined assets and find 3.6 trillion won through cost cuts, the government said in a statement.
Daewoo Shipbuilding plans to sell up to 1.6 trillion won in assets including 14 subsidiaries and raise 1.9 trillion won in cost cuts, the government said, while Samsung Heavy said in a separate statement it plans to sell shares to raise funds, without elaborating.
Hyundai Heavy said in a statement it will sell shares in Hyundai Motor and construction materials maker KCC Corp among other assets and spin-off businesses.
The restructuring and financial support of the sector comes amid wider scrutiny of the management of the industry.
On Wednesday, prosecutors raided the offices of Daewoo Shipbuilding to investigate charges against two former chief executive officers for allegedly mismanaging company operations, a company spokesman said.
Daewoo, which reported a 3.3 trillion won record net loss in 2015, is cooperating with the investigation, the spokesman said. The Seoul Central District Prosecutors' Office declined to comment on an ongoing investigation.
The government will also support South Korea's second-largest shipper, Hyundai Merchant Marine, in its attempt to enter into a shipping alliance, while a creditor bank-led restructuring is ongoing at the country's largest shipper Hanjin Shipping Co Ltd.

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(7) Lloyd's List, 6 June 2016

Ignore the analysts — buy now and buy cheap

- by Richard Meade

Greek shipping leaders forget the forecasts and look for opportunities at Posidonia

IGNORE the analysts, they always get it wrong — now is the time to buy good, cheap, secondhand tonnage, according to the all-star line-up of Greek shipping magnates presenting a united front for Posidonia.

Eschewing a day of doom-laden and often contradictory forecasts at the Capital Link forum in Posidonia on Monday, a panel of six leading Greek shipowners — who collectively control 15% of Greek-owned tonnage and 2% of tonnage worldwide — used the platform to promote a bullish view of traditional shipping values, advocating a counter-cyclical investment play into the secondhand market along the way.

Following his bullish appearance at the Lloyd's List Business Briefing on Sunday, George Procopiou, the veteran principal of Dynacom and Dynagas, issued a call to arms for those prepared to take the long view on a return to solid state shipping: "Buy anything that floats that is cheap."

Mr Procopiou, who has made a rare public appearance this Posidonia as a show of support for the Greek industry during "difficult times", said: "The market will come back on any ship type and you must be there.

"People say that shipping is a volatile business. That's not the case. Shipping is the most stable business because it's stable in its instability. The volatility is how you make profits and timing is the key."

A more cautious George Economou also advocated strategic buying, but offered the words of wisdom given to him when he first started shipping: buy a seven-year-old ship.

“When I started, the Japanese were building good ships, then selling at seven years old. That approach stands and it means we will not have the excess,” said the Dryships president.

Only Danaos chief executive John Coustas issued a real note of caution, urging the assembled ranks of Posidonia delegates to act responsibly in their hunt for counter-cyclical opportunities.

“It’s much easier to order a newbuild than buy secondhand and this is where the problems lie,” he said.

“Countries interested in protecting their shipbuilding sectors are still offering terms that owners are having trouble resisting. That’s where the problem starts. Everyone who tries to talk the market down, the following day they sign a newbuilding contract. There is a herd mentality in shipping.”

Although the panellists were united in their support of the longevity of Greek shipping values, they differed in their opinions on politics, demand, supply and finance. The one area on which they could agree was that analysts are almost always wrong and should almost always be ignored.

“No analyst knows anything,” said Mr Procopiou. “Three years ago, I had problems and there were 25 bankers gathered in a meeting to decide what the best solution was for me.

"One of them asked: 'If I gave you $100m right now, what will you do?' I told him I would buy as many VLCCS as I could and they started laughing. They don’t know anything.”

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