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Global Maritime Weekly Digest

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

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Editorial comments

- The latest annual ***flag state performance*** update has been published by the International Chamber of Shipping (item 1 and website). Ship registration countries (flag states) are shown as having positive or negative performances against a number of criteria including port state control, ratification of international maritime conventions and attendance at IMO meetings.
- The world's ***top five flags*** (by size of fleet registered) - Panama, Liberia. Marshall Islands, Hong Kong (China) and Singapore - score positively on all or almost all of these criteria.
- A summary of ***global ship recycling in 2016*** shows that the tonnage sold for demolition was 14% higher than seen in the previous twelve months, and was equivalent to 2% of the existing world fleet (item 2).
- Last year's ***recycling total*** was mainly (two thirds) comprised of bulk carriers. Nearly four-fifths of the grand total for all ship types was bought by shipbreakers in India, Pakistan and Bangladesh.
- Proposed changes in ***China's maritime traffic law,*** reported a couple of weeks ago, are being closely examined to see whether there may be a potential conflict of interest with other maritime nations about shipping movements in the South China Sea (item 6).
- Recent changes in ***South Korea's maritime policy*** seem to exemplify problems encountered in making consistent decisions in difficult circumstances (item 3).

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(1) International Chamber of Shipping, 21 February 2017

ICS Releases Latest Flag State Performance Table

The International Chamber of Shipping (ICS) has published its latest Flag State Performance Table which can be downloaded free of charge via the ICS website.

http://www.ics-shipping.org/docs/flag-state-performance-table

The ICS Table provides an annual overview of the performance of the world's flag states against a number of criteria such as port state control records, ratification of international maritime Conventions and attendance at IMO meetings. The Table is mainly intended to encourage shipowners and operators to maintain an open dialogue with their flag administrations with respect to any improvements that might be necessary.

ICS Director of Policy & External Relations, Simon Bennett, said:
"This year's ICS Table continues to highlight the sound performance of all of the world's major flag administrations, regardless of whether they are open registers or so called 'traditional' maritime flags. But in response to feedback from IMO Member States, our member national shipowner associations have agreed to some further refinements in order to make the Table as objective and useful as possible."
In particular, flag states which do not qualify for the United States 'Qualship 21' programme have not been given negative performance indicators in the latest ICS Table.
"The list of flag states qualifying for Qualship 21 now varies considerably from year to year. We therefore no longer currently view non-inclusion as being an indicator of negative performance" explained Mr Bennett. However, flag states that continue to qualify for the U.S. programme are still given a positive performance indicator.
An important development in the previous 12 months is that participation by maritime administrations in the IMO Member State Audit Scheme became mandatory in 2016. ICS therefore intends to add a new field to address this for inclusion in its next Annual Table in 2018.
The ICS Flag State Performance Table for 2016/2017 is now being distributed among ICS national shipowners' associations and their member companies, which cover over 80% of the world merchant fleet.
Source: ICS
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(2) Clarksons Research, 17 February 2017

Demolition In 2016: No Break For The Shipbreakers!

Demolition activity remained particularly firm in 2016 amidst very challenging shipping markets, and reached historically high levels in some sectors. This could well be beneficial to the industry, with increased scrapping helping to ease the oversupply of ships in certain markets. This month Shipbuilding Focus takes a look at demolition activity by breaker country.

Successful Scrapping Season
2016 was the third highest year on record in terms of tonnage demolished, with a reported 933 ships of a combined 44.4m dwt scrapped. This was a year-on-year increase of 14% and equivalent to 2% of the start 2016 world fleet in dwt terms. Bulker and containership recycling activity was very strong in 2016 and accounted for 65% and 18% of total demolition respectively in dwt terms. The 0.7m TEU of boxships scrapped was 48% higher than the previous peak in 2013, while the 28.9m dwt of bulkers scrapped in 2016 was the second highest yearly total on record. Demolition activity reached firm levels despite continued downward pressure on steel prices from cheap Chinese steel exports. The Indian Sub-Continent (ISC) guideline scrap price for a Handysize bulker stood at $290/ldt at the end of 2016, 28% lower than the end of 2012, when total scrapping peaked.

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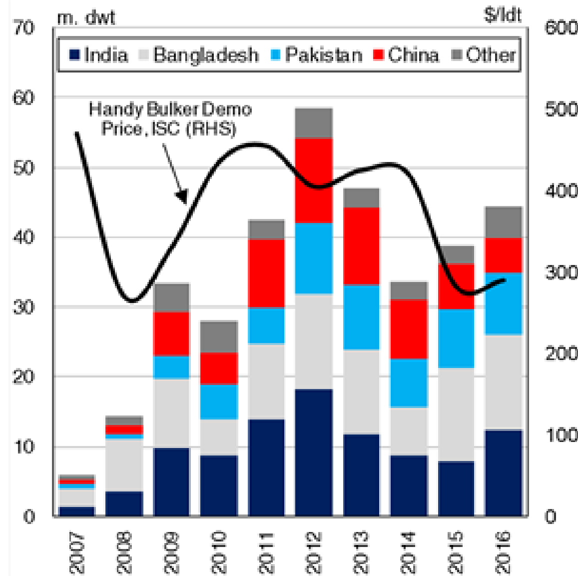
All Eyes On The ISC

The proportion of tonnage sold for scrap to ISC breakers rose to 79% in 2016, the largest share in the past decade. ISC breaking yards recycled 656 vessels of a combined 40.0m dwt in 2016. Indian breakers experienced a resurgence after a comparatively slow 2015, with 340 ships of a combined 12.5m dwt recycled in 2016. This led their share of total demolition to rise from 20% in 2015 to 28% in 2016 in dwt terms. Bangladeshi breakers saw their share of world demolition decrease from 35% to 31% over the same period. However in dwt terms they still represented the largest share of demolition activity, scrapping 199 vessels of a combined 13.6m dwt in 2016. Recycling volumes at Pakistani breaking yards were steady year-on-year in 2016, with 117 vessels of a combined 8.9m dwt recycled. However, a number of fatal incidents at yards towards the end of the year caused temporary closures.

Graph of the Month

Dissecting A Decade Of Global Demolition



The graph shows demolition volumes over the last 10 years by shipbreaking country. The line on the graph shows the Indian Sub-Continent demolition price for a Handysize bulkcarrier over this period in terms of $/ldt.

Source : Clarksons Research

Sluggish Sino Scrapping

Chinese breakers recycled 111 ships of a combined 4.9m dwt in 2016, 11% of the world total and a year-on-year decrease of 25% in dwt terms. 'Green' recycling facilities in China have benefited from the domestic scrap subsidy introduced in 2013, with domestic owners accounting for 87% of tonnage recycled at Chinese yards. However, domestic scrapping fell 31% year-on-year in 2016 to 4.0m dwt. Turkey, another location for 'green' ship recycling, scrapped the most vessels of any other nation in 2016, 84 ships totalling 0.9m dwt (2% of global demolition).

Overall, 2016 was a busy year for breaking yards. Indian breakers regained market share and the Chinese lost share as domestic demand fell. Looking ahead, increased pressure to ensure safer and greener ship recycling may have a future impact on the breaker landscape. However, with around 40m dwt currently projected for demolition in 2017, global recycling is expected to remain at elevated levels.

Source: Clarksons

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(3) Hellenic Shipping News, 13 February 2017/ Reuters

Seoul's wavering on shipping bodes ill for reform

The shipping industry's troubles make Seoul look rudderless. A South Korean court is set to pull the plug on Hanjin Shipping, once the world's seventh-largest container line. Hanjin sunk amid an industry slump, in turn caused by a slowdown in global trade. But while the government was merciless here, it kept Hanjin's closest rival afloat. The flip-flop shows policymakers struggling to take tough but economically rational decisions.

The bankruptcy of the 40-year-old cargo carrier, due to become official next week, would be the industry's largest-ever by capacity. Most of Hanjin's assets, including its key Asia-United States route and its majority stake in a Long Beach port terminal, have already been sold. All in, accountants reckon the liquidation could salvage $1.6 billion of value for creditors – but the company is worthless as a going concern.

The government ruled out a bailout, saying weak companies needed to get their own houses in order. That was bold, given shipping's importance to an export-driven economy. But it was welcome, too: ensuring the economy's long-term competitiveness will require short-term pain as bloated basic industries like shipping, shipbuilding, and construction are streamlined. But just months after Hanjin sought court receivership, Seoul earmarked 6.5 trillion won ($5.7 billion) for the industry. And in January, it injected capital into now No. 1 player Hyundai Merchant Marine.

It's hard to see the logic in aiding that firm but not Hanjin. Both had been in the red; in fact, Hyundai Merchant's net loss, excluding extraordinary items, widened in 2015, while Hanjin's shrank. Hyundai Merchant raised cash last year by selling a stake in a brokerage but expects to keep making operating losses at least through 2018. The inconsistency suggests Hanjin's demise was arbitrary, rather than a hard-headed decision.
Source: Reuters (Editing by Quentin Webb and Nicolle Liu)
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(4) Lloyd's List, 21 February 2017

Hanjin Shipping: Rest In Peace

- by Wei Zhe Tan

Shipping line downed by mismanagement, dour market conditions and bad timing

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FRIDAY, February 17, 2017, was a sombre day for South Korea's shipping industry, as a court announcement that morning sounded the death knell for Hanjin Shipping, the nation's former flagship carrier.

The Seoul Central District Court, which was in charge of Hanjin's rehabilitation proceedings, declared the line bankrupt after the expiry of a two-week appeal period, bringing an end to the carrier's 40-year history.

It had been a tumultuous time for the global container shipping sector ever since Hanjin filed for court-led receivership on August 31, 2016.

With its vessels unable to make payment for services rendered at ports and as the company's debts mounted, creditors went after Hanjin's ships with arrest warrants in hand. Other service providers and port operators refused to allow the vessels to enter ports for fear of non-payment of fees.

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These actions brought a significant portion of the global logistics chain to its knees, with billions of dollars' worth of cargo stuck on vessels stranded at sea — a complicated mess that would only be unravelled with great difficulty over the following months.

Even worse was the plight of Hanjin crew members, who were trapped on the vessels for months on end, sustained only by supplies of food and water sent over by non-profit organisations and the company when it was able to do so.

A harbinger of Hanjin's end came in the form of a report released by its independent auditor, Samil PricewaterhouseCoopers, in December last year. The report said it would be more economically viable to have the carrier's assets liquidated as opposed to continuing with rehabilitation measures.

In its report presented to the court, the audit firm said Hanjin could be liquidated for roughly Won1.8trn ($1.5bn) but did not reveal the shipping line's monetary value as a going concern due to ongoing asset sales.

The court used the same reasoning as the basis of converting Hanjin's rehabilitation proceedings into bankruptcy proceedings.

But what led to this fiasco in the first place?

Chaebol issues

Some blamed it on mismanagement on the part of the family-controlled chaebol or conglomerate, Hanjin Group, which counts Hanjin Shipping and Korean Air among its numerous subsidiaries.

Former chairwoman Choi Eun-young ran Hanjin Shipping from 2006 to 2014 after her husband Cho Soo-ho died.

Ms Choi told South Korean prosecutors during a court hearing in September 2016 that as a housewife, she had not been prepared to run Hanjin Shipping and acknowledged she was partly responsible for the carrier's predicament.

In light of Hanjin's court-led rehabilitation, Ms Choi donated Won10bn from her personal wealth to help ease the subsequent logistics nightmare.

Ms Choi, who is the chairwoman and chief executive at logistics firm Eusu Holdings, has been indicted for insider trading.

She and her two adult daughters allegedly used insider information to avoid around $1m in losses, selling about Won3bn worth of Hanjin's shares in April.

The investigation is ongoing.

Hanjin's fleet size had increased nearly twofold between 2009 and 2013, the time Ms Choi was Hanjin Shipping's head, as the company sought to capture greater market share.

This in turn caused Hanjin's debt-to-equity ratio to shoot through the roof to 1,445% by 2013, from about 155% in 2009.

The expansion, though, did not yield the desired result for Hanjin, or any of the other shipping companies that did the same, as China's economy began to slow and global trade remained tepid after the 2008-2009 global financial crisis.

By the time Ms Choi handed over the reins to her brother-in-law, Cho Yang-ho, Hanjin Group's chairman in 2014, Hanjin was already in pretty bad shape.

There was no respite for the troubled shipping line as cut-throat competition across the globe, amid the prolonged downturn, sent rates spiralling downwards, way below breakeven levels.

In October last year, Mr Cho told a parliamentary hearing in Korea that Hanjin had lost the 'game of chicken' played among large shippers and the company had realised there was a limit to participating in a dumping war.

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Korean Air took a stake of around 33% in Hanjin in 2014, pumping around Won2trn in liquidity into the beleaguered carrier and slashing its debt-to-equity ratio to 800% from around 1,400%.

Despite this, Mr Cho said foreign shipping lines, with substantial financial and other forms of support from their governments, had continued to flood the container industry with excess capacity, leading to depressed rates.

Mr Cho also heads Korean Air.

HMM similarities

Separately, Hyun Jeong-eun, who served as Hyundai Merchant Marine's chairwoman between 2003 and March 2016, also had little management experience when she took over the reins after her husband, Hyundai Group chairman Chung Mong-hun, committed suicide amid investigations into his links with a funds transfer to North Korea in 2003.

CTI Consultancy partner Andy Lane believes HMM had been heading for a similar fate but managed to avert the crisis.

"The blame for poor business performance can only ever rest at the top: chairman, board of directors, chief executive, C-level executives," he said.

"Hanjin and HMM are very similar animals, and a combination of poor financial acumen plus a lack of focus on people and process is a lethal concoction in any industry, and not least one in a long downturn.

"Whereas they might be strong in the local Korean market, if you wish to play globally, then you need excellence in everything that you do globally [and] a highly motivated and agile global organisation — and that, I suspect, has been absent.

"For HMM at least, they have the opportunity to do this now — and, if they do it well, then they can prevail," added Mr Lane.

Wrong time, wrong place

Alphaliner executive consultant Tan Hua Joo, however, cautioned against placing the blame solely on poor management at Hanjin.

"Hanjin was not alone in making the decision to expand and gain market share — the entire industry was equally guilty of reckless expansion," he said.

Mr Tan instead blamed Hanjin's demise on poor timing.

"If the situation for Hanjin did not occur today and it was pushed back six months from now, I think the Korean government would have stepped in," he said.

"There is really no justification for the Koreans to step in to bail out Hyundai [Merchant Marine] a couple of months earlier, and then failing to do the same for Hanjin.

"Clearly Hanjin was the stronger of the two Korean carriers and I think they had a much better organisation, they had much better coverage and a fairly strong [information technology] systems used by other competitors."

Mr Tan noted Hanjin also had more strategically attractive assets, such as worldwide container terminal holdings. Thus it would have made more sense to save Hanjin rather than HMM.

The main reason Hanjin was not bailed out by the government was political, in light of the alleged accounting scandals plaguing shipbuilder Daewoo Shipbuilding & Marine Engineering, previously rescued by the authorities. Thus lawmakers were unwilling to put their support behind Hanjin, lest history repeat itself, he said.

Other industry experts also concurred that poor timing was a key reason for Hanjin's downfall.

Drewry Financial Research Services director Rahul Kapoor said HMM was initially carrying a larger debt load than Hanjin but managed to finish its negotiations with charterers and carried out its debt-to-equity swap earlier than its counterpart.

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“HMM had a leg-up in terms of its restructuring. Maybe that tilted the ball in the favour of HMM,” he said.

Mr Kapoor also admitted that political will or a lack thereof could have played a part in Hanjin’s demise.

With cash-strapped shipbuilder DSME receiving a significant amount of financial support from the government, the authorities may have decided the cost of saving Hanjin could be just as high compared with HMM.

Mr Kapoor said shipping and shipbuilding in Korea were in a very long, drawn-out recovery process, which will take a great deal of time as the global industry continues to remain in a slump.

“They looked at all these factors and decided they [could] cut their losses and I think that is why they decided to support HMM and not Hanjin,” he said.

A Seoul-based industry observer agreed, saying: “At the beginning of [2016], Hanjin’s situation was better than that of HMM, but HMM moved quickly and they were successful in financing Won1.2trn by selling Hyundai Securities and were successful in getting into the 2M alliance, so the situation is more favourable than Hanjin's.”

Both companies were equally risky to own at that point, he added.

A tale of two debtors

In light of the bankruptcy proceedings, it would seem Hanjin’s creditor banks will be better positioned to ride out the aftermath.

A report from Moody’s Investors Service said the banks had already made adequate provisions against their exposure to Hanjin and have capped losses without the need to extend more credit.

The creditor banks named were Korea Development Bank, Export-Import Bank of Korea, NongHyup Bank, Kookmin Bank, KEB Hana Bank, Woori Bank and Busan Bank.

Other creditors, though, may not be so fortunate, with Hanjin's bondholders likely to see close to Won1.2trn in losses from Won939bn in private placements and Won250bn in public offerings, said Korean media reports.

"The carrying values for Hanjin’s assets will be markedly lower and there is a very slim chance that creditors will be able to recoup their debt without taking a steep haircut," said Drewy’s Mr Kapoor.

"Creditors will be hoping to salvage the best they can but, unfortunately, the asking values will be very hard to come by.”

Alphaliner’s Mr Tan concurred, adding: “The recovery rate is very low and most unsecured creditors are likely to get close to nothing."
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(5) Clarksons Research, 20 February 2017

When Company Becomes A Crowd…

In the first film in the Bridget Jones series, 32 year old single Bridget soon ends up in the middle of a love triangle with the sensible Mark Darcy and charming Daniel Cleaver. The second sequel, released last year, sees Bridget finding herself unexpectedly expecting a baby. But Bridget Jones hasn’t been the only one battling tricky relationships and a rising headcount, as tanker owners will attest.

Happy Couple
The tanker market has certainly had some tumultuous times of late. Crude tanker earnings picked up in 2014, averaging nearly $27,000/day, and surged to an annual average of around $50,000/day in 2015. Things started to cool off into 2016, but in the full year average earnings were still fairly healthy at just under $30,000/day. They say two’s company; and these positive conditions did seem to have been brought about by the fortuitous lining up of two key factors.

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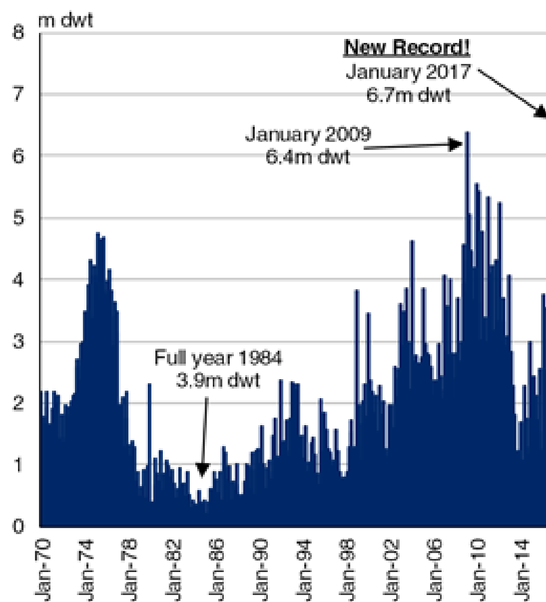
Firstly, limited tanker ordering in the years after the global economic recession led to a spell of very muted growth in the tanker fleet. By the start of 2015, tanker fleet capacity was just 3% larger than at the start of 2013 (in the same period, the bulkcarrier fleet grew 10%). Secondly, the oil price crash in mid-2014 kick-started a period of unusually firm growth in seaborne oil trade. The ensuing low oil price environment supported healthy refinery margins and a build-up in oil inventories in key regions, whilst price pressures also dampened US oil production and boosted US crude imports. Overall, seaborne crude oil trade grew on average by a healthy 3.5% p.a. in 2015-16.

Graph of the Week

New Arrivals In The Tanker Delivery Ward

The graph shows monthly deliveries of all tankers 10,000 dwt and above in million dwt, on a long-term historical basis back to January 1970. Series includes deliveries of crude tankers, products tankers, chemical tankers and other specialised tankers.



Source : Clarksons Research

Delivery Record

However, a resurgence in contracting (1,278 tankers were ordered in 2013-15, up from 577 in 2010-12) has seen tanker fleet growth accelerate, to around 6% in 2016. The tanker supply surge has continued, with deliveries in January 2017 reaching an all-time monthly record of 6.7m dwt. With these new additions, tanker fleet capacity has already grown by 1.1% since the start of 2017, a similar rate of growth to that seen in full year 2014, with more tonnage delivered last month than in some whole years in the 1980s. In full year 2017, tanker fleet growth looks set to reach around 5%.

Troubling Trio

Another tricky element could also now be materialising on the demand side. Compliance by major oil exporters with agreed production cuts seems to have been high so far. The wider impact of these cuts on the tanker market is certainly far from clear, but there is the potential for improved oil price levels to support US oil output and undermine crude imports. At the same time, oil inventory drawdowns in some regions remain a key risk.

Finding Mr Right

So, they say three's a crowd, and the tanker market could be facing up to some real tests if the three factors of fast supply growth, changes in oil production and inventory drawdowns come together. Bridget Jones would be the first to tell you that finding the right way forward when the future's uncertain and numbers are multiplying is tricky at the best of times, but rarely have shipowners not been up for a challenge. Have a nice day.

Source: Clarksons

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(6) Lloyd's List, 22 February 2017

China's maritime law changes endanger South China Sea transits

- by Eric Yep

Beijing's draft law allows marine regulators to block foreign vessels from entering its territorial waters from 2020

EXPERTS deem China's proposed overhaul of its maritime traffic law, which will allow regulators to ban foreign vessels, as potentially illegal and detrimental to shipping in the South China Sea, jeopardising the geopolitical balance in the region.

Last week, the Communist Party's mouthpiece reported that the Chinese Legislative Affairs Office of the State Council was soliciting public opinion on revisions to the 1984 Maritime Traffic Safety Law, for implementation after 2020.

The proposal comes at a time when the South China Sea has become a flashpoint for geopolitical conflagration in Asia Pacific. Think tanks such as the Center for Strategic and International Studies have said the South China Sea will be an early test of US resolve where Washington has failed to check Beijing's aggressive push.

The Trump presidency has already hardened its rhetoric on the issue — an aircraft carrier strike group entered the South China Sea this week on another "freedom of navigation patrol" — and China is accelerating the development of military structures on disputed islands.

China's proposal is consistent with Beijing's current approach and appears to be an attempt to codify or legalise its current maritime practices, Ince & Co Hong Kong-based partner Su Yin Anand said.

"However, the proposed legislation does pose some conflict with existing international laws on freedom of navigation. This could give rise to further geopolitical tensions in the South China Sea," she said.

Ms Anand, who specialises in international trade and shipping, said a lot depended on how America would react to the proposed legislation and how much of the South China Sea would be claimed by China as being its territorial waters.

Freedom of navigation in the South China Sea is protected by the United Nations Convention of the Law of the Sea, or Unclos, signed in 1982, to which China is a signatory and the US is not, although the US Navy does recognise it as customary law.

The US interpretation of freedom of navigation includes all seagoing vessels, under what it calls the right of innocent passage, but this has been disputed by China and complicated by its claims over several rocks and islands, some of which now flaunt Chinese-built structures like landing strips.

Risks to commercial shipping

Many geopolitical analysts are of the opinion that any restrictions on commercial vessels will be against international law, and also detrimental to China's own trade and economic interests.

China's proposal to revise its maritime law is clearly "a provocative unilateral act" to enforce territorial claims in the South China Sea. It is based on the nine-dash line claim that was declared as having no basis in international law and contrary to Unclos by a tribunal in July 2016, Lowell Bautista, senior lecturer at the University of Wollongong's School of Law said.

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He said this development would likely aggravate tensions and not be received well by other claimant states in the South China Sea. It will also be contested by extra-regional powers like the US, which has taken a strong stand on the issue.

China had been consistent in not blocking the flow of goods and trade to date, even in disputed waters of the South China Sea, and any such move would be highly provocative and imprudent, Mr Bautista said.

“Quite frankly, I do not see China imposing any requirements for ships of a commercial nature to seek prior notification or permission from China in order to gain passage in the waters of the South China Sea,” he added.

Most importantly, any such attempts will constitute a breach of Unclos, be difficult to enforce and damage China’s political and diplomatic goodwill on the global stage.

China's controversial maritime law

China’s draft proposal to amend its maritime law was reported by state-affiliated news agency Global Times on February 15.

Global Times, an offshoot of the official Communist Party newspaper, People’s Daily, cited the legislative office as saying: “The revisions are based on the UN Convention on the Law of the Sea and Chinese laws on the sea, adjacent areas and exclusive economic zones.

“The draft revisions stipulate that authorities will be able to designate specific areas and temporarily bar foreign ships from passing through those areas according to their own assessment of maritime traffic safety,” the agency said.

The revised law requires foreign submersibles to travel on the surface, display national flags and report to Chinese regulators when passing Chinese waters. It also requires vessels to get approval from the relevant authorities to enter China's internal waterways and ports.

It says foreign military ships approved to enter China's waters should apply for pilotage, while ships without approvals will be fined and offenders expelled.

China has not specifically targeted commercial shipping in the draft proposal, and the lack of clarity is half the problem. So far, China has argued that military vessels do not enjoy the freedom of navigation rights under Article 19 of Unclos and some other states agree with China.

But the US disagrees. Washington argues that military vessels enjoy the same right of freedom of navigation in international waters as civilian ships under the right of innocent passage.

To prove its point, the US Navy has conducted several “fonops”, or freedom of navigation operations, in the South China Sea, some within the 12-nautical mile radius of disputed islands. The latest is the first under the Trump presidency and sets the stage for broader confrontations with Beijing.

On February 18, shortly after China’s government mouthpiece reported on the maritime law proposal, US Carrier Strike Group 1 from the US third fleet, including the Nimitz-class aircraft carrier *USS Carl Vinson* and destroyer *USS Wayne E. Meyer*, began routine patrols in the South China Sea.

The US Navy's regional spokesperson in Singapore and Southeast Asia did not respond to queries.
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(7) Hellenic Shipping News, 31 January 2017/ Platts

Container Shipping: What next for the smaller TEU fleet?

The smaller TEU vessels have struggled to find a logical home since the Panama Canal expansion as logistics companies are utilizing the neo-Panamax gauge for economies of scale. This leaves the 1,000-

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4,999 TEU fleet to face the continued conundrum of meeting their commitments to their financiers through vessel employment revenues or, failing that, selling those vessels for scrap.

In 2016 the seeds were sown by slaughtering a steady flow of workhorses reducing the overall size of the herd. Yes, there remains an inherent oversupply but this should not prevent the 2017 container market leaving the Southern Ocean’s rough seas and sampling the calmer Mediterranean morning waters by focusing on meeting customer needs and providing a focused, flexible approach.

A good example is the Polyethylene (PE) industry, which relies on the container market to ship its goods globally. For US PE exports, the Port of Houston is one of the main hubs. And as such it sometimes suffers from a bottleneck of a very important resource – empty containers. When there is a lack of those, the agile delivery of goods becomes problematic.

One of the logistical solutions to that may be provided by the smaller TEU vessels that can berth in shallower ports. This creates alternative destinations for the inland trucking and rail networks thereby assisting PE producers in scheduling their export programs more efficiently. In particular the ports of Charleston, Savannah, or New Orleans normally have adequate levels of empty containers.

It is not about chasing the lion’s share of the business, but being agile enough to provide solutions to PE producers quickly when additional capacity appears and a potential arbitrage opportunity presents itself.

A similar opportunity may present itself in the EU sugar market. A recent change in the EU’s Common Agricultural Policy to end the sugar quota system on October 1, 2017 could lead the EU to become a net exporter for the first time since 2006.

Before the quota system was introduced the EU sugar market averaged exports of around 5 million metric tons white value (mtwv) a year. The first EU sugar production estimate post quotas for 2017-18 is seen at 18.32 million mtwv. Estimates of 2 million-3 million mt exports seem realistic for the 2017-18 crop year.

The main producers and likely exporters are located within the UK Continent, as shown in the chart below.

The incentive for exports is also boosted by high logistical costs to truck sugar across the EU, compared to the lower container freight rates within the UK Continent to importers such as North Africa and the Middle East, which are not really the busiest stops for the large liner service vessels. That means that smaller ships could yet again step up and offer such customers a quick solution for delivering extra European sugar, when extra volumes kick in.

Also, as the EU assumes the mantle of sugar exporter, its main suppliers, namely Mozambique, Fiji and Laos, could be forced to find alternative homes for their product. This may again create a small window of opportunity for flexible container ships that can call outside the liner trade highways on demand.

Adaptability comes in many forms and being agile is essential for the US Midwest shredded scrap industry to ensure they take advantage of pricing arbitrages. During 2016 the month-on-month price change saw some big swings alongside increased scrap demand into Turkey.

Arbitrages open and close quickly as waiting for the scheduled liner service to load, and then stop off at numerous ports on the way, could be the difference between a profit and a loss. The typical lot size sold and shipped on containers is 40,000 mt, equivalent to roughly 1,500 FEU. When required to do so by scrap buyers, smaller TEU vessels are capable of loading an entire cargo and sail direct to the nominated port, thereby allowing the intermediaries to pass on these potential efficiencies to their customers in their part of the supply chain.

The smaller TEU vessels in particular have to take advantage of the commodities that require a reactive export or import program where the larger TEU vessels can’t monopolize the trade routes.

Source: Platts

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