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## Chinese yards are marking up prices amid cost pressure



SHIPBUILDERS IN CHINA have demanded higher prices in all three conventional sectors, according to newbuilding brokers.

The increase has been led by more expensive steel and a stronger Chinese currency, but in the dry bulker and containership sectors, the better freight markets have also played an important role.

The monthly China Newbuilding Price Index, which tracks ship prices at Chinese yards based on inputs from 19 member broking houses, climbed five points to 765 in September.

The dry bulker sub-index rose six points to 774, while the tanker and containership indices both reversed their previous course of decline, moving up four points and six points to 822 and 788 respectively.

The cost-driven price rise brought limited benefits for the yards, with their breakeven levels also shooting up.

As of the end of September, the average price for ship plate was between Yuan4,600 (\$693) and Yuan4,700, up by approximately 5% compared with the beginning of the month.

### Dry bulker

The dry bulk sector has probably seen the strongest recovery in freight markets. The Baltic Dry Index topped 1,500 points in mid-September, followed by a short-term correction, and then rose again to above 1,400 points at the last count.

“The upward trajectory in BDI has undoubtedly stimulated activities in the newbuilding market,” Shanghai-based Forocean Shiptrading said in a note.

The opportunist funds are going into action again, according to another CNPI broker, who asked to remain anonymous.

“Quotes from Japanese yards have already risen above the breakeven

point, which has led some owners to the Chinese yards, so ship prices here are also on the rise.”

According to CNPI, the price index for handysize dry bulkers has increased 0.81% month on month to \$21.2m in September. That of ultramax carriers grew 1.21% to \$24.2m, while panamax has gone up by 0.93% to nearly \$25m, kamsarmax up 0.63% to \$25.7m, capesize up 0.43% to \$44.3m and newcastlemax up 0.24% to \$46.3m.

All prices above are based on the International Maritime Organization’s Tier III emission rules.

Elsewhere, a series of deals have been disclosed by brokers.

Anangel Shipping Services ordered up to four Tier III 208,000 dwt dry bulkers at Shanghai Waigaoqiao Shipbuilding for roughly \$47.5m apiece, with delivery scheduled for 2020.

Aegean Shipping Management contacted up to eight Tier III 82,000 dwt ships at Cosco (Zhoushan) Shipyard for about \$25m apiece. The vessels are expected to be delivered from the second half of 2019. Brokers also reported that Lepta Shipping last week booked up to two Tier II 180,000 dwt ships at Yangzijiang Shipbuilding for \$42m apiece, with delivery scheduled for 2019.

## Tankers

Tanker newbuilding prices were mostly pushed up by cost factors.

The price rise in steel plate and other materials

combined with a strengthened Chinese yuan has caused the overall uptick in shipbuilding costs.

“State-owned yards, especially CSIC and CSSC subsidiaries, are no longer willing to take loss-making orders, which are difficult to be approved by the parent groups. So they’ve raised the prices,” said a third CNPI broker.

Very large crude carriers led the mark-up, with the Tier III-based price index rising by 0.72% to \$77.8m, while that for long range one tankers increased by nearly 0.6% to \$38.3m. Price indices for the rest of the other types of vessels gained about 0.4%-0.5%.

Nevertheless, the general tanker index was still down 1.3% compared with the beginning of this year.

## Containerships

The price index for 2,200 teu boxship perked up by 0.67% to \$25.6m last month, while that for 4,800 teu ships and 10,000 teu ships increased by 0.27% and 1.1% respectively, to \$44.9m and \$82.6m.

In addition to the rise in building costs, brokers reckoned that the improved underlying shipping markets might also have contributed to the upwards movement, but they remained cautious about the sustainability of the freight recovery.

Amid the orders of super-sized containerships from CMA CGM and Mediterranean Shipping Co, Alphaliner warned last month that the vessel glut was still hampering the beleaguered industry, despite improving conditions.

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## NEWS

# Lenders are urging caution over North Korea sanctions

BANKS and financial institutions involved in trade finance have been warned to exercise extreme caution when processing payments for vessels that could be doing business with North Korea.

Financial and trade sanctions on North Korea have been heightened since the hermit kingdom resumed nuclear testing and the UN Security Council unanimously passed resolutions designed to prohibit the import and export of critical commodities to and from North Korea.

Lenders could fall foul of the heightened sanctions regime should they knowingly finance a vessel that habitually turned off its tracking device before going into North Korean waters, HFW partner Daniel Martin warned.

“You would need to have culpability in the underlying activity to be at risk,” he said.

While lenders did not have a legal obligation to track vessels, they could be asked by the Office of Foreign Assets Control, which enforces US sanctions

regulations, to report on any information they have that evidences vessels that have been calling at North Korea.

denying calls to North Korea and to specifically check with brokers prior to fixing a vessel that it had not historically called in North Korean waters.

Charterers intending to trade in US waters have been advised to include terms in charter contracts

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## CONTAINERS OUTLOOK

# Blankings are in sight as peak season slows

HEADING into the fourth quarter we would expect to see the traditional culling of deployed capacity relative to the peak-season third quarter, either through blank sailings, seasonal service suspensions, or service closures as the vessels have grown in size, *writes SeaIntel's Alan Murphy.*

But the current capacity outlook does not show a fourth-quarter drop in deployed capacity in line with past years. At present, the transpacific trade is actually slated to grow, relative to the third quarter.

## Data Hub: World Fleet Update

AFTER reaching what seemed like a meaningful equilibrium between supply and demand, the precarious balance seen in the world containership fleet could be set to change again.

The news over the past month that both CMA CGM and Mediterranean Shipping Co are returning to the yards with orders for vessels with combined capacity of up to 440,000 teu has sent shockwaves through the container shipping sector.

Ultra large tonnage, which was responsible for the overcapacity glut that led to the appalling financial results of the past two years, appeared to be in abeyance, with some analysts even claiming that the age of the ultra large containership was drawing to an end.

Not so, it seems, as carriers fight to remain at the top of the pile in terms of capacity and super-sized ships.

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## ANALYSIS

# CMA CGM is getting its claws into the lucrative lobster market

SHIPPING live lobster globally has traditionally been exclusive to air freight, but French carrier CMA CGM is looking to tap into this lucrative market by transporting the nippy nephritides in specialised reefer.

In a world first, CMA CGM has partnered with EMYG Environnement & Aquaculture, a fellow Marseilles-based company specialising in water purification and filtration, to create Aquaviva, a container modified to imitate the lobsters' natural habitat.

The bespoke boxes are bringing Canadian lobster to European shores in a novel means of creating additional income in the hard-up container shipping segment.

CMA CGM's lobsters are priced at the going rate, or the same price per kilo in euros or dollars as the air freight market. However, there is a unique selling point: the crustaceans arrive with the ultimate buyer as fresh as they would be fished straight out of the ocean, and more importantly with a zero mortality rate. Essentially, buyers get what they pay for.

Forward plans are to manufacture more boxes as demand sees fit, but the units do not come cheap at around six times the price of a traditional reefer box, or somewhere in the region of \$10,000. But with each container capable of carrying anywhere from 2,800 to 3,200 lobsters, depending on the size of the animal, the value of the cargo far outweighs that of a reefer carrying grapes or bananas, for example.

## MARKETS

# Strong peak brings Asia-Europe towards 10m teu milestone

FOLLOWING a strong peak season, the westbound Asia to northern Europe trade is on course to break the 10m teu milestone in 2017, according to Drewry's latest Container Insight Weekly analysis.

"Growth was relatively consistent through the year, with year-on-year comparisons residing in a fairly narrow band of between 3%-8% since May," Drewry said. "Were this pattern to continue for the remainder of the year the trade would surpass the 10m teu threshold for the first time ever come end December."

Drewry added that the peak season was strong this year, but that the seasonality was slightly less pronounced, and it would appear to have started earlier.

Several factors account for this, but two key ingredients are the general rise of online shopping and the greater adoption in Europe of the American retail marketing Black Friday discounting event on the last Friday of November, which have both served to dilute some of the traditional surge to meet the Christmas shopping season.

## VLCCs open the fourth quarter with a bang

THE very large crude carrier market has opened the fourth quarter with a bang, with spot earnings rising on the main trading routes from Middle East even before China's Golden Week holidays were over.

Saudi Arabia has smaller supply cuts this month versus September, making Middle Eastern crude relatively attractive to Asian buyers and subsequently boosting charter activity, according to market participants.

So far, brokerage Meiwa International has recorded 91 spot VLCCs fixed to lift Middle Eastern cargoes in October, versus 124 fixtures for the whole month of September. The October fixing has yet to be concluded.

With healthy vessel demand, the Middle East-Asia VLCC spot earnings rose 30.9% on week to close at \$24,302 per day on Friday, Baltic Exchange data showed.

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## OPINION

# Understanding people

WHAT on earth could they have been thinking of when they behaved in such a fashion? How could the ship have altered course so disastrously? How could an experienced bridge team have collectively contributed to such an accident?

The answer to all these questions, asked by incredulous observers in the aftermath of a collision, stranding or some other spectacular and expensive maritime occurrence, probably concludes that it was something to do with human error. What persuaded the master of the container-trailer ship *El Faro* to shape a course into the eye of a hurricane?

What sequence of events led *Costa Concordia* into its fatal manoeuvre off the Italian coast that night? How on earth? How did two enormous bridge teams on a couple of US destroyers end up with their ships crushed by meagrely manned merchant ships?

On the other hand, what was good about the decision-making processes on the bridge of a very large crude carrier that neatly avoided a potentially awful encounter with a sandbank in Southampton Water, when the steering played up? Maybe it was the same combination of expertise, experience, training and judgement that was to be found on that flight deck when Captain Sullenberger landed his engineless Airbus on the Hudson River.

Whether it is human error or human expertise doing something right, there is a great deal to try to understand about how our behaviour is so crucial, often in matters of life and death. "How people create safety, what stops them and what to do about it" is the sub-title of *Being Human in Safety-Critical Organisations*, a new and important book that does exactly what it says on the cover.

Written by Dik Gregory and Paul Shanahan, the book was commissioned by the Maritime & Coastguard Agency, BP, Teekay and the Standard Club, sponsors, it might be recalled, who brought us *The Human Element* some years ago.

## Dig a lot deeper

This is a big, dense book, exceedingly readable, that develops some of the themes introduced in the earlier volume and shows how a terse dismissal of an accident as caused by “human error” is just the start of an investigatory process that ought to dig a lot deeper into psychology, resilience engineering, complexity theory and cybernetics.

The book is aimed at all organisations in which safety is critical, bringing examples from healthcare, aviation, chemical, defence, nuclear, space, rail, highways and, of course, maritime.

The two authors, who are organisational psychologists, provide a clear explanation of why people behave the way that they do; why they mostly get it right, but sometimes disastrously get it wrong. They also suggest practical ways that organisations, which would rather avoid the latter and encourage the former, can change their assumptions about people and reinforce their safety systems. But if you are to reach this desirable objective, first, you have to understand people.

## Layers of safety

It has become perceived wisdom that in the handling of ships or work in the engine room, two heads are better than one and teamwork really matters. But the authors make a distinction between good teams creating layers of safety and those in which wrong assumptions are mutually reinforced and the collective decision making is the route to a casualty. The terrible case of the *USS Vincennes*, which shot down an Iranian airliner after identifying it as an attacking enemy, is one cautionary lesson.

Our senses, the authors point out, can deceive us no end and we very often fatally rely on them, rather

than reality of evidence and proper judgement. And of course culture; which might include the unwillingness or inability to challenge senior people when we think they have made an error, can be an important contributor.

The authors reinforce their arguments using examples, some of which will be familiar, such as the Tenerife aircraft disaster that is still the worst yet recorded; the *Herald of Free Enterprise*; the Concorde crash at Charles de Gaulle. Others will be less well known and less catastrophic, but provide perfect illustrations of how human behaviour and complex situations combined to shred metal and wreck careers.

But it is all about understanding people, how people create safety and then somehow bypass or ignore it, how context can make people blind to reality, how perception can sometimes be illusory and the real roots of what we like to call “complacency”. The reader, who may well be familiar with fatigue, stress and boredom, may appreciate an analysis of what happens to humans facing these problems. We may say that we cannot understand why so many people die in gassing tragedies in oxygen-depleted compartments and spaces — there are some very sensible and rational reasons why these completely avoidable accidents happen.

The book gives good practical advice on how organisational resilience can be built in the face of all these potential human failings. It is about attitude, motivation, a better understanding of human nature and capitalising on what is best about human behaviour. It is more than just following procedures and regulations, more than fear of getting it wrong and a “blame culture”.

It is common sense in a complex world that flows from the pages of this valuable book, with our understanding of people the key.

Being Human in Safety-Critical Organisations, by Dik Gregory and Paul Shanahan, ISBN 9780115535352, is available from The Stationary Office [www.tso.co.uk](http://www.tso.co.uk).

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## NEWS IN BRIEF

### **Stolt-Nielsen is still mired in weak chemical tanker markets**

STOLT-NIELSEN, one of the world's largest chemical tanker owners, has continued to suffer from weak freight markets in the third quarter, despite gains in bunker hedging.

"Market conditions continued to soften during the quarter," chief executive Niels Stolt-Nielsen said on announcing net profits of \$18.5m on revenues of \$513.8m for June-August, compared with net profits of \$22.1m on revenues of \$474.1 in the same period last year. "We do not anticipate any substantial improvement in the chemical tanker market until the latter part of 2018, when the current orderbook will have been significantly reduced and the balance between tonnage supply and demand improves."

### **Hong Kong authorities plan to align maritime liability limits with the IMO's**

HONG Kong's transport and housing bureau has proposed changes to the size of the territory's merchant shipping ordinance covering shipowners' liability as it seeks to incorporate the International Maritime Organization's convention on limitation of liability for maritime claims into legislation.

The proposed measure means the special administrative region's limit of liability for claims for loss of life or personal injury on vessels not over 2,000 gt would rise to 3.02m special drawing rights, from 2m. The limit of liability for property claims for ships not exceeding 2,000 gt would rise to 1.51m SDR from 1m. "The amendments will increase shipowners' financial liability limits for maritime incidents in order to align with the IMO's requirements," said a spokesman for the transport and housing bureau.

Hong Kong has been striving to make itself more attractive to the maritime industry in the face of intensifying competition from other ports in the region, including Shanghai and Singapore.

### **Sembcorp Marine sells nine rigs to Borr Drilling for \$1.3bn**

SEMBCORP Marine has found a buyer for nine drill rigs it has available due to previous contract terminations.

Borr Drilling has agreed to purchase the Pacific Class 400 jack-up rigs from Sembcorp Marine unit PPL Shipyard for a total of \$1.3bn with the addition of a market-based fee that will factor in an increase in value of the rigs to be sold. Six of the rigs are from deals that were previously terminated by PPL Shipyard, while three are in the process of being completed.

The group has scheduled delivery of the rigs over the fourth quarter of 2017 to the first quarter of 2019.

### **FSL Trust discloses reasons for axed deal with Navios**

SINGAPORE-listed FSL Trust has unveiled more details of its botched stake sale to Navios Maritime Holdings after receiving a query from the exchange regulator.

The trust said it had discussed the planned deal with its professional advisers who in turn took into account feedback received from a number of noteholders who held the view that the transaction was not feasible.

It subsequently tried to hold further talks with Navios. "However, as no definitive structure was agreed to, nor definitive documentation

executed, prior to the end of the exclusivity period granted under the term sheet, the term sheet was automatically terminated in accordance with the terms thereof."

FSL Trust said it was looking at all possible options, including any more proposals from Navios or other interested parties.

### **Japan's Tsuneishi to branch out into cruiseship business**

JAPAN's Tsuneishi Shipbuilding is trying to enter the lucrative cruiseship industry and has drawn up plans to produce vessels in China. The company intends to begin building cruiseships from 2020 at its Chinese shipyard in Zhejiang Province, according to a Nikkei report. The vessels will measure 200 m-240 m long and be able to hold 600-800 passengers, which is comparable with Nippon Yusen's *Asuka 2*, Japan's biggest luxury cruiseship.

The first order is expected to come from the company's affiliate, but it hopes to win orders for vessels capable of carrying several thousand passengers from Chinese cruise operators.

### **Indian Navy thwarts would-be Gulf of Aden pirates**

AN Indian Navy warship prevented a likely piracy attempt in the Gulf of Aden as it escorted a merchant vessel through the piracy-prone region.

The *INS Trishul* was sailing with the 2017-built, 82,100 dwt panamax bulk carrier *Jag Amar*, owned by Great Eastern Shipping, when it spotted a skiff making suspicious movements near the commercial vessel at around 1230 hrs local time on Friday, the navy said in a statement. Naval commandos boarded the vessel

and confiscated an AK-47 with 27 rounds of ammunition, and other equipment such as grapnels, rope, ladders and fuel drums, before releasing the skiff and its crew of 12.

### **Thirteen dead after collision between tanker and fishing boat**

THE remains of 12 missing crew members from a fishing boat involved in a collision with a crude oil tanker off the coast of Japan have been recovered. Divers from the Japanese Coast Guard discovered the bodies

inside the capsized boat Lurong Yuanyu 378. One of the four survivors rescued earlier died, increasing the death toll to 13, according to Lloyd's List Intelligence.

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