A weak newbuilding recovery may not be enough for shipyards

Despite shipbuilders’ recent efforts to push up contract prices, bearish newbuilding markets conditions suggest they might not achieve great success.

Clarksons recorded a total of 489 vessels with 35.3m dwt contracted during the first eight months of 2017, up 69% on year in terms of deadweight tonnes. However, barring a huge spike in newbuilding orders in the closing months, this year’s total contracting volume will finish far below the 2015 level of 111.7m dwt and still be one of the weakest annual figures in history.

The orderbook figures projected an even bleaker future for shipyards. Global orderbook size amounted to 3,078 vessels totalling 181.7m dwt as of end-August, compared with 3,787 ships with 225.6m dwt at end-2016, with limited newbuilding orders and delays of vessel deliveries.

Faced with emptying slots, many shipbuilders have had to fight for limited newbuilding business. Yard overcapacity persists even as more second-tier yards go out of business. Thus there is little wonder that newbuilding prices remain soft across the main merchant shipping sectors.

Coupled with rising steel plate prices, the margins of most shipyards will stay under pressure for several quarters at least. Beijing and Seoul continue to inject liquidity into shipbuilding majors in their respective countries. Those companies will have better chances of survival than their smaller peers.

The total number of active yards, defined as those with at least one ship with over 1,000 gt on order, has fallen from 860 in 2017 to 357 as of early September, according to Clarksons. Only 30% of the active yards have won a newbuilding contract this year, as market shares of the top-tier yards continue to increase.
The trend is likely to continue. With more environmental regulations kicking in over the coming years, ship investors have increasingly required vessels designed with ballast water treatment systems, scrubbers or other low-sulphur fuel solutions such as propulsion systems powered by liquefied natural gas. Often only the yard majors can build those ships at competitive pricing.

There is not completely without a bright spot. Data from Lloyd’s List Intelligence shows ordering of cruiseships remained strong this year, with demand for leisure shipping still rising. A total of 194 cruiseships were on order as of end-September, versus the end-2016 level of 154 vessels.

However, this niche market is dominated by a few European players, and market conditions in the bulker, tanker, and container sectors, which account for over 80% of the world's newbuilding markets, are challenging. As of September, total order value only reached $16.1bn this year, estimates by NORD/LB showed.

**NEWS**

**Bulker owners call for scrutiny of charterers and terminals**

LEADING representatives of the dry bulk shipowning community have called for applying vetting, that has become the norm for shipowners, to other influential stakeholders in the industry.

“We support regulations when they are practical but there is a lack of other stakeholders facilitating the smooth implementation of regulations,” said John Platsidakis, chairman of international dry bulk owners’ body Intercargo.

“Owners are vetted by banks, charterers, RightShip, all kinds of bodies, but what about charterers?”

Mr Platsidakis said that a long-term goal of Intercargo was to encourage the formation of a dry cargo charterers’ assessment scheme that would be “in their own interest” as it would enable quality charterers to promote their performance in such aspects as payment, safety, quality control and crew welfare.

“We feel it is a must,” he said.

Speaking at meetings of Intercargo’s executive and technical committees in Athens, owners said that the urgency for the dry bulk sector lay partly in the fact that, unlike the oil tanker industry, owners could be prey to hundreds of smaller charterers in addition to the major players.

A similar need related to dry bulk terminals, committee members said.

“It is different to the oil industry, which is highly regulated,” said Dimitris Fafalios, chairman of Intercargo’s technical committee.

“Unfortunately we are still in the Stone Age”.

**Intercargo sees membership surge**

A SURGE in membership of Intercargo, the international association of dry bulk shipowners, has been attributed to a combination of industry regulatory concerns and the performance of the London-based body.

**The UK government has outlined its customs contingency plans for Brexit**

MANDATORY pre-notification of consignments to customs at ro-ro ports, and pre-arrival safety and security declarations from carriers are among contingency plans suggested by the UK government in the event the UK crashes out of the European Union.

Two policy papers published by the government
Monday covered the UK’s future trade policy and its customs arrangements. Both set the goals of frictionless trade and a “special relationship” with the EU on trade, but warned that contingency plans must be in place should a deal not be struck.

The UK hopes to negotiate continued membership of the European safety and security zone. If its membership were to end, carriers would be required to lodge pre-arrival safety and security declarations for EU imports and exports.

The UK Chamber of Shipping raised its concerns that the latest policy documents focus on the “highly streamlined approach” instead of its preferred “new and unique customs agreement”.

“Accepting the need for new customs controls contradicts the Department for International Trade’s wish to ‘rebuild momentum for trade liberalisation’,” said UK Chamber Brexit adviser Matthew Wright.

“This represents a significant shift in direction and is potentially a game-changer if the option for a new customs agreement has been taken off the table.”

The port of Dover, which handles much of the UK’s ro-ro trade with the EU, has warned that delays of two minutes in processing each truck from the EU would cause 17-mile tailbacks.

The documents both invite input from industry stakeholders.

Read the policy papers “Preparing for our future UK trade policy” and “Customs Bill: legislating for the UK’s future customs, VAT and excise regimes” on the gov.uk website.

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### OPINION

### The future is (always) bright for shipping equities

THE shipping sector has badly lagged the performance of the broader stock market in the past four years. But given improving supply-demand fundamentals and a likely return to profitability, investors should set their sights on shipping companies and using them to turn their fortunes around in 2018. But will they?

Shipping stocks have underperformed badly since 2013, both in absolute and relative terms. According to a recent report by Clarkson Platou, a basket of 58 shipping stocks generated an average total stock return of -20% in 2014, -18% in 2015, -29% in 2016, and 11% in the first nine months of 2017.

To put these figures in perspective, the total return of the S&P 500, which represents a basket of the 500 largest companies based on market capitalisation, was 13.5% in 2014, 1.4% in 2015, 11.7% in 2016, and 14.2% in the first nine months of 2017.

Even if we factor in the positive performance of shipping stocks this year, they still lagged the broad stock market. Given the poor track record and the fact that shipping represents a minuscule slice of global equities, why would any seasoned investor bother to take a punt at shipping stocks?

Because investing in the stock market has always been about the future and not about past results. If a shipping company can make a convincing argument that the years ahead are bright for its bottom line, it should draw an investor’s attention regardless of past performances — those are already reflected on each company’s financial position, whether it is its cash reserves, assets owned, and capital structure.

The million-dollar question is how will future results change its financial position and in what direction.

If we are to believe Clarksons Platou, the overall shipping sector is expected to provide good returns in the years ahead based on supply-demand fundamentals. The securities unit of Clarksons argues that an accelerating demand growth for raw materials in 2017 bodes well with record low orderbooks and a general decelerating fleet growth.

Add to the mix record low secondhand ship values relative to newbuilding prices (which has prompted a critical mass of shipowners to acquire second-hand tonnage instead of placing new orders), and a best-case scenario is emerging for the sector.

Are there risks to this scenario? Unfortunately, yes, and chief among them is shipowners’ natural tendency to be overly optimistic at any signs of optimism and spoil a good market by ordering too
**MARKETS**

**Crude oil in floating storage is falling as supplies tighten**

THE amount of crude oil in floating storage has decreased as a result of balancing supply and demand fundamentals in the global market, the Organisation of the Petroleum Exporting Countries secretary-general Mohammad Sanusi Barkindo has said.

Crude volumes being stored on tankers at sea have fallen by about 40m barrels since the beginning of 2017 as the market gradually switched from a contango since June to backwardation in the second week of September, meaning the spot or near term price of crude is higher than that of months down the road.

This signals tighter supply in the market. From a tanker perspective, though, it would likely mean more vessels that were used for floating storage and offloading purposes will be left idle, contributing to oversupply.

**Supramax owners are looking for a better week despite dip in rates**

IT has been a week of depressed earnings for supramax bulker owners as spot rates fell to their lowest level in nearly a month due to lack of trading activity in the Far East.

Still, the segment seems to hold plenty of wind in its sails, which could possibly translate into further improvements in the freight market over the coming weeks, brokers said.

**NEWS IN BRIEF**

**China’s One Belt, One Road project may hit tanker demand**

A NUMBER of projects under China’s One Belt, One Road initiative, which aims to stimulate economic growth and trade, are likely to cast a long shadow over the tanker market by shortening shipping distances. The Myanmar to China crude oil pipeline and the proposal for a canal across the Kra Isthmus in Thailand, would both reduce tonne-miles for tankers, according to a recent report from Poten.

**Robot shipyard welders could tackle Japan’s workforce shortage**

JAPAN’S Kobe Steel has rolled out a new automated welding machine and system for shipbuilders.

The machine, which can be used on almost any part of the vessel’s block assembling process except the bow and stern, promises to reduce welding hours by up to 20%.

Kobe Steel believes the introduction of the new system and machine will help shipbuilders tackle the issue of a shortage of trained workers and maximise operational efficiency. The country’s shipbuilding industry is facing a lack of young qualified workers owing to its rapidly aging population as more in the workforce retire.

**Wheatstone LNG has started production**

AFTER six years and over $30bn of investment, the Chevron-led Wheatstone LNG Project in Western Australia has started production. The first cargo of LNG from the project will be shipped in the coming weeks, according to NYK Line, one of four Japanese players participating in the project.

Natural gas produced from the Wheatstone and lago gas fields located in the offshore area of Western Australia’s North West Shelf will be processed into LNG for export. The project will have a combined capacity to produce 8.9m tonnes per annum of LNG.

**Boston Consulting Group has spun off its xChange platform**

CONTAINER repositioning platform BGC xChange has been spun from off its founder company, Boston Consulting Group, to allow it to further develop its product as a standalone venture.

Two unnamed investors from the
financial and data analytics sectors have been brought in, but BCG remains a shareholder in the company.

BCG’s container exchange platform xChange was launched in late 2015 as the result of a consulting project by BCG, which found that moving empty shipping containers cost the industry as a whole $15bn-$20bn annually.

Global Ship Lease is hoping to raise up to $400m through a bond offering. NEW York-listed Global Ship Lease intends to raise between $350m to $400m via a high-yield bond offering. GSL wants to use proceeds from the bond issuance, coupled with a super senior secured loan facility, to refinance current secured debt due over 2019, and to repay and terminate its existing revolving credit facility and secured term loan.

Singapore has raised concerns over Wilhelmsen’s takeover of Drew Marine. THE Competition Commission of Singapore has raised concerns over Wilhelmsen Maritime Services’ planned acquisition of Drew Marine's technical solutions, fire, safety and rescue businesses on the grounds that two companies are competitors.

They are two of the biggest participants in the market for the provision of chemicals, gases and equipment to the maritime sector and any potential merger could lead to other suppliers facing obstacles in reaching the necessary geographical scale to become a viable alternative source of such marine products.

The authority said both companies can submit documents to address these potential competition concerns as the transaction review proceeds to a more detailed review in its second phase.

D’Amico has signed another sale and leaseback deal. D’AMICO International Shipping’s tanker unit has signed another sale and leaseback deal with an undisclosed buyer for $14.2m.

Under the deal, d’Amico Tankers will transfer ownership of the 48,700 dwt medium range tanker High Prosperity, built by Japan’s Imabari, to the purchaser but retain commercial operations of the vessel as part of a six-year time charter deal at “a competitive rate”. The group hopes to make a $6.9m gain from the transaction that will contribute to the tanker renewal programme.

Bahri has jumped on Big Data bandwagon with DNV GL. NATIONAL Shipping Company of Saudi Arabia, or Bahri, has joined the digitalisation trend after its unit Bahri Data inked an agreement with DNV GL to jointly develop Big Data solutions that can be used in safety, quality and compliance within the maritime industry.

Data experts from both entities are in the process of developing a prototype of a solution to facilitate decision-making in terms of safety and quality for ship owners, operators, charterers, port authorities and regulators. They expect an early prototype system for vessel owners, operators and port authorities to be introduced on November 8 during the Bahri Data Forum in Dubai.

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