Thursday October 12, 2017

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# Industry cyclicality is over, it's technology that's driving liner shipping

CONVENTIONAL CYCLICALITY NO longer exists in container shipping, with the industry to be driven by technological solutions in future, according to Hyundai Merchant Marine's president and chief executive CK Yoo, pictured.

While the market had demonstrated for many years that any disruptions in demand and supply would always eventually settle and return it to equilibrium, that situation changed about six years ago, said Mr Yoo during the 2017 TPM Asia Conference in Shenzhen. "Since 2011, the traditional business cycle disappeared, and we have been experiencing L-shaped market conditions."

Apart from the changing pattern of trade growth, namely the reduced global teu trade as a multiple of gross domestic product growth, the entry of mega-sized container ships — thanks to fast-developing shipbuilding technologies — was a main cause for that change.

"Introduction of the mega ships in the early 2010s contributed to the lengthy oversupply situation in the market," Mr Yoo added.

"What made the eco-designed mega ship possible was the advancement of the maritime technologies and engineering know-how, which not only made the [time needed to build ships] shorter but [also] catered to the ship operator's needs [more quickly]."

Although the market has been recovering since late 2016, Mr Yoo pointed out that liner shipping still faced many uncertainties, with technological solutions set to play a decisive role in overcoming industry challenges.

A series of environmental regulations, including those for ballast water treatment systems, the global sulphur cap and decarbonisation, will come into effect over the next few years.

While those rules are for the good of all mankind, they will bring about a huge financial burden for the carriers, said Mr Yoo.

Taking the global sulphur cap as an example, he said all three existing alternatives — cleaner-burning bunker fuel, scrubbers and liquefied natural gas — had drawbacks and risks, especially on the cost front.

He quoted Wood Mackenzie's forecast that global bunker fuel costs could increase by up to $60bn annually from 2020, when the International Maritime Organization's 0.5% sulphur cap regulation becomes effective.

Mr Yoo called for more efforts in seeking technological solutions to better comply with regulations, with the goal to "reduce the cost burden or avoid wastage in investments related to compliance."

He said HMM would actively try to renew its fleet by ordering more eco-designed and environmentally sustainable vessels, adding that the company would gradually replace its older tonnage with such vessels.

NEWS

# South Korean shipbuilders are facing a talent exodus

WITH high salaries and the reputation of working in a key national sector, South Korea's shipbuilding industry was once an ideal target for job seekers. But this might no longer be the case — at least according to a recently released report.

The number of people working in the country's shipbuilding industry fell to 166,277 last year from 203,513 in 2015, marking the largest decline in 20 years.

HHI and DSME, the country's two leading shipbuilders, saw the biggest personnel outflows, but decreasing numbers were found across the industry.

Volume of personnel was not only thing South Korea's shipbuilding had to sacrifice, with the industry also experiencing the departure of some highly-educated staff members.

The number of employees with either masters degrees or doctors of philosophy (PhDs) fell 4.9% to 1,801 last year from 1,894 in 2015, according to the report.

Decreased research and development budgets were one of the main reasons behind this, according to the report.

R&D spending in the local shipbuilding industry declined to Won174bn ($153.3m) last year, from Won282bn in 2015, accounting for just 0.06% of shipbuilders' sales, the lowest figure since 2009.

# Positive product tanker S&P activity is painting a positive picture of market recovery

THE number of secondhand product tanker transactions has been increasing steadily this year, with many market players anticipating strong upside in freight earnings and asset values in the coming quarters.

A total of 87 vessels with 4m dwt changed hands in the first nine months of this year, compared with 57 ships totalling 2.2m dwt during the same period of 2016, Clarksons data showed. Those figures do not take into account corporate mergers such as the Scorpio-Navig8 tie-up and Maersk Tankers' sale to the family business that owns its parent.

The vessels traded in the secondhand market this year included seven long range two, five long range one, 64 medium range and handy tankers and 11 smaller ones. The most sought-after targets were MR tankers aged between 10 and 15 years, of which 30 changed hands.

Furthermore, there is no shortage of opportunities for bargain hunters as secondhand prices remain soft in this segment, though younger tonnage is showing relative strength due to its ability to meet the upcoming International Maritime Organization regulatory requirements.

# Northern ports make the case for re-routing container lines

THE UK is in need of major infrastructure investment and a reduction in its dependency on its southern ports if the country is to continue to service the shipping industry, a panel argued on Tuesday.

Frustrations over the UK's road and rail infrastructure and shipping lines' tendency to use southern ports resurfaced in Liverpool during a debate hosted by Lloyd's List and Peel Ports Group on shipping's potential role in.

## OPINION

# Recovery requires a level playing field

GLOBAL economic growth is looking positive — industrial production growth within the European Union is at a six-year high, China's gross domestic product remains on track for its first annual growth acceleration since 2010, and emerging economies such as Nigeria in West Africa look promising.

Meanwhile, it seems like the shipping markets have hit rock bottom and are now beginning to recover. Despite 1.6m teu that will be delivered next year, and despite further newbuildings in some tanker markets, I think that overall discipline to invest only very carefully prevails in 2017.

But still, we must bear in mind that it is very hard to resist the temptation to order new vessels — given the current circumstances. In a low-interest environment, capital is seeking opportunities. Underutilised shipyards are offering tempting prices. And the highly competitive environment pushes companies to further improve efficiency. Modern and larger vessels can help.

So, I can't predict the future of shipping markets today. And even if I knew the answer, I probably wouldn't tell you. But I might predict what is likely to happen if protectionist policies further hamper globalisation — or even reverse it.

You might probably have read the article in the latest issue of The Economist on how the Jones Act hurts American consumers and destroyed the country's shipping industry in the recent decades. Today, maritime transport is so costly that cattle ranchers from Hawaii *fly* their animals to mainland America to the detriment of the customers and of the environment.

It is highly possible that the US will implement further trade policies that could forestall economic growth. If President Trump was to revoke the international nuclear agreement with Iran, this would have a serious impact on future business opportunities — not to mention the threat to global security.

A level playing field is of paramount importance for our competitive industry. Here in Europe, Brexit might distort our markets. If the UK repeals specific EU regulation that already today goes beyond international standards, EU shipping companies might suffer competitive disadvantages. Hence, Brexit is one more reason to focus on global regulation within international bodies such as the IMO and ILO.

Therefore, I am glad that the President of the European Council, Donald Tusk, recently urged EU member states to further develop the international role of the Union both at the regional and at the global level. In times of increasing global political risk, we need a united Europe more than ever.

Let me conclude with a positive development and a call for action: Two weeks ago, the Comprehensive Economic and Trade Agreement between Canada and Europe entered into force on a provisional basis. CETA is a strong signal that major global economies still want to further integrate their markets and, thus, foster maritime trade.

Free and sustainable trade does not only create economic growth and wealth. Free trade policies help us overcome cultural boundaries and connect regions and peoples. It is high time for business leaders, especially in the maritime industry, to take a stronger stand for free trade and the benefits of globalisation.

*This is an edited version of a speech delivered by Alfred Hartmann, president of the German Shipowners' Association and founder of Hartmann Group, to the Maritime Cyprus event in Limassol on 11 October.*

MARKETS

# Grain shipments have injected life into the panamax spot market

PANAMAX bulker owners have held on to gains in daily earnings on all the benchmark spot trades due to an active grain market on the east coast of South America and in the US Gulf, despite holidays slowing chartering activity out of China over the past week.

The significant rise in grain shipments in the Atlantic is mainly due to the previous lag in cargo flows brought about by reduced rail services as Hurricane Harvey swept over the US Gulf coast.

Golden Week holidays in China stifled activity at the beginning of the week, but the pace picked up by mid-week, with increased activity in both basins sparking another round of rate rises. The underlying force was the fairly tight tonnage conditions in both basins.

# Sustained strong global box demand

HEALTHY volume growth on the major container shipping trades continued in August, maintaining the positive demand trend recorded through the first half of the year and into July.

Data published by Container Trades Statistics shows that box volumes moved across global liner routes were up 4% in August against the corresponding month last year, from 13.4m teu to a handful of units shy of 14m teu.

That follows on from July's growth of 4.7% compared with last year. August's volumes push year-to-date numbers up to 106.8m teu through the first eight months of 2017, a rise of 4.8% year on year over the 102m standard 20 ft containers carried last year.

Transpacific traffic continued to lead the way, recording double-digit growth in August on 2016 levels.

## NEWS IN BRIEF

**Autonomous shipping could face risk of fragmented regulation**

REGULATIONS for autonomous vessels could occur in a disorganised manner because the International Maritime Organization's Maritime Safety Committee could take some time to come up with concrete measures. Helle Hammer, managing director of Cefor and chairwoman of the International Union of Marine Insurance's Political Forum, has warned that outcome of current efforts to establish a regulatory framework are far from certain.

"It is likely that national rules for domestic trade will emerge while the IMO is still conducting its scoping exercise for international trade. Hopefully, this will not lead to a national fragmentation of rules, but rather as input to a future international harmonisation of the regulatory framework," said Ms Hammer.

**Cosco expects the box recovery to land it back in the black**

HONG Kong-listed Cosco Shipping Holdings is likely to return to a net profit for the nine months ended September 30, 2017, thanks to the tentative steps towards a market recovery in containers.

The Chinese state-owned company has forecast a net profit of Yuan2.7bn ($410.2m), from a Yuan9.2bn net loss in the same period last year.

Internal restructuring and cost optimisation have helped, but the company credited the turn-around in fortunate to a tentative recovery in freight rates.

**An industry task force has been set up to drive decarbonisation**

AN industry-led task force has been launched to find practical ways to minimise carbon from shipping emissions as part of the industry's climate challenge. Five working groups are to focus on industry leadership, technology, transparency, finance, and carbon pricing. These areas were identified as central to decarbonising shipping at an exploratory industry workshop held in London in June.

The initiative will be driven by Global Maritime Forum, a not-for-profit foundation based in Copenhagen; Carbon War Room, a group of concerned entrepreneurs; the Carbon Pricing Leadership Coalition, an alliance of government, private sector, and strategic partners; and University College London's Energy Institute.

The outcomes will be presented at the Global Maritime Forum's inaugural summit in October 2018.

**US box imports remain buoyant**

US CONTAINER import levels are continuing at "unusually" high levels this month after setting new volume records in July and August, according to the latest Global Port Tracker report produced by the National Retail Federation and Hackett Associates.

"When imports break records two months in a row, it's hard to see that as anything other than a good sign about what retailers expect in consumer demand," said NRF vice-president Jonathan Gold.

"Consumers are buying more, and everybody from dockworkers to truck drivers is trying to keep up. We hope this is a sign of a strong holiday season for retailers, shoppers, and our nation's economy."

Ports covered by Global Port Tracker handled 1.8m teu in August, the latest month for which numbers are available. The total was the highest recorded since NRF began tracking imports in 2000, topping the previous record of 1.78m teu set just a month earlier.

**NYK joint venture to provide LNG bunkering services for Statoil**

NORWEGIAN oil major Statoil has chosen Nippon Yusen Kabushiki Kaisha's joint venture, Gas4Sea Partners, to supply liquefied natural gas as a marine fuel in the port of Rotterdam for four crude shuttle tankers. The four dual-fuelled vessels will come into service in early 2020, and will be operated by Statoil in the seas of northern Europe.

Gas4Sea will supply the fuel using the LNG bunkering vessel *ENGIE Zeebrugge*, which started operations earlier this year. The vessel has a capacity of 5,000 cu m and is designed to serve a full range of shipping customers, in Zeebrugge as well as at neighbouring ports.

**North Korean shipping sanctions are starting to bite**

THE UN Security Council has prohibited four vessels from calling at ports across the globe as a penalty for carrying banned items from North Korea.

The general cargo vessels — the Comoros-flagged *Petrel 8*, St Kitts and Nevis-flagged *Hao Fan 6*, North Korea-flagged *Tong San 2* and Cambodia-flagged *Jie Shun* — were added to the Security Council's list of designated vessels and were the first batch of vessels to be penalised under the tightened sanctions regime imposed on North Korea, the council said in a statement.

The registered owners of the vessels are Liquan Shipping, Trendy Sunshine (Hong Kong), Nampo Fishery Station, and Jieshun Shipping respectively.

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