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Daily Briefing
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China's offshore wind is now a multibillion dollar shipping market

Beijing's thirst for green energy could bring shipping opportunities in transport, installation and maintenance

AS Chinese state shipping giants are striving to tap fresh revenue sources beyond traditional seaborne trade, the offshore wind power sector represents a great opportunity for them.

Potential revenues from owning and operating vessels in the Chinese windfarm sector - including installation ships and other equipment - are expected to reach approximately $3bn in the next three to four years.

Backed by Beijing's ambitious plan to increase renewable energy, and in a sector where foreign entry is restricted, companies such as China Cosco Shipping Group and China Merchants Group are not shy of launching new ventures.

The companies have established joint ventures with overseas offshore engineering specialists, who have also detected the possibilities in China's coastal waters, in a bid to scoop up the market.

There are, of course, some uncertainties. There are various impediments to the possible development of China's offshore windfarms.

Compared with Europe, wind from the ocean is less powerful and the government's subsidy on electricity price is less flexible - these could mean a relatively low return on investment.

A market with huge potential

The number of installations in China will surpass those in the UK and Germany by 2022, and will account for one third of the total global market by 2030.

By the end of 2016, China's total installed offshore wind power capacity stood at 1.6 gigawatts, trailing only the UK's 5.2 GW and Germany's 4.1 GW, according to the Brussels-based Global Wind Energy Council.

Make Consulting, a leading renewable energy consultancy, expected Chinese installations to top approximately 7 GW by 2020, including 3.2 GW of new projects that were under construction as of August 31, 2017.

The investment required for constructing and running installations that will generate 7 GW is estimated at roughly Yuan175bn to Yuan210bn ($27bn-$32bn), of which 8%-12% are costs of hiring vessels and related equipment for offshore turbine installation, operation and maintenance.

That means revenue potential for vessel owner/operators by 2020 could hit between roughly $2.2bn and $3.9bn in total (although some of the potential has been cashed in on the already installed projects).

Chinese shipping companies are facing a profit squeeze amid an industry downturn and rising competition, so they are seeking new space for growth and many are bullish when it comes to wind.

Last year, Sinotrans & CSC Holdings, China Merchants Group's wholly owned subsidiary, and Singapore-based liftboats and service rig provider Ezion Holdings, set up a 51%-49% offshore windfarm joint venture in China.

Sinotrans also acquired an installation vessel, Tera Sunrise, in July, from its Singaporean partner via a bareboat charter hire.

As for conglomerates such as Cosco Shipping and CMG, the emerging market has presented them with opportunities not only in shipping, but also in shipbuilding.

There will be 20 such wind farms by 2019, requiring roughly 30 installation vessels with crane capacities of more than 1,000 tonnes, when also factoring in China's long coastline, which increases vessel travelling distance.

A rough estimate will be see a shortfall of 10-14 ships. Most of the gap will be filled by newbuildings rather than second-hand ships from overseas, as the existing fleet has only a few units that can meet the technical requirements. Cosco Shipping Heavy Industry, the shipbuilding arm of Cosco Shipping, has already won an order to build one offshore wind turbine installation vessel for DEME in February, as part of their partnership agreement.

NEWS

Cosco Shipping has to up its game if PIL is to concede to be its next acquisition target

In a rare case, privately-held Pacific International Lines has published its financial results, indicating how much the Singapore-based container carrier might be worth.

At end-June, the company's total equity stood at nearly $1.8bn. Assuming a price-to-book ratio of 1.4, which Cosco Shipping offered for Orient Overseas International Ltd in July, PIL could be acquired for roughly $2.5bn.

But doing the maths now seems to have lost its

meaning, as PIL managing director SS Teo recently told Lloyd's List in no uncertain terms that the company was absolutely not for sale.

The reason: Mr Teo wants to carry on the business his father founded 50 years ago, and to stand his ground as the number of Singaporean shipowners dwindles.

It seems that the Teo family regards shipping with more personal affection than the Tungs at OOIL and the Oetkers at AO Shipping. The latter two have both agreed to sell their family-owned shipping firms - the largest in Hong Kong and Germany, respectively - at rather handsome prices.

Meanwhile, Cosco Shipping Holdings, the rumoured suitor of PIL, has also denied that it has such a plan - at least for now.

But at some point, Mr Teo may find that the phrase coined by the American accountant to the mafia Otto Biederman sounds increasingly attractive: "Nothing personal, it's just business."

From a business perspective, a marriage between the two companies is sensible.

Cosco Shipping is keen to explore services in Africa and the Red Sea, where PIL has a stronghold in market shares and networks. There is also a relatively low language and culture barrier between the duo, given PIL's Singaporean Chinese background, not to mention its close ties with the state-owned conglomerate.

On the other hand, PIL too wants to expand beyond its conventional strengths. Its 12 soon-to-be-delivered 11,800 teu ships are said to be targeting transpacific trades and will rely heavily on the Chinese giant to find work.

Earlier this month, the two companies struck a deal to exchange a dozen vessels through time charter agreements. According to Lloyd's List Intelligence, the six ships Cosco Shipping chartered from PIL are all Africa-focused, while the other six going to PIL mainly serve intra-Asia and Australia routes.

There is certainly no rush for Mr Teo to sell, even if he wants to.

Freight markets are tightening and the company's bottom line is recovering. PIL recorded a net profit of $26.4m for the first six months of this year, compared to a net loss of $131m in the year-ago period. At the same time, an operational cash outflow of $126m also turned into an inflow of $35.6m.

Maybe the results are meant to attest Mr Teo's earlier argument: the next bride to get married in the liner shipping world will be the one who wants to but not has to, and it'll cost more to marry a willing bride.

Flags flying high

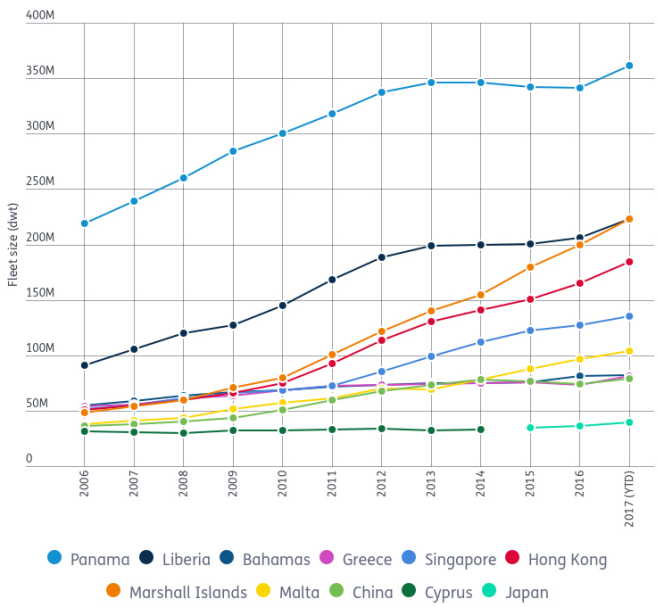
In the age of high regulatory oversight and tight profit margins, just 20 flag states, arguably even 10, are responsible for overseeing the wellbeing of tonnage, seafarers and shipowners around the world and setting the standards for safety at sea.

Using data collected and analysed by Lloyd's List Intelligence, Lloyd's List examined the changing - or rigid - composition of the world's top 20 flag states from 2006 until September 10, 2017 based on dwt and gt. We found that the dominant players enjoy a comfortable, if not insurmountable, cushion from their smaller counterparts, who are faced with a more balanced competitive environment.

The top 20 flag states control 86.7% of all vessels by dwt, but the top 10 alone hold 75.7%.

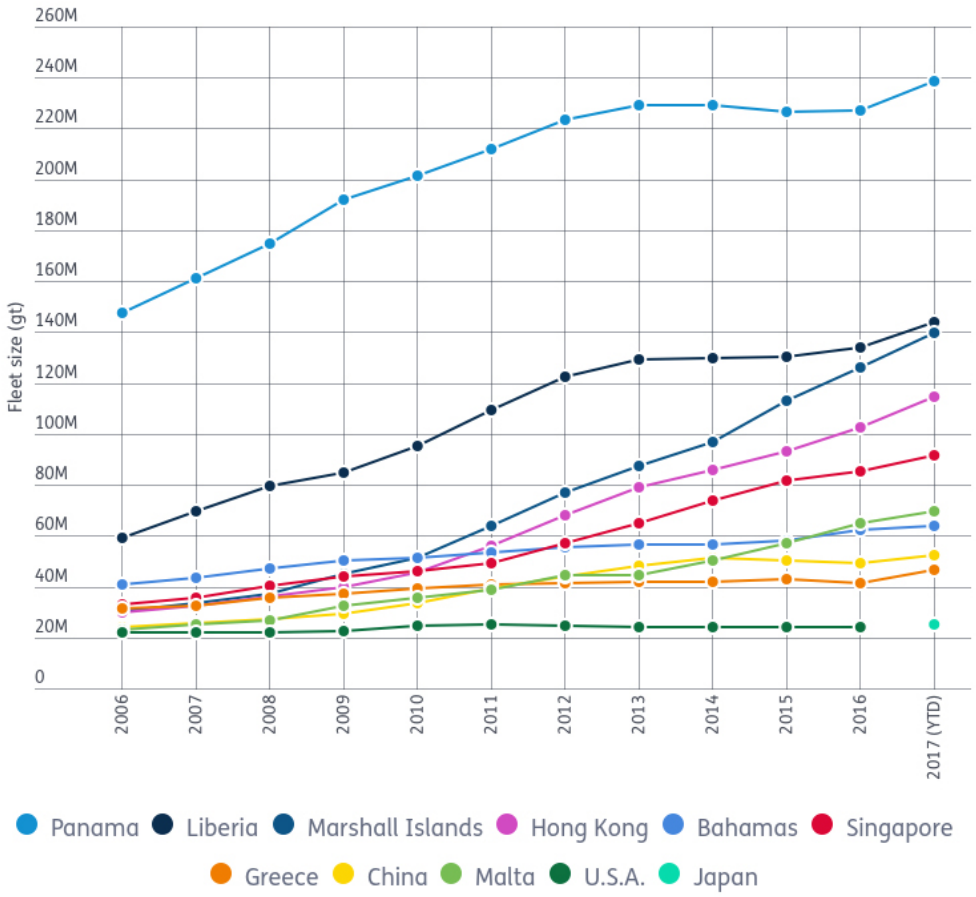
FLEET SIZE OF THE 10 LARGEST FLAG STATES

DWT



FLEET SIZE OF THE 10 LARGEST FLAG STATES

GT



Source:

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South Korean builders call for lower steel price to rival Chinese

South Korea's shipbuilder association has demanded that domestic steel companies lower the price of rear panels, amid rising competition from Chinese shipyards.

"It has become more difficult for the South Korean shipbuilders to compete with Chinese firms that are able to provide a lower price," said Korea Offshore & Shipbuilding Association in a statement released on Thursday.

South Korea's three largest shipbuilders, namely Hyundai Heavy Industries, Daewoo Shipbuilding & Marine Engineering and Samsung Heavy Industries, lost out in August to Shanghai Waigaoqiao Shipbuilding and affiliate Hudong-Zhonghua Shipbuilding on a deal with CMA CGM to build up to nine 22,000 teu containerships.

The association blamed the fact that the South Korean shipbuilders did not have price competitiveness over the Chinese shipyards, adding that the domestic business situation was becoming more difficult due to the rising price of rear panels, coupled with the falling price of ships.

An official at one of the largest steelmakers in South Korea told Lloyd's List that steel companies were currently "reviewing" their plans over the price of rear panels, without providing further comment.

OPINION

Will energy shipping come to an end?

Despite burgeoning headlines about renewable energy and electric vehicles, demand for oil, gas and coal will not disappear in the coming decades

The recent headlines suggesting a global shift to renewables and electric cars have caught the attention of many in shipping.

Several major economies are planning to phase out vehicles running on gasoline and diesel after 2030, while recent studies show consumption of fossil fuel could peak over the next few decades.

However, while it is true that such changes, if realised, would fundamentally alter trade patterns, calling an end to energy shipping remains premature. It is far more likely the world will continue to see significant amounts of seaborne oil, gas and coal trades well into the second half of this of century.

This is not to say shipping can ignore what is happening in the energy landscape. The UK and France aim to switch to all-electric cars by 2040, while India set an even more ambitious goal by 2030.

As China is also studying a timetable to ban fossil fuel-powered cars, gasoline and diesel consumption could face strong headwinds in the next 15-20 years.

That said, it could be misleading to equate demand of auto fuels with that of fossil fuels.

Electric vehicles' batteries need to be charged, and their charging stations could well be connected to power plants that use coal, gas or fuel oil. Hence, renewables are not expected to do it all in the coming decades.

For instance, DNV GL's inaugural Energy Transition Outlook has presented some of the most bullish forecasts on renewable energy lately.

The Norwegian-German class society forecast increased use of solar and wind power due to higher cost competitiveness later in the century and flattening oil demand over the next decade. Still, fossil fuel will account for around half of the total energy mix in 2050.

In Shell's scenarios, oil usage as primary energy will peak after 2030. But gas consumption will rise significantly from current level, while coal demand could remain resilient.

The scenarios show fossil fuel will still make up a healthy majority of the energy mix in 2060, even if demand for renewables continues to expand.

Furthermore, it has never been an easy task to look deeply into the crystal ball for future projections as Shell and DNV GL have done.

Based on past experience, the reality tends to be less favourable to environmentalists than the predictions: just look at carbon trading, which was once expected by some to become the world's largest commodity market.

All that said, shipping should pay heed to dynamics in the power mix. The shift to gas is already happening, and demand for seaborne liquefied natural gas trade will continue to expand rapidly.

Renewables rely on shipping much less than conventional fuels, volume-wise, but there are still requirements for specialised cargo shipping to move wind and solar equipment around.

It is just that fossil fuel shipping, which roughly accounts for over 30% of total shipping demand, seems here to stay.

IN BRIEF

The Alliance establishes $50m rainy day fund

The US Federal Maritime Commission has approved a proposal by members of The Alliance to establish a $50m contingency trust fund. The intention is to use the fund as a first line of defence in case a member falls into financial distress or even becomes insolvent.

The five member carriers of The Alliance - Hapag-Lloyd, K Line, MOL, NYK, and Yang Ming - will each contribute $10m. Of that amount, $1m will be initially paid in cash, followed by a further $9m in additional funds or through a letter of credit.

MPC Container Ships posts first-half loss

Oslo-listed MPC Container Ships has reported a loss of $436,000 for its first set of results as a listed entity, but the company said the loss should be put into perspective as the group was still in a start-up phase of operations, with its first vessels only acquired in April this year.

Parent firm MPC Capital was also hit by weaker results, with first-half earnings at ?3.5m ($4.1m), well down on the ?7.3m seen at the same time last year, thanks to a drop in operating income and lower contributions from associates.

Crowley deploys 18 product vessels to resupply hurricane-hit Florida

Crowley Maritime Corp has deployed 18 of its product vessels to transport gasoline and diesel to major ports in Florida in the wake of Hurricane Irma.

The move by the US shipping company, whose vessels qualify under the Jones Act, will help alleviate fuel shortages in the state caused by the evacuation of millions of people before the hurricane made landfall last weekend.

The vessels are in the process of shipping a total of 2.75m barrels of gasoline and 500,000 barrels of diesel fuel over an eight-day period to major ports in Florida such as Jacksonville, Port Canaveral, Fort Lauderdale, Tampa and Port Everglades.

Oakland gets $1.8m in government grants for port security upgrades

The Port of Oakland is set to receive around $1.8m in US government funding as part of the federal Port Security Grant Programme. The federal funds will go toward enhancing monitoring of large commercial vehicles entering and leaving terminals and building a new emergency operations centre to handle any potential disaster or terrorist incident.

The projects are expected to cost about $2.4m in all, with the government providing 75% of the funding, while port authorities will foot the rest, or about $600,000.

Seadrill gets court approval to continue with business operations amid restructuring

Norway-listed Seadrill has announced that its request for relief in its first-day motions on business operations has been approved by the court in charge of its Chapter 11 bankruptcy protection proceedings. This allows the company to continue paying its workers as per normal, use its cash management system and also pay all suppliers and vendors fully under the standard business terms.

“The company intends to meet its obligations in the ordinary course and expects its operations to continue uninterrupted throughout the reorganisation process,” said the John Fredriksen-linked firm in a statement.

Seadrill filed for prearranged Chapter 11 bankruptcy protection in the US state of Texas last week.

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