Lloyd's List
Maritime intelligence | informa

Daily Briefing
Leading maritime commerce since 1734

LEAD STORY
Winds of change are blowing through the marine insurance market

NEWS
Polaris is about to replace its converted VLOC fleet with newbuilds

Hyundai Heavy faces tough road ahead despite order increase

OPINION
Let's get to the point – industry weeks need to be more concise

MARKETS
Lines are battling to keep ocean freight rates buoyant

NEWS IN BRIEF
Scorpio Tankers has reported larger than expected losses

Teekay Tankers is looking to buy back up to $45m in shares

Sembcorp set to build large compressed gas liquid carriers

Korea's new national shipping group gets a boss

Privately owned Chinese shipyard continues cost-cutting

George Economou has got some good news

Winds of change are blowing through the marine insurance market

THE INTERNATIONAL UNION of Marine Insurance (IUMI) has warned its members, already dealing with another year of declines in marine premiums, to brace for a period of disruption.

The insurance body's annual conference opened in Tokyo on Monday with news that premiums were down 9% last year, dropping to $27.5bn from $30.3bn in 2015.

Part of the deterioration can be attributed to currency effects, most notably the strength of the US dollar, but the sharp decline only reinforces how weak the market remains, after two decades at loss-making levels or breakeven point.

For P&I clubs, premiums were down 5.1%, aggregating $3.32bn, while cargo premiums were down 6% at $15bn.

Difficult market conditions are showing no signs of abating. The outlook for 2017 is for a further overall income in reduction, with major losses expected on account of hurricanes Harvey and Irma, but the consistent themes of overcapacity and a decline in underwriting discipline continue to dog the sector.

A stagnant economy and national protectionism have all been identified as influencers on premium income, but the major impending shake-up identified by IUMI president Dieter Berg is the process of digitalisation.

Internet placing platforms will replace human agents, warned Mr Berg,

who is a senior executive manager with reinsurance giant Munich Re.

Today's young people, the so-called 'millennials', have developed their purchasing habits online. Once their careers progress to the point where they make decisions for their companies' commercial insurance, they will demand convenient and automated purchase, without the intermediation of salespeople, he said.

Moreover, they do not want off-the-shelf products, but rather, customised solutions.
Computerised underwriting would become the norm for non-complex business, and the future would also see digital accounting and automated claims handling, Mr Berg said. Middlemen would gradually be cut out.

"This basically means a change in our business model, we have to be very clear about this," said Mr Berg.

But marine insurers could hold their own by offering expertise, service, and client relationships.

However, the sector would also be challenged to attract and retain talent. "We have to do a good job in selling an old industry," he opined.

Elsewhere in his speech, he also maintained that digitalisation would redefine shipping and logistics, through e-navigation, autonomous shipping, smart port logistics, intelligent containers and the rise of blockchain.

He also highlighted apparent stagnation in global trade growth since 2012, with a weakening global economy, lower investment and less trade.

Many free trade agreements, including the Trans-Atlantic Trade and Investment Partnership, the Trans-Pacific Partnership and the North American Free Trade Agreement, were in jeopardy, and Brexit would also work in a protectionist direction, he said.

NEWS

Polaris is about to replace its converted VLOC fleet with newbuilds

South Korean dry bulk owner Polaris Shipping will replace all the very large ore carriers converted from very large crude carriers by 2020.

An order for 10 new VLOCs is being placed at Korean yards, according to a well-placed source with knowledge of the deal.

The company has been pressured to remove these converted vessels from its fleet following the sinking of the Stellar Daisy in March in which 22 seafarers perished. Although an investigation into the cause of the capsize off the coast of Uruguay is still ongoing, industry sources have pointed to the age of the vessel, stresses caused by the conversion, and fatigue as likely causes.

Polaris will continue some contracts of affreightment with Brazil's mining giant Vale, the source said, with the new vessels likely plying the same Brazil to China route.

Lloyd's List understand that the company has already sold two of its converted VLOCs to a cash buyer for demolition. The 1992-built, 261,310 dwt Stellar Cosmo and 1993-built, 279,022 dwt Stellar Unicorn will be struck from the fleet in two to three weeks' time.

It is a good time for owners to scrap vessels as demolition prices have rocketed to more than $400 per ldt from a bit more than $300 per ldt at the start of the year, according to data sources.

VesselsValue is showing that the Stellar Cosmo has fetched $415 per ldt at an unkown yard, while the Stellar Unicorn has fetched $414 per ldt at a shipbreaker in Bangladesh. The two vessels have been anchored off Labuan in Malaysia for weeks, according to Lloyd's List Intelligence.

Following the Stellar Daisy tragedy, the company announced that it would conduct special checks on its fleet, with a number of vessels found to have cracks and sent for repairs.

Hyundai Heavy faces tough road ahead despite order increase

Hyundai Heavy Industries, the South Korean shipbuilding giant, is still facing strong headwinds despite a sharp increase in new orders this year.

Between January and August, group-wide new shipbuilding and offshore orders stood at $5.1bn, a 125.5% surge compared with the same period last year.

The significant improvement, however, has been achieved against a low base in 2016, when the global shipbuilding industry was at its nadir.

Even assuming an improved order performance in the second half, targets for this year look overly ambitious. The $5.1bn new orders hit so far only represent 62% of its annual target of $8.2bn and orders remain weak.

OPINION

Can Japan three move towards ONE in dry bulk too?

"The purpose of becoming one this time is so none of us become zero," said NYK president Tadaaki Naito when his company announced combining its container shipping business with those of MOL and K Line to form Ocean Network Express, or ONE.

By the time the Big Three Japanese shipping groups made their move to team up in container shipping late last year, CMA CGM had bought Neptune Orient Lines, Hapag-Lloyd was merging with United Arab Shipping Co, and Hanjin had gone bust.

The companies did not indicate any plans to combine other parts of their businesses; all of them also operate dry bulk ships, oil and gas tankers and ro-ro carriers.

But ONE thing can lead to another, and barriers appear to be coming down – albeit quietly. Recently, the three companies teamed up in a consortium to develop a trade data sharing platform using blockchain technology. For companies that used to compete intensely among themselves, sharing of trade data is a big step.

Cost is a major factor behind the move and MOL said as much. "Current trading practices rely heavily on bills of lading and other documents. This creates burdens such as additional time to complete procedures and requires additional labour and costs," it explained.

Teaming up in other areas, such as coal in dry bulk on certain key routes, can lead to significant savings as well as keep them ahead of the pack instead of being a follower.

NYK is already taking steps to cut costs in this segment by reducing ballast voyages by combining cargoes and assigning vessels more efficiently, among other measures, even as K Line points out that while recovery was seen in some parts of the dry bulk market in the medium-sized and small vessel sector, "it will still take some time for improvement in the vessel supply-demand gap".

Combining cargoes and more efficiently assigning vessels may possibly be applied across the three operators as well, especially as the key supplier of coal to Japan is Australia.

Japan is a major coal importer for electricity generation, with buying totalling around 110m tonnes a year, or about 10% of total seaborne trade in that commodity. Much of that is on annual contracts between key power companies such as Tokyo Electric Power and Tohoku Electric Power, with major producers such as Glencore, and shipped mostly from Newcastle in Australia.

While some may argue that co-operation may be more complicated compared to cargoes boxed inside containers, as coal comes in several grades, the bulk of coal sold by Australia to Japan is a single grade — the 6,000 kcal/kg net as received (NAR) grade — and shipped in the bigger vessels. The slightly lower 5,500 kcal/kg NAR coal mostly goes to China and sometimes India, for which the freight costs compare favourably with traditional supplier South Africa.

Similarly, for iron ore, Japanese steel makers such as Nippon Steel and Sumitomo Metal purchase the commodity from producers such as Rio Tinto exported from a few ports, including Dampier and Port

Hedland, in Western Australia.

Beside the potential savings in combining dry bulk cargoes on these routes, the scale that the combination of NYK, MOL and K Line brings can give them stronger bargaining power in negotiating shipping rates with the producers as well as buyers of these raw materials. This is especially so as MOL and K Line decided to reduce their dry bulk exposure last year when the sector was in the doldrums.

The dry bulk market is recovering, and the traditionally strong fourth quarter demand is putting a smile on the faces of market players currently. But it is a volatile market and in the longer term, scale and a strong balance sheet, with the help of robust cost control, will help operators ride downturns.

Let's get to the point – industry weeks need to be more concise

It's not possible to do full justice to the mega trends of low-sulphur fuels, cyber security, autonomous shipping, digital disruption, and seafarer reskilling all in four days, but cutting the puff would be a good way to start clawing back some much-needed space for the important discussions, argues our chief correspondent Richard Clayton.

Next time we need to get closer to the TED Talks premise that you can say as much in 18 minutes as you can in an hour. Shorter and sharper next time please!

MARKETS

Lines are battling to keep ocean freight rates buoyant

Golden Week usually prompts a surge in demand ahead of manufacturers reducing production runs or closing factories during the holiday period, but the composite index of Drewry's World Container Index fell 2% last week, its sixth straight week of decline.

The index is now down by 5% compared with the same period in 2016 thanks in part to the Chinese government's crackdown on polluting factories which has led to significant closures. Lines are trying to balance supply and demand as much as possible with blank sailings now one of the strategies being used to remain on top.

NEWS IN BRIEF

Scorpio Tankers has reported larger than expected losses

The world's largest product tanker owner Scorpio Tankers continued its slide into the doldrums in the second quarter as lower spot market fleet earnings hit the bottom line.

The mega merger with Navig8 may have only just been finalised on September 4, but industry insiders have already warned that scale alone may not save the tanker sector.

Teekay Tankers is looking to buy back up to $45m in shares

Teekay Tankers will buy back up to $45m in shares from the open market in an attempt to increase shareholder value during a period of softer tanker rates.

The move comes on the back of weak second-quarter results on low spot rates and smaller fleet

The New York company hopes its merger with Tanker Investments, bringing another 18 vessels to the fleet, will help reverse its fortunes.

Sembcorp set to build large compressed gas liquid carriers

Houston-based SeaOne Caribbean could contract with Singapore's ailing Sembcorp Marine for at least two large compressed gas liquid carriers to service the US and South America. The innovative design would allow the vessels to transport gas and gas liquids together as a single cargo to save time and cost.

In July the shipbuilder imposed a wage freeze as profits fells 32% amid a persistently weak newbuilding market.

Korea's new national shipping group gets a boss

Sinokor Merchant Marine chief executive Jung Tae-soon will lead the group, tasked with bringing the country's fragmented industry together, for two years. It is hoped the grouping will make its 14 members more competitive amid an increasingly tough global market.

Privately owned Chinese shipyard continues cost-cutting

Yangzijiang Shipbuilding has sold off a logistics warehousing unit as part of its disposal programme of non-core assets. The group is one of the relatively successful privately owned shipyards in China, having weathered the prolonged industry slump through cost reductions and aggressive newbuilding orders.

George Economou has got some good news

A Cayman Islands court has given George Economou's offshore services company's debt restructuring plans the green light. The company reckons only its financial debt would be affected, with business operations to continue as normal and with trade creditors and vendors continuing to receive payments.

For classified notices please view the next page.

Lloyd's List

Global Awards | 2017

Maritime intelligence | informa

BOOK YOUR TABLE

Will you be in the room when we announce the best of the Global Maritime industry?

Book your table now and join us on 27 September to celebrate the achievements made in the global maritime community over the last 12 months.

Be a part of the most prestigious maritime event in the UK calendar:

- Join in the conversation as we provide the most targeted networking opportunity in the shipping industry.
- Find out first hand who will be proclaimed the high flyers and rising stars of the maritime industry for 2017.
- Be front and centre in case your team are called up as a winner for our 2017 awards.

Visit our website to book your table:

lloydslistawards-global.com/book

CONTACT OUR TEAM

Raff Fernandes

Raffael.Fernandes@informa.com

+44 (0)20 337 73510

Sponsored by

ClassNK

DP WORLD

HUTCHISON PORTS