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Maersk keeps it in the family with $1.2bn tanker deal

ROBERT UGGLA, ONE of the central figures behind the huge shake-up that is transforming Maersk Group, says Maersk Tankers should benefit from a simplified ownership structure and fully-focused board of directors.

AP Moller-Maersk is selling the tanker business to its majority shareholder AP Moller Holding for $1.17m in a deal that continues the strategic split of Maersk's energy-related activities to leave Maersk focused on container shipping and logistics.

"The ownership change does not imply a change of management or strategy," Mr Uggla told Lloyd's List in an exclusive interview following the announcement of the deal on Wednesday.

Despite playing a central role in the break-up of the Maersk group, the deal highlight's Mr Uggla's determination to stay invested in the business.

"We have been the ultimate parent company for many years. And we have the same values and philosophy," said Mr Uggla, who is chief executive of AP Moller Holding, the investment arm of the AP Moller Foundation.

The new set-up creates a more agile management structure for all the very different business activities, but for those in Maersk Tankers, there may be little visible change.

Rather than being part of the same conglomerate as Maersk Line, APM Terminals and Damco, where there are few synergies with the oil trades, Maersk Tankers will in future have a separate board of

directors "who will be able to spend 100% of their time" addressing the challenges and opportunities faced by the product tanker specialist, said Mr Uggla.

Mr Uggla said he kept an arm's length distance from the Maersk Tankers sale process, and was not involved in the decision to accept AP Moller Holding's offer.

Neither was he aware of what other bids may have been received.

However, he said Maersk Tankers fitted well with AP Moller Holding's strategy of building up a diverse portfolio of businesses that already includes Danske Bank, a recently formed infrastructure fund, and now Maersk Tankers.

Mr Uggla said the goal now was to invest in new businesses that would enable AP Moller Holding to ride out industry cycles, and secure a good financial return. But whether that would include more shipping assets was too soon to say, he continued, given that the whole group is in the middle of such a major strategic overhaul.

In the past, the AP Moller-Maersk group, which was built up by Mr Uggla's grandfather Maersk Mc-Kinney Moller, has owned very large crude carriers, bulkers, and even an airline.

The plan now is for AP Moller-Maersk, in which AP Moller Holding is the majority shareholder, to concentrate on transport and logistics, without the distraction of unrelated energy activities.

Maersk Tankers has lost money in three of the past six years, with losses ballooning to $483m in the second quarter of 2017 largely because of impairment charges.

Mr Uggla said he did not expect Maersk Tankers, which operates a fleet of 161 product tankers, to see this transfer of ownership as a major change.
But the big positive development will be a dedicated board that can focus fully on Maersk Tankers, he said.

NEWS

Korean yards knocked by Chinese price in Vale's newbuild project

South Korean shipyards seem reluctant to join in with Vale's latest ordering of very large ore carriers, amid a fierce price war being fought by their Chinese peers.

The Brazilian mining giant is in talks with several South Korean and Chinese shipowners about long-term contracts of affreightment for a string of new very large ore carriers, according to industry sources familiar with the matter.

Ten of those are said to be going to Polaris, one of the Korean owners. But when approached by Lloyd's List on Tuesday, a Polaris official confirmed a local news report that the company had given up its plan to order seven VLOC newbuildings at Hyundai Samho Heavy Industries, without specifying the reasons.

The confirmation was later denied by a Polaris spokesman, who claimed the COA and order discussion remained on the table, but the number of newbuildings were not decided yet.

He added that the company would still order at Korean yards, if the deal materialised, in an effort to better conduct safety management.

Lloyd's List understands that Korean builders are unwilling to accept low prices offered by the owners, when facing strong competition from the Chinese yards.

CMA CGM 22,000 teu newbuilds are worth $1.5bn

Newbuilding contracts for up to nine 22,000 teu containerships signed between CMA CGM and two China State Shipbuilding Corp shipyards on Tuesday are worth nearly Yuan10bn ($1.5bn), according to the vessel designer.

No more details have been disclosed, but the price tag suggests the shipowner might have opted for a gas-fuelled engine system, which would push the vessel prices to about $160m apiece. In comparison, the price for a ship equipped with a conventional power system with scrubber can go as low as $135m.

"The signing of the order shows China has made a significant leap from a follower to a leader in the high-end marine engineering sector," said Marine Design & Research Institute of China (Maric), in a press release on Wednesday.

Risky shipping will remain part of HSH Nordbank's DNA

HSH Nordbank is likely to maintain shipping as its core business even as it seeks buyers, said the company's managing director and global head of shipping, Christian Nieswandt, at the Marine Money Asia conference in Singapore.

He said that shipping assets remained the bank's most profitable business, albeit risky, in the current climate. When comparing all the key indicators for the bank's new business, shipping was still the most lucrative part. "Shipping has always been an important part of the core bank, and shipping will continue to be part of the core bank. Shipping is the DNA of the bank," he said. The core bank has roughly €6bn ($7.2bn) in exposure to shipping assets.

Tanker markets may not recover until 2019-2020

Tanker markets are unlikely to see any significant recovery until 2019 or 2020 as new vessels continue to be delivered and demolition levels remain low, according to panellists at the Marine Money conference in Singapore.

"The real ramp-up of the chemical business is supposedly projected for 2019-2020 when all the industrial projects come online in the Middle East and the US Gulf," Aurora Tankers' head Kenny Rogers said.

He said the US was clearly moving ahead as a major petrochemical producer on the back of shale gas, where billions of dollars of investment had been made, and there was a lot of optimism supported by facts. Additionally, stronger demand should soak up the MR tankers that have been impacting the chemical business. "There will definitely be an improvement in the chemical side," Mr Rogers added.

China's National Congress will shut down Yangtze ports for 18 days next month

China's forthcoming National Congress meeting will effectively shut down Yangtze River Delta ports for 18 days next month.

Jiangsu Martime Safety Administration has announced temporary restrictions on all shipments from ports along the Yangtze River while all loading and berthing operations will be suspended from October 11 until October 28.

The week-long 19th National Congress meeting, which is held only twice a decade, is expected to see Chinese president Xi Jinping consolidate his position and be re-elected for another five years or even longer.

The major worry for vessels operating in the region is that the suspension of port operations will take place immediately after China's Golden Week holidays, which will end on October 8. Traditionally, the holiday period in China leads to limited shipping activity as major Chinese charterers drop out of the market for a week. However, the shipping market will then return to life once the holidays end mainly due to restocking activities.

The main ports operating in the Yangtze River Economic Zone include Port of Shanghai, Port of Ningbo and Port of Nanjing.

OPINION

Profitable marine insurance? That's so last century

Those of you getting sick and tired of the extended downturn that has dominated shipping since 2009 should spare a thought for our first cousins in the marine insurance sector.

You know, the guys who pick up most of the risk for what you do, right? They have not made money for the past two decades, and sooner or later, their bosses are going to be asking them why not.

Here at the International Union of Marine Insurance conference in Tokyo, leading lights in the niche have even taken to using expressions like 'perpetual soft market'.

Monday's presentation from the facts and figures committee, one of the annual highlights of the event, revealed that global marine premiums declined by 9% in 2016. But hey, look on the bright side. That is still a full percentage point better than the 10% drop seen in 2015.

Things have pretty much been this way since I first attended the gathering in 2014, and as the search function on the Lloyd's List website reveals, each of my three predecessors has filed variations on this theme too.

There are individual winners, as IUMI attendees explain during the coffee breaks. With skilful underwriting, and sheer luck in avoiding major casualties, it is possible to turn a penny.

But the fact remains that marine insurers, considered collectively, lose money year in, year out. What is more, the malaise prevails irrespective of the rollercoaster fortunes of the vessels these people cover. However insane the boom, however miserable the slump, the sector is out of pocket.

Platform speakers offered partial explanations ranging from the strong dollar to the recent sharp decline in vessel values, both of which are negatives from IUMI's perspective.

But the root of problem is what insurers refer to as 'overcapacity', broadly analogous to overtonnaging. Put simply, marine insurance supply vastly exceeds marine insurance demand.

The chances are you are not complaining about this and are happily taking advantage of the rock-bottom rates on offer. But remember, marine insurance remains a for-profit business in principle, even if not in practice.

Moreover, it is often a mere component of larger insurance entities. The longer marine continues to look unattractive compared to other lines, the harder it becomes to justify participation to the suits.

Interestingly, this is not a reality that anyone has addressed from the podium, other than perhaps in general terms. Micawberism still rules the day; certainly, I have not heard anybody advance revolutionary proposals to rectify matters.

But in the same way as the very concept of a perpetual motion machine violates the first law of thermodynamics, so does the notion of a perpetual soft market. If something cannot go on forever ... it won't.

MARKETS

Aframax freight rates get a boost on Asia and Europe oil routes

Average aframax earnings on the Baltic Exchange have increased further on healthy vessel demand in Asia and northern Europe, having been boosted by hurricanes-induced delays in the US Gulf. Rates on the Southeast Asia to east coast of Australia trade have doubled on week.

Grains bolster panamax bulker earnings

Panamax bulker earnings continued to reach ever-higher numbers this week as tonnage tightness combined with increasing volumes of cargo supported the rate rises.

Both basins were behind the increases, with strong grain activity especially from the east coast of South America and the US Gulf. In the Pacific, Australian round voyages were reported to be seeing a healthy amount of cargo, the brokerage said in a note, while Indonesia to China voyages also drew a rise in flows.

Intermodal meanwhile saw good demand also from northern Europe, which helped to keep the momentum up.

NEWS IN BRIEF

Imabari calls foul on unfair shipbuilding market

Japan's Imabari Shipbuilding has completed construction of its ¥50bn ($360m) new dry dock, but the management is already concerned that government-backed competition from South Korea and China will limit the return on the investment.

Imabari president Yukito Higaki told reporters that he was not sure whether the company would be able to win contracts amid intense competition, stating that the shipbuilding market continued to be an uneven playing field. "It is undeniable that Chinese and South Korean shipbuilders have the upper hand over us in sales talks thanks to assistance from their governments. I think it is not a fair game," said Mr Higaki.

Fujairah service business to take on established Gulf region competitors

Fujairah National Shipping, the United Arab Emirates-based maritime service business, is building a virtual network of partners in an ambitious bid to challenge its rivals in the region. "Our aim is to become a one-stop shop for our clients," FNS chief executive Sanjeev Sarin told Lloyd's List.

With support from Fujairah National Group, investment will be made in ship agency, husbandry, vessel management, forwarding, offshore support, crew management, and other services.

Ocean Rig announces 1-for-9,200 reverse stock split

Nasdaq-listed Ocean Rig has announced plans to conduct a 1-for-9,200 reverse stock split likely to support its share price. Reverse stock splits are a common strategy for companies seeking to raise their share prices, mainly to meet minimum closing price listing regulations.

The move is part of the company's debt restructuring scheme, which is awaiting recognition from US bankruptcy courts and, as it warned in its filing to the US Securities Exchange Commission, will cause significant dilution to its shares.

LNG could be cheaper than other compliant fuels by 2020

Liquefied natural gas is the most frequent choice for newbuildings to meet the 0.5% sulphur cap that will come into effect in 2020, according to Winterthur Gas & Diesel president Rolf Stiefel.

Speaking at the Marine Money conference in Singapore this week, Mr Stiefel described LNG as the "number one choice for future-proof newbuildings", arguing that the cost of using it would be more competitive compared with other fuels. The price of compliant low-sulphur fuel is expected to increase by $200-$400 per tonne to $500-$700 per tonne, more expensive than the $230-$466 per tonne estimated for LNG, he said.

Decarbonisation coalition heading to the UN

A shipping coalition will be heading to the UN in November to develop a decarbonisation action plan, further increasing the pressure on the International Maritime Organization to deliver an acceptable strategy for greenhouse gas emissions reductions.

The session, organised by a number of bodies, such as Lloyd's Register, Danish Shipping and RightShip, will focus on how shipping can decarbonise and contribute fairly to the Paris Agreement's 1.5 degree target. The meeting will take place during the 23rd session of the Conference of the Parties to the UN Convention on Climate Change on November 13, 2017.

Further boxship consolidation to make alliances less relevant

The value of alliances is likely to gradually fade away as shipping corporations become larger through merger and acquisition activity. Consolidation will result in companies with the scale and capacity to take a big chunk of market share without having to rely on vessel sharing agreements, said McKinsey partner Steve Saxon, speaking at the Marine Money Asia conference in Singapore.

This could possibly lead to new forms of alliances such as bilateral ones, he added.

With more consolidation to follow in the days ahead, Mr Saxon believes there will eventually be only three to four major container shipping lines left in the sector.

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