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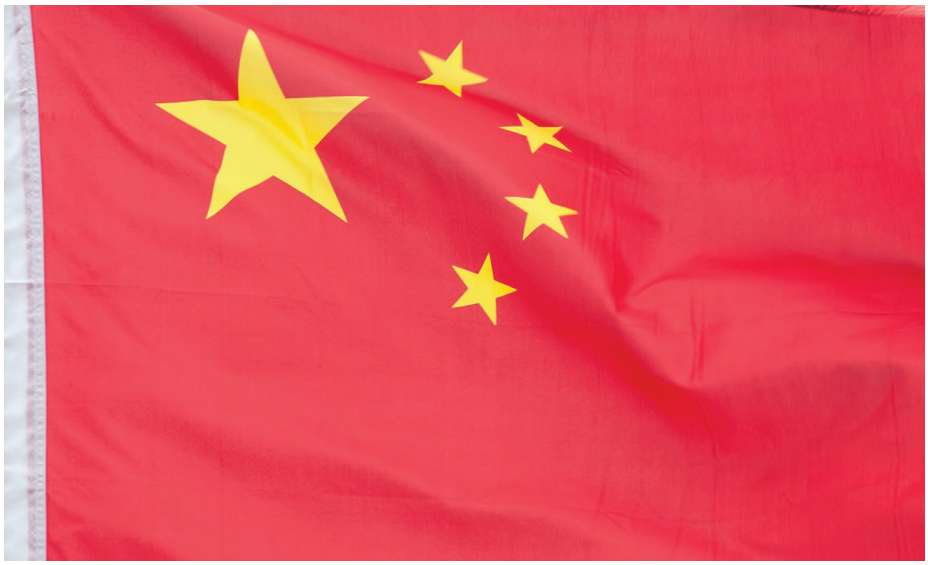
China's overseas ambitions disrupting hydrocarbon trade flows



CHINA'S increasingly aggressive overseas investments in energy assets, including ports and refineries, will be the new drivers of hydrocarbon trade flows, senior executives of trading majors claimed on Monday at the FT Commodities Summit in Singapore.

For decades, oil and gas trade routes have been driven by the Chinese economic boom. But lately, Chinese companies have been implementing president Xi Jinping's Belt and Road Strategy to invest in overseas assets.

In early September, a relatively unknown Chinese conglomerate, CEFC China Energy, bought a 14.16% stake in Russian oil major Rosneft for $9.1bn from a consortium of Glencore and the Qatar Investment Authority.

The deal, which made CEFC into Rosneft's third-largest shareholder, was unusual because of the company's links to the Chinese People's Liberation Army and because big-ticket investments are usually the forté of state-run corporations.

Such deals are expected to transform commodity trade flows.

Janet Kong, the head of BP's Integrated Supply & Trading for the Eastern Hemisphere, said: "Trade flow changes in our view have already begun." She said many changes in trade flows were in response to fundamental changes in demand and supply but that geopolitics played a role as well. CEFC's investment in Rosneft was the beginning

of something broader in the oil space in terms of trading and supply optimisation.

Another example of China's Belt and Road initiative has been the oil pipeline that starts from Myanmar, bypasses the Strait of Malacca, and sends oil directly to a remote part of China.

Ms Kong said: "They are doing everything they can to disrupt or change a well-established trading pattern or trading route. They can do more with financial might and political influence. What we can do as a business is to anticipate and position for these changes."

Trafigura's Asia Pacific chief executive Chin Hwee Tan said a reduced involvement by the US in the Asia-Pacific region had created a vacuum that needed to be filled, and China is naturally filling up that vacuum.

Mr Tan said that Trafigura had positioned itself to benefit from trade-flow changes to Myanmar and deployed a similar strategy in emerging markets such as Bangladesh and Pakistan.

Trafigura itself has been growing its Asian presence with a stake in one of India's largest private refineries earlier this year and the opening of Myanmar's largest petroleum product importing terminal.

Even exchanges and financial derivatives have not been spared the Chinese onslaught.

The centre of gravity for commodity price formation is still shifting to Asia and China's role in price discovery in global commodity markets cannot be ignored, Singapore Exchange chief executive Loh Boon Chye said.

Mr Boon Chye said: "It is impossible to ignore the role China has played in global commodities markets in recent years, as the world's largest importer and consumer of most commodity products."

He added that this influence was set to grow further with China's Belt and Road Initiative.

In 2016, SGX acquired the iconic Baltic Exchange with the object of leveraging on the institution's benchmark shipping indices and integrating them with its own offerings to strengthen its position in commodity markets.

SGX's landmark deal was preceded by the Hong Kong Exchange's acquisition of the London Metal Exchange for $2.16 billion in 2012. Chinese commodity exchanges in Dalian, Shenzhen and Qingdao have in turn been piling up record trading volumes.

Mr Boon Chye said the Baltic acquisition gave SGX the opportunity to integrate the risk management of cargo and freight, and link the two liquidity pools together.

"SGX and Baltic is essentially a combination of dry bulk and freight," he said.
"Cargo prices are not traded in isolation."

NEWS

Shipowners slammed for lack of environmental ambition

SHIPOWNER-backed proposals to reduce greenhouse gas emissions lack ambition and are representative of an industry trying to kick the can down the road when it comes to carbon reduction, according to two prominent environmental lobby groups.

The Carbon War Room and the Clean Shipping Coalition argue that the recent proposal put forward to the International Maritime Organization by shipowner bodies the International Chamber of Shipping, BIMCO, Intercargo and Intertanko lacks the necessary ambition to meaningfully cut down emissions.

The industry proposal, due to be considered by an IMO meeting next month, puts forward ambitious but non-binding commitments for emissions reductions to be part of the IMO's initial GHG emissions reduction strategy, which is set to be adopted in April 2018.

According to the Clean Shipping Coalition, the proposals do not go far enough and should include

hard targets based on a shipping carbon budget of 33 giga tonnes until 2100, a figure derived by a 2016 study commissioned by Danish Shipping.

Carbon War Room senior associate James Mitchell argues that the shipowner-backed proposal is kicking the problem down the road. He warned that it would hinder the necessary technological innovation to decarbonise the industry.

Yard Talk | LNG may be a saviour for Korean and Singaporean players

THE booming trades of liquefied natural gas globally will bring many new contracts to shipyards — but not everyone can benefit. While Singaporean and South Korean yard majors are well positioned to enjoy the ride with their offshore shipbuilding capacity, most Chinese players could lose out.

With only a limited number of shipbuilders deemed competitive in these fields, prices wars like those seen in oil, container and dry bulk shipping are unlikely.
Take LNG tankers, the most commoditised ship type among them, for example.

South Korea's Hyundai Heavy Industries, Samsung Heavy Industries and Daewoo Shipbuilding & Marine Engineering — the so-called Big Three — together account for 60% of the global orderbook of 124 vessels, according to Clarksons data, while Japanese yards have around 30%. Nearly all of the remainder belongs to Hudong-Zhonghua, the only Chinese yard capable of winning orders to build large-sized LNG tankers.

The technology barrier may have kept almost all Chinese yards from entering this segment. "Due partly to high capital costs, LNG vessels typically operate at relatively high speeds," JP Morgan said in a research note.

"This, in turn, leads to higher fuel consumption, and as a result, LNG vessels are usually at the forefront of technological development," said the bank, suggesting those capable of fuel-efficient design of engines are more competitive in winning orders.

The current recovery of LNG shipping rates is likely to lead to more newbuilding demand, which would be positive for the yards. Lloyd's List Intelligence's Shipbuilding Outlook forecast 158 LNG tanker orders in 2018-2021, compared with 40 in 2016 and 30 in 2017.

Still, the competition between the Big Three and Japanese yards, coupled with lacklustre demand for other types of merchant ships, have led to falling newbuilding price. Clarksons estimates that a dual-fuel diesel electric ship of 160,000 cu m can now be built for $179m, the lowest in at least 10 years, which pressures production margins.

The areas where shipyards can really hold their margins are likely in the offshore segments of floating LNG liquefaction (FLNG) units and floating storage and regasification units (FSRUs). So far, the Big Three have dominated the newbuilding markets for those projects, while Singapore's Keppel and SembMarine have taken the conversion orders. They don't need to engage in fierce price competition in such a market structure.

Cosco Shipping Energy gets $54m scrap and build subsidy

CHINA-based Cosco Shipping Energy Transportation announced that it has received roughly Yuan355m ($53.7m) in subsidies from the Chinese government to help its fleet's renewal strategy.

The subsidies come under the government's scrap-and-build policy which was introduced in December 2013.

The policy was introduced to encourage shipowners — through a two-tranche subsidy — to demolish their vessels ahead of the operational expiry date, and to replace them with more modern energy-efficient vessels.

The subsidies have since helped a number of state-owned shipping firms, badly affected by the global shipping recession, to move back into the black and have also sped up the pace of vessel recycling in China.

China's shipbuilders had been hit hard by the global shipping slump and the government has been trying to make sure that these companies that are big employers do not all go bust.

The scheme is set to end by the end of December after getting a two-year extension.

A well-placed industry source told Lloyd's List that the Chinese government was considering a further extension of the policy until 2020 if the global shipping slump continues.

Golden Ocean to offload six ultramaxes for $143m

JOHN Fredriksen-linked Golden Ocean Group has signed deals to offload six of its ultramax dry bulk carriers for a total of $142.5m.

The six vessels were all constructed at China's Chengxi shipyard between 2015 and 2017 and are scheduled to be delivered to the buyer over the fourth quarter of 2017.

The group intends to use $39.2m of the sale price to pay off related debt, leaving slightly over $100m in net cash proceeds.

A source close to Scorpio Bulkers confirmed to Lloyd's List that the Emanuele Lauro-headed company is the buyer. In a formal statement, Scorpio said it would buy six ultramax vessels with cash and debt facilities, without naming the seller.

In a separate transaction, Golden Ocean will take delivery of a capesize newbuilding being built at New Times Shipbuilding's yard earlier than scheduled within the month.

MARKETS

Handysize earnings hit highest level since April 2014

Average earnings of handysize bulkers on the Baltic Exchange have reached the highest in three years on firm demand in the Americas and reduced supply in the Pacific. But supply-side worries remain with continued deliveries of newbuildings.

Container shipping 'remains competitive in most East-West trades'

Recent mergers and acquisitions will push the Asia-Europe trades from "competitive" to "moderately concentrated", with other east-west trades moving in the same direction, according to Drewry's latest outlook.

When all the recent container M&A activity has played out there will, in effect, be only seven major carriers with global scope and market shares above 5%. The "move towards liner oligopoly" is one of the main reasons why Drewry is more bullish on the chances of sustained carrier profitability.

ANALYSIS

Are Korean yards really blacklisting bothersome workers?

A BLACKLIST is circulating in South Korea's shipbuilding industry, preventing "trouble making" employees from getting a job, according to a Seoul-based labour union.

While there is general consensus that such list should not be compiled, some industry participants said that employers' interests should be respected in the hiring process, especially as many of them were going through a difficult time.

In a recent survey conducted by the Korean Metal Workers' Union, 44.41% of respondents said they believed there was a blacklist within the industry, while 47.67% said either they or their co-workers had been treated unfairly as a result of having their names on the alleged list.

NEWS IN BRIEF

China restricts oil product exports to North Korea

CHINA has decided to curb exports of refined oil products and ban the sale of condensate and liquefied natural gas to North Korea, in line with the UN Security Council's fresh sanctions on Pyongyang.

All condensate and LNG shipments to North Korea are being banned as of last Saturday, while refined petroleum product imports will be restricted from October 1 as part of the move to implement UN Security Council resolution 2375. As North Korea's main supplier of oil products, China reportedly exports 6,000 barrels per day to its northern neighbour.

Taiwan Navigation firms up $51m ultramax order

TAIWAN Navigation Co has firmed up a newbuilding order for two 62,000 dwt dry bulk carriers from Japan's Oshima Shipbuilding. The Taipei-listed owner signed the contract, worth $51m in total or $25.5m apiece, with the yard in conjunction with the Japanese trading giant Sumitomo Corporation.

SIPG issues guarantee for $666m loans for OOIL acquisition

SHANGHAI International Port Group has agreed to provide a guarantee for loans of up to HK$5.2bn ($665.6m), which will be used to meet the fund demand for acquiring a stake in Orient Overseas International Limited.

SIPG has been active in fundraising in recent months, amid continuing efforts in growing its business. In August, it issued $1bn in convertible bonds in Hong Kong, marking the state-owned port giant's largest ever overseas bond issuance. SIPG president Yan Jun told Lloyd's List in a recent interview that it was possible the company would acquire foreign assets again, including ports.

HMM introduces new logo on its containers

SOUTH Korea's Hyundai Merchant Marine has introduced a new logo for its containers in a bid to enhance the company's brand worldwide. The company will start to use the 'HMM' logo on its containers instead of the previous 'Hyundai' branding.

HMM, once an affiliate of South Korea's Hyundai Group, is no longer obligated to stick with the name 'Hyundai' as the group had last year lost its largest shareholder position to Korea Development Bank which took over to save the shipping giant. KDB currently controls 13.13% of HMM shares, while Korea Shipping and Maritime Transportation holds a 7.2% stake.

Diana Containerships to make another reverse stock split

NASDAQ-listed Diana Containerships has announced that another reverse stock split is likely as it attempts to meet listing requirements. The one-for-three reverse stock split will see the company's 3.2m outstanding shares reduced to 1.1m when it comes into effect on Monday at the start of the New York trading day, without any change to the oar value of $0.01 per share.

In August the company had announced a one-for-seven reverse stock split following the receipt of a notice from Nasdaq at the end of July, warning that it did not adhere to continued listing requirements. Reverse

stock splits are a common strategy for companies to boost their share prices to meet continued listing requirements.

Ahead of its announced emergence from debt restructuring proceedings, George Economou-led Ocean Rig announced a massive one-for-9,200 reverse share split to boost its share price.

ICTSI buys 35% stake in Manila port operator

INTERNATIONAL Container Terminal Services has signed a share purchase agreement to acquire a 34.8% shareholding in Manila North Harbour Port from Petron Corporation as it seeks to further improve shareholder returns. Under the agreement, the company will buy 10,449,000 shares of MNHP from the national oil company for Peso1.75bn ($34.6m) in cash that will be paid by October 30 which is the closing date for the transaction.

Kandla port jetty blaze kills one

KANDLA port in Gujarat, India, is likely to suspend activities for a month after a serious fire broke out over the weekend, killing one worker. According to port agents, the fire broke out during the transfer of toluene from a chemical tanker, the 2010-built, 23,299 cu m Straum, berthed at Kandla oil jetty number 2 on Sunday. The incident hit the main junction of the port where all the pipelines from all the five berths in Kandla port converge and then split off into various shore tank terminals.

For classified notices please view the next page.

POOMPUHAR SHIPPING CORPORATION LIMITED

692, Anna Salai, IV Floor, Nandanam, Chennai - 600 035, India
Telephone No: 044-24330505 / 807 Fax: 91-44-24344593,
E-mail : pscship@dataone.in / pscship@gmail.com

GLOBAL TENDER

NOTICE INVITING TENDER FOR TIME CHARTERING OF FOUR NOS SELF-TRIMMING PANAMAX GEARLESS/ GEARED (OFFERED AS GEARLESS) BULK CARRIERS *AND/OR* CHSU BULK CARRIERS OF ABOUT 65000 TO 78000 DWT.

Sealed tenders are invited from the owners/disponent owners of Indian/Foreign flag vessels or through their authorized brokers for spot/long term time chartering of four nos Panamax gearless/geared (offered as gearless) Bulk carriers *and/or* Craned Hopper Self Unloader (CHSU) vessels for coastal transportation of thermal coal, on account of TANGEDCO as per the details furnished below:

(A) TENDER NO.H/OP/LTGV/182/003/17-18 and/or
TENDER No. H/OP/LT SU/182/003/17-18/ (9m + 3m Ch +/- 1m ch)

Lay days - 10.10.2017 to 25.10.2017	- Two vessels
Last date for issue of Tender book	- 04.10.2017 upto 12:00 hours
Tender box to be closed at	- 04.10.2017 at 15:00 hours
Tender box to be opened at	- 04.10.2017 at 15:30 hours

(B) TENDER NO.H/OP/LTGV/182/003/17-18 and/or
TENDER No. H/OP/LT SU/182/003/17-18/ (9m + 3m Ch +/- 1m ch)

Lay days - 25.10.2017 to 10.11.2017	- Two vessels
Last date for issue of Tender book	- 20.10.2017 upto 12:00 hours
Tender box to be closed at	- 20.10.2017 at 15:00 hours
Tender box to be opened at	- 20.10.2017 at 15:30 hours

EMD	- Rs. 10 Lakhs - For Indian flag vessels
	- USD 17,000 - For Foreign flag vessels
Cost of tender document	- Rs. 5,000/- each (Indian Flag)
	- USD 100 each (Foreign Flag)

Separate Tender documents for (A) and (B) for time chartering of vessels are available in our website from 25.09.2017 & the same may be downloaded from our website : www.tamilship.com/www.tntenders.gov.in at free of cost.

For more details visit our website www.tamilship.com / www.tntenders.gov.in

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Raff Fernandes
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