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UK joins US-led mission to protect Strait of Hormuz

THE UK WILL join a US-led international maritime security mission in the Middle East Gulf that the Ministry of Defence said will restore and protect freedom of navigation through the Strait of Hormuz.

The Royal Navy will command one of the task groups, but with the US leading the mission.

British foreign secretary Dominic Raab said the latest move did not represent a change in approach to Iran and Britain remained committed to maintaining the 2015 nuclear deal agreed with Tehran in return for an easing of sanctions. However, the joint military co-operation further aligns the UK with the US on foreign policy, and the Trump administration's 'maximum pressure' campaign on Iran.

The mission further sidelines plans for a standalone Europe-led coalition, first promoted by the then UK foreign secretary Jeremy Hunt on July 22 before a change of prime minister last month.

Mr Hunt's successor, Mr Raab, has asked other countries to join but none have yet confirmed any detailed commitments. Germany has already declined to join a US-led coalition.

Britain currently has deployed a destroyer, *HMS Duncan*, and a frigate, *HMS Montrose*, to the Gulf and they will operate with two US cruiser destroyers, but the operational scope of the mission remains unclear. The naval assets will "accompany" groups of two to three ships as they transit through the strait. The two Royal Navy ships would be used primarily to protect UK-flagged ships, but it is understood they may also accompany other vessel if there is spare capacity.

Iran has seized three vessels in the past four weeks, including the Stena Group-owned medium range tanker *Stena Impero* on July 19 in retaliation for the impounding of the Iran-controlled very large crude carrier *Grace 1* on July 4 in waters off Gibraltar. *Stena Impero* and its 23 crew remain stranded off the port of Bandar Abbas. The capture of the most recent ship by Iranian Revolutionary Guard Corps, on Sunday, cannot be verified by the US Fifth Fleet. The other, a small bunker tanker, taken last month, also accused of smuggling, has not been released.

UK government security officials are now far more aligned with the US administration's risk assessment of the Middle East Gulf and the UK also shares the US view that Iran was responsible for the attacks on tankers off the coast of Fujairah in mid-May, and two other ships off the Gulf of Oman a month later.

Aside from Saudi Arabia, Arab states have been careful not to directly blame Iran for the attacks. Co-ordinated, trained divers on fast boats from an "unknown state actor" attached limpet mines to four tankers 12 nautical miles off the United Arab Emirates in May, the UN Security Council was told. Another two ships were attacked in June off Oman, with the US claiming limpet mines were again responsible.

Maritime risk in the region is now widely viewed to be at its highest in 16 years.

The task forces aims to co-ordinate different militaries with commercial shipping, according to a Ministry of Defence release. Some 47 vessels have already been escorted by the Royal Navy, the department said on Monday. In the first 27 days of July the commanding officer of *Montrose* reported 85 "interactions" with Iranian boats and described the situation as "tense".

The UK mission will not be responsible for enforcing unilateral US sanctions against Iran which have crippled that country's exports of crude and other petrochemicals, inflamed tension in the region and said to have provoked these recent attacks on merchant shipping.

The mission builds on plans that emerged from a meeting hosted by the US Fifth fleet in Bahrain and attended by European and Asian countries last week.

The Department of Defence has signalled that the mission could ultimately coalesce into the Europe-led mission first sought as more countries participate.

Some 75% of energy commodities that transit the Strait of Hormuz head to Asia, with UK-flagged tankers and gas carriers comprising 19 of the 617 transits last month, according to data from Lloyd's List Intelligence.

WHAT TO WATCH

'Ships for shares' deals set to boost shipping M&A activity

SO-CALLED 'ships for shares' deals should boost merger and acquisition activity in the shipping space in the coming period, as more investment firms that bought into the industry during the downturn look for an exit, according to a lawyer specialising in such transactions.

The technique — dubbed 'IPO via M&A' in some quarters — essentially works by handing over vessels to a listed company instead of going for an initial public offering, in a climate in which no shipping initial public offerings have been done for more than three years.

Sellers are usually shipping companies with a strong private equity component in their ownership structure, with Star Bulk's recent purchase of ten supramaxes and an ultramax from Kelso & Company's Delphin Shipping a recent example of the trend.

Rob Wilkins, co-chair of the transportation industry group at Reed Smith, confirmed that his firm is currently working on another two deals of this nature, and is aware of others that are in the offing elsewhere.

His comments come after data on shipping and ports sector M&A in Europe, compiled by Mergermarket on behalf of Lloyd's List, found activity was relatively subdued in the first half of 2019, with just five deals valued at €7.2bn ($8bn) in aggregate.

The period was dominated by DSV's takeover of Panalpina, at a price of €4.2bn, and a fund manager-backed purchase of Poland's DCT Gdansk terminal for €1.4bn.

Coming in below the billion-dollar mark were the sale of selected Vopak terminals to First State for €708m, while Novorossiysk Grain Terminal went to VTB for €478m and DP World's acquired P&O Ferrymasters and P&O Ferries for €370m.

Mr Wilkins said in a telephone interview: "We've seen quite a lot of M&A activity in shipping, particularly from our private equity fund clients, who are looking at exit options and end up doing ships-for-shares transactions with big US public vehicles.

"Let's say you've got a fleet of ships you built up as a private equity investor, how do you exit from that? The IPO markets are closed, and if you do a private sale, there are not many players who have the capital or the access to bank finance to buy for cash, so your options are fairly limited."

One answer is to hand over your fleet for shares in a public vehicle, giving your investment sufficient liquidity to sell down gradually.

"We are working on a couple of transactions I obviously can't go into, and there are transactions out in the market that people are looking to do with similar structures," Mr Wilkins added.

M&A activity for European transportation as a whole in the first six months of 2019 came in at €12.2bn, up from €12bn in the corresponding six months of 2018, according to Mergermarket.

The absolute number of deals was down from 137 to 120, which implies larger average deal volumes.

"The relatively stable numbers were due in part to one megadeal; Danish logistics firm DSV's €4.2bn acquisition of Swiss peer Panalpina Welttransport Holding," Mergermarket said.

"It was almost double the size of the next biggest deal, which was Macquarie Infrastructure and Real Assets shedding its 36% stake in the Brussels Airport Company to pension fund APG Group for €2.2bn. However, only three deals have broken the €1bn threshold so far this year."

Shipping has traditionally been something of a backwater for M&A, with many companies still family-owned and most owners preferring savvy asset play on ships as the route to riches.

But the picture has opened up somewhat over the past two decades. Ports were regarded by pension funds and the like as ideal candidates for securitisation during the period prior to the global financial crisis, while the subsequent shipping downturn has seen private equity muscle in, sometimes in a big way.

Earlier research compiled by consultancy PwC estimated that there were almost 30 shipping M&A transactions last year, worth around $15bn.

These figures — which include mergers, joint ventures and transactions paid for with a mixture of shares and cash — differ from Mergermarket's, in being worldwide and based entirely on shipping, to the exclusion of ports.

Factors at work included opportunism on the part of larger companies with access to capital, who have sought out undervalued vessels and looked for economies of scale and back-office synergies.

New Greek government aims to speed up port privatisation

THE recently sworn-in New Democracy government of Kyriakos Mitsotakis is looking to turbo-charge investment in Greek ports as one of a handful of immediate priorities laid out by the country's shipping ministry.

"We will give priority to ongoing development plans in the country's major ports," said newly-installed minister of Shipping and Island Policy Ioannis Plakiotakis.

"We want to send a strong message that Greece is an investment-friendly country."

The Mitsotakis government has identified the ports as drivers of economic recovery for Greece and wants to mobilise funding, modernise infrastructure and simply bureaucracy for the sector.

The government has already encouraged the Piraeus Port Authority, now majority-owned and managed by China's Cosco group, to finalise its €612m investment plan and resubmit it to planning authorities.

Under the previous government, Cosco's plans had been embroiled for about two years in a number of tussles with the environment ministry, local authorities and local shipbuilding and repair interests.

The second port of Thessaloniki, which has also been privatised and is now controlled by a consortium of Deutsche Equity Invest, Terminal Link and China Merchants Ports, has also been told that its investment plans will be accelerated.

Another 10 significant regional ports have been awaiting their turn in the Greek privatisation programme for several years and Mr Plakiotakis has pledged to speed this process up, but first each port will be subjected to “evaluation and sustainability studies, which will tell us which model we will use,” he said.

This is expected to be completed “within the next two to three months, followed by financial parameters that will determine how the bidding process will proceed”.

It is understood that ministerial meetings have already been held with terminal operators and officials from Kuwait, Qatar and the US, with interest in several of the ports expressed from all three countries.

Some of the interest is energy-linked with northern ports Kavala and Alexandroupolis earmarked as future energy hubs. Meanwhile the ports of Patras, Igoumenitsa and Heraklion are included alongside Piraeus as part of the Poseidon Med programme creating a network a network of liquefied natural gas fuelling ports.

Among other priorities, Mr Plakiotakis has said that the government intends to speed up upgrading of the country’s maritime academies and will shortly table a new law that will holistically reform the maritime education system in Greece.

“If we want to modernise the Greek ship register, increase job opportunities for Greek seafarers and increase our insurance funds and boost state revenues, we must pay attention to education,” said Mr Plakiotakis.

The minister also said that the ferry sector, that connects Greece’s numerous islands with the mainland, is another major priority for the government, particularly in view of the “major challenges” facing ferry operators from the 2020 sulphur cap.

ANALYSIS

World boxship fleet update: ULC deliveries boost fleet capacity

THE world containership fleet took another upward swing in July, adding 185,000 teu during the month to reach 22.2m teu.

The capacity increase was driven by a swathe of deliveries, including the first two of Mediterranean Shipping Co’s new 11-ship order for 23,000 teu units from Daewoo Shipbuilding & Marine Engineering and Samsung Heavy Industries.

The two vessels are the first of a new range of ultra large containerships that features 24 rows of container slots, boosting their holding capacity despite remaining at just under 400 m long.

MSC Mina, which was delivered on July 18, has a nominal capacity of 23,656 teu, making it the world’s largest containership by capacity, taking the record shortly held by *MSC Gülsün*, the first of the series, which weighed in at 22,960 teu.

Two other ULCs, *Cosco Shipping Planet* and *Ever Govern*, accounted for the remaining big ship orders, at 21,237 teu and 20,150 teu respectively, but there were also two 15,128 units delivered for CMA CGM, with *One Cygnus* pulling up the rear at 14,026 teu.

Collectively, these seven ships accounted for almost 130,000 teu of capacity added to the market, according to Lloyd’s List Intelligence data.

But a rush of deliveries could be set to follow the bumper month in June, according to analysts at Maritime Strategies International.

“We expect deliveries of around 200,000 teu per quarter over the next two quarters,” MSI said. “Delivery volumes will be dominated by large containerships as the pace of feeder containership deliveries slows before picking up once again in 2020.”

But VesselsValue argues that smaller ships could still be on the horizon this year, and suggests 2019 could be the largest delivery year for handysize boxships for over a decade, with 52 vessels set for delivery.

"The record is still with 2008, when 75 were delivered," VesselsValue noted. "The top handy container owning country is Germany, while the top German handy owning company is Leonhardt and Blumberg."

Sub-panamax containerships are also on track for a busy period, it added with 2020 due to be the highest delivery year since 2008. Forty-nine vessels are scheduled for delivery, not quite beating the record of 61, VesselsValue said.

Nevertheless, the pace of deliveries should slow somewhat. MSI also points out that, in what is an historical anomaly, three of the top five liner companies — Maersk, Hapag-Lloyd and Cosco — all have either limited or non-existent orderbooks right now.

Slower scrapping

At the other end of the market, however, scrapping is failing to take significant amounts of tonnage from the fleet. According to Lloyd's List Intelligence, just four ships, comprising 9,500 teu, went for scrap in July.

Part of this is due to a mixed market for boxships at the moment.

"The vessel demolition market will be pulled in contrasting directions over the remainder of 2019," MSI said.

One the one hand, demolition volumes should increase as the age profile of the scrapable fleet increases, and vessels face an increasingly stringent regulatory environment. On the other hand, market dynamics are making older tonnage viable and cost-effective.

"As far as IMO 2020 is concerned, this will increase scrapping but we believe some of the more apocalyptic predictions are overblown so long as liner companies can, in large part, pass on higher fuel bills and the scrubber-fitted feeder fleet remains limited in size," MSI said.

IMO 2020, and scrubber installations to mitigate sulphur emissions, may also have played a part in the increased amount of capacity in layup in July, which rose by nearly 50,000 teu to represent 2.2% of the total containership fleet, including four vessels of over 18,000 teu.

According to figures from Alphaliner, at least 31 containerships, comprising a total capacity of 350,000 teu, are undergoing scrubber retrofits.

"Since June 2018, a total of 39 containerships have completed retrofits, adding to 10 ships that were already retrofitted in the period from 2011 to 2016," Alphaliner said.

This number is expected to soar in the coming months, with more than 550 vessels expected to be retrofitted.

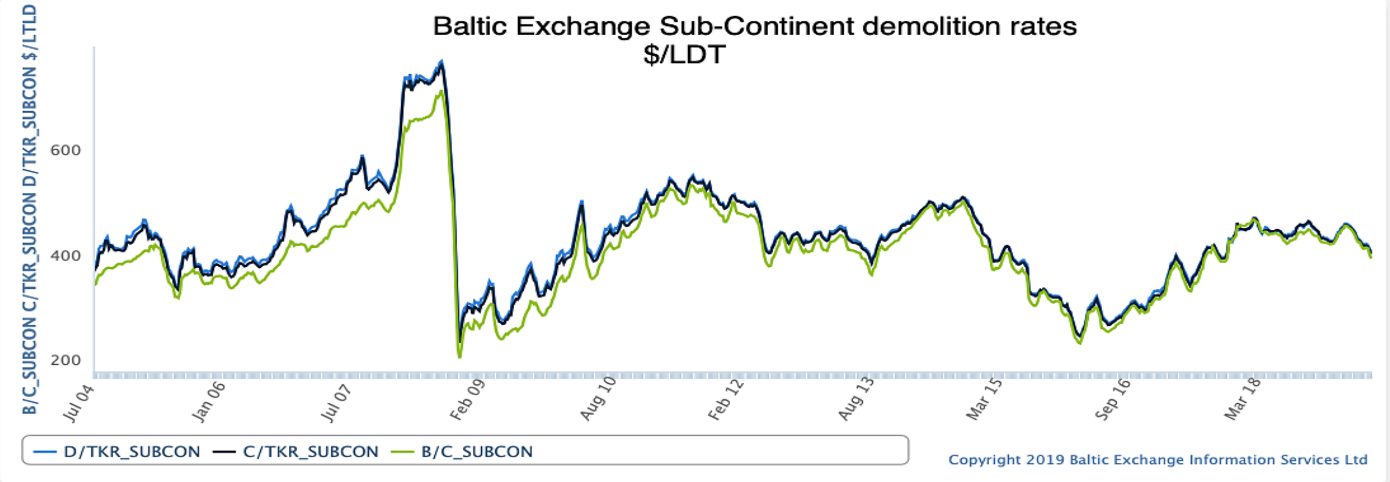
MARKETS

Demolition rates hit lowest point for nearly two years

SHIP demotion rates on the Indian subcontinent have plunged to the lowest since November 2017, further imperilling any recovery in tanker rates ahead of the traditional fourth-quarter boost to tanker earnings.

Payment for dirty tankers per long ton light displacement (LDT) in the Karachi to Chittagong area slumped to between $388.75 and $402.25 for the week ending August 2, Baltic Exchange data show.

That is the lowest since November 20, 2017, according to the London-based shipping indices provider. Ship recycling rates have steadily declined since April and cash buyer GMS reported conditions remained depressed with no signs of reversal.



That makes a sharp contrast to 2018, when a collapse in charter rates helped promote a surge in tankers sold for demolition. Tankers totalling 21m dwt and 228 vessels were scrapped, data from GMS shows. That was nearly double the 137 ships from the prior year.

The numbers for 2019 reflect a protracted slowdown in activity. Some 55 tankers totalling 3.6m dwt have been broken up so far in 2019, according to Lloyd's List Intelligence data. The total number of all vessels sent to yards for scrapping is 343 with 11.6m dwt, data show.

"There appears to be a total lack of confidence from the recycling yards, with the appetite from Indian breakers remaining dampened," GMS said in a weekly report published today.

"Bangladeshi buyers are showing no signs of willingness to make offers for new tonnage whilst their yards remain full of previously acquired vessels, as a result of the severe monsoon rains hampering the process of cutting work."

India, which along with Bangladesh and Pakistan accounts for the bulk of the demotion market "endured a shocking month", as steel plate prices and the value of the Indian rupee both declined, said GMS. Alang demolition yards received the lowest price across the subcontinent, at a rate in the mid-$300 per LDT, based on the GMS assessment.

The market is closely watching scrapping activity after digesting huge volumes of newbuilding VLCCs and suezmax tankers during the first half of 2019, against contracting demand growth for seaborne tonnage.

Many tanker owners are holding off scrapping in light of poor prices and awaiting the fuel pricing economics that will be reshaped by the IMO 2020 lower sulphur cap on bunker fuel implemented from January 1.

An Organisation of the Petroleum Exporting Countries production agreement that was extended in June saw crude exports falling, data from Lloyd's List Intelligence show.

Some 257 tankers totalling 26.1m dwt had been delivered so far in 2019, Lloyd's List Intelligence data show, compared with 424 tankers of 30.2m dwt for all of 2018.

Liner reliability improves markedly in second quarter

CONTAINER shipping's reliability has come under increasing scrutiny from customers. However, there are signs carriers are getting their act together, with new figures showing improvements across the board.

Unreliable services have become almost a staple of the industry, with late vessel arrivals the norm, a scenario causing untold headaches for the shipper community that depend on carriers to provide a reliable service to suit supply chain needs.

Despite growing shipper concerns at a time when the curation of alliances and consolidation were supposed to bring much-needed service stability, the industry posted its worst 12 months for reliability in 2018 on record since analysts Sea-Intelligence started collecting calling data eight years ago.

Fortunately, carriers have started 2019 on the right footing, with first quarter improvements preceding further good news in the second.

The latest data published by Sea-Intelligence shows that the world's 15 largest lines were 'on-time' — judged as plus or minus 24 hours of scheduled arrival, 80.1% of the time in the second quarter of 2019, an 8.2 percentage point improvement over the past year.

Furthermore, four carriers recorded advances in reliability of double-digit percentage point proportions. Maersk's Hamburg Süd earned the title of the biggest individual improvement in performance with reliability up by 14.2 percentage points, while HMM (13.7), Zim (11.7) and Hapag-Lloyd (10.2) were the others to note strong gains. OOCL recorded the lowest year-on-year improvement in the three months ending June 30, up 2.6 percentage points.

There was also good news stemming from the performance of the carrier alliances. The trio all reported sharp increases in second quarter reliability. Vessels under the guise of 2M arrived at their destination as scheduled 80.2% of the time, a 16.4 percentage point improvement over 2018, while The Alliance and Ocean Alliance saw schedule reliabilities improve respectively by 10.1 68.3% and 4.6 percentage points to 77.2%.

And in a further indication that carriers are responding to the misgivings of shippers, schedule reliability was also up on all six of the east-west trades. Carriers operating on the transatlantic trade saw the biggest improvement in on time performance, up by 9.8 percentage points on westbound routes and 9.3 percentage points on east bound routes. Transpacific and Asia-Europe routes were also more in tune with schedules in the second quarter compared with 2018, according to Sea-Intelligence.

The latest figures, while positive, do however come from a particularly low base, but these are improvements nonetheless, and a welcome step in the right direction, even if there is clear room for improvement.

IN OTHER NEWS

Global shipowners urge immediate action in Strait of Hormuz

GLOBAL shipowners are urging immediate action by the international community in the wake of rising tensions in the Middle East Gulf and the seizure of vessels in the Strait of Hormuz.

The shipowning community has come up with a joint statement following the seizure of *Stena Impero* on July 19, with the International Chamber of Shipping, the European Community Shipowners' Associations and the Asian Shipowners' Association jointly urging immediate action by the international community to stop the escalation of tensions and fully respect international law.

"Freedom of navigation is vital for global trade and is a fundamental principle of international maritime law. Seafarers and ships must be allowed to operate in safety. It is simply not acceptable for them to be used as bargaining counters in any way," said ICS secretary-general Guy Platten.

WOAC designates Strait of Hormuz as High-Risk Area

THE risks to seafarers serving on board vessels operating in the Middle East Gulf has been acknowledged, with the Warlike Operations Area Committee agreeing to temporarily designate the Strait of Hormuz as a High-Risk Area from August 2, following government advice to avoid the area unless accompanied by UK naval support.

The agreement gives seafarers the right to refuse to work on board vessels transiting the Strait of Hormuz, with the crew able to request to leave the ship at a preceding port.

Meanwhile, seafarers on vessels transiting the area could also receive double basic pay from August 2, in recognition of the higher risks associated with transiting and operating in the zone.

The temporary agreement applies to all vessels entered into the UK Chamber and the clauses are invoked if flag state and industry guidance is not complied with.

That includes UK-flagged vessels that refuse a military accompanied transit and vessels that do not take account of relevant guidance from industry bodies such as OCIMF, Intertanko, BIMCO and ICS.

Double basic pay would apply to each day the ship is in the specified zone. The payments are in addition to all other remuneration earned.

Iran seizes another vessel for alleged oil smuggling

IRAN is reported to have seized a third vessel in the Gulf in the wake of last month's capture of *Stena Impero*, according to unconfirmed reports based on claims made on a state-controlled television channel in that country.

Neither the name of the vessel nor any further details were immediately available.

News agency Reuters, citing the programme, said that Tehran accused the vessel of smuggling around 700,000 litres of fuel for Arab countries.

This suggests the vessel, which has a crew of seven, is probably around 1,000 dwt, and thus unlikely to be viewed as a significant threat to safety for international merchant shipping.

MOL sets up working group for zero-emission alternative fuel

JAPAN's Mitsui OSK Lines has set up a working group to reduce carbon dioxide emissions in international shipping's value chain by using synthetic methane as an alternative to fossil fuels.

Synthetic methane is generated by methanation technology that combines CO_2 with renewable energy-derived hydrogen.

President and chief executive Junichiro Ikeda announced that it has joined the Carbon Capture & Reuse Study Group to launch a cross-industrial working group related to zero-emission alternative ship fuels.

The Japanese line will also engage in study and promotion of the fuel in co-operation with other industries, companies and government agencies.

"European countries, Japanese power and gas companies are paying increased attention to methanation fuel, a technology with the potential to realise zero emissions," MOL stated.

Belfast yard Harland and Wolff to enter administration

HARLAND and Wolff, the historic Belfast shipyard that built the Titanic, has been put into administration after its Norwegian owner, Dolphin Drilling, failed to find a buyer.

A spokesperson for the yard confirmed to the BBC on Monday afternoon that the accountancy firm BDO had been appointed as administrators and the company will file for insolvency on Tuesday at the High Court in Belfast. A spokesman for BDO told Lloyd's List that they were aware of the comments, but BDO could neither confirm nor deny their appointment at this stage.

The business was put up for sale last year by Norwegian parent Dolphin Drilling, formerly Fred Olsen Energy, which filed for bankruptcy in June as part of a wider restructuring in the wake of the 2014 offshore slump. Having transferred its remaining operating subsidiaries to a new holding company Dolphin Drilling Holdings, that company is now focussed fully on contract drilling for the offshore oil and gas industry, but as H&W's majority shareholder Dolphin it was unable to find a buyer for the yard.

Singamas completes sale of dry box business to Cosco Shipping

SINGAMAS Container Holdings has sold the majority of its business to state conglomerate China Cosco Shipping Corp.

The Hong Kong-listed firm said in an exchange filing that the transaction of its dry box making business had been completed on August 2, 2019.

The company, a subsidiary of Singapore-based container shipping carrier Pacific International Lines, signed a conditional agreement in May to sell four main subsidiaries for Yuan3.8bn ($565m) to Cosco Shipping Financial Holding, a Hong Kong-based unit of Cosco Shipping.

About $300m of the proceeds from the sale would be used to repay bank loans while $100m would be used for distribution of a special dividend. And the remaining amount of approximately $128m would be deployed for general corporate and working capital requirements, according to an earlier filing.

Performance Shipping takes first former Maersk tanker

PERFORMANCE Shipping has taken delivery of the first of two aframax tankers, signaling its debut as a diversified shipping operation.

The Nasdaq-listed owner has previously been a dedicated boxship owner and operator but changing its name to Performance from Diana Containerships last year was a harbinger of a new outlook that could also encompass other types of tonnage.

In June, the company agreed to acquire the aframax pair for $60m from a vehicle linked to Performance's chief executive Simos Palios.

While the company did not initially name the tankers, they were identified at the time by Lloyd's List as the 2011-built *Maersk Jamnagar* and *Maersk Jeddah*, recently shed by Maersk as part of a crude tanker clear-out.

Greece-based Performance has renamed the first vessel, formerly *Maersk Jeddah*, as *Blue Moon*. The 104,623 dwt tanker joins an existing company fleet of four container vessels comprising two post-panamaxes and two panamaxes.

M/Maritime takes delivery of Mitsui ultramax

GREECE-based dry bulk carrier owner M/Maritime has taken delivery of its fifth ultramax vessel amid a significant bulker newbuilding programme at Japanese yards.

The 60,934 dwt *Atalanti.GR* is currently on its maiden voyage after being delivered by Mitsui Engineering & Shipbuilding's Tamano yard.

The delivery brings the M/Maritime-managed fleet on the water to 10, with an additional two bulkers operated under long-term time charters.

A sistership ultramax, *Kassiopi.GR*, is scheduled to be delivered to the Greek company in early September, and this month the company is also due to receive a rare second acquisition.

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