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EU urged to take more global view on shipping

THE EUROPEAN UNION has been urged to contribute to global policy-making for shipping and to avoid clashes with International Maritime Organization policies as most European shipping capacity trades outside EU waters.

"EU shipping is of strategic significance and a strong shipping community is indispensable for the European maritime cluster and the EU economy at large," the Union of Greek Shipowners wrote in its 2018-2019 annual report.

"As long as there is a strong presence of shipping companies in the EU, the biggest part of value created will continue to reside in Europe — even though important shipping centres and almost the totality of shipbuilding are now located in the Far East," the UGS said.

In terms of ownership, Greeks own 53% of EU shipping capacity — three times ahead of Germans, the next-largest presence, and far ahead of Italy, with 7%, and Denmark, with 5.7%.

However, a regular grumble in Greece, and other southern maritime members of the EU such as Malta and Cyprus, is that Brussels is too often fixated with intra-EU market rules when it comes to shipping.

According to the UGS report, "the largest share of EU shipping is international and cross-trading, carrying cargoes between third countries, doing business with trading partners outside the EU.

"Therefore, it is in need of globally oriented policies."

The UGS went on to warn: "Undermining the [International Maritime Organization] undermines EU shipping.

"The EU should engage with and offer its contribution to the UN IMO, the sole global regulator of international shipping and avoid pre-empting the international regulatory process by adopting variant regional regulations that are ill-suited for an international sector."

The UGS acknowledged that this is a crucial juncture for European shipping as a newly installed Commission and newly elected members of the European Parliament, embarking on a new five-year term, will be called on to consider legislation important to the industry.

It was of key importance for the EU itself to "achieve and maintain stable, effective and globally competitive conditions" for its shipping industry, adopting "comprehensive policies" that cut across policy fields such as transport, taxation and environment that could affect competitiveness.

Continuation of the existing EU State Aid Guidelines for Maritime Transport was a must in this respect, to enable a global level playing-field for EU shipowners, the UGS said.

The annual report cited figures showing that the EU relies on international shipping for more than 75.5% of its external trade, importing 87% of its crude oil needs, 70% of its natural gas and 40% of its solid fossil fuels.

"With energy security concerns on the rise, the Greek-owned fleet plays a crucial role in securing the EU's diverse energy imports from remote regions of the world," the report stated.

WHAT TO WATCH

China mulls opening of coastal trade to foreign carriers

CHINA is considering further liberalising its cabotage laws in Shanghai, which may allow foreign container shipping carriers to engage in the country's coastal trade.

This suggestion is contained in a policy planning document released by the central government this week relating to the expansion of the Shanghai Free Trade Zone. Policy-makers are aiming to delegate more economic discretion to the local authorities.

The move could benefit foreign carriers — such as Maersk, which has repeatedly called on a removal of the restrictive rules — while potentially posing a threat to nearby transhipment hubs, such as Busan and Hong Kong.

Foreign vessels used to be prohibited from participating in coastal trade in China. However, Beijing started to partially lift the ban in 2014 and to allow Chinese-owned vessels bearing overseas flags to carry international trading cargo between major harbours in a couple of national Free Trade Zones.

The port of Shanghai was the first of its kind to enjoy this cutback of red tape, supported by three Cosco boxships registered in Hong Kong, a special administrative region of China but viewed as an overseas flag state, when the project was launched.

But the results have been unimpressive. Over the past few years, there has been a lack of interest from major domestic carriers, which already own a large Chinese-flagged fleet serving local markets.

The government has said it wants to enhance the effectiveness of the existing relaxation policy. It wants to study the permissions relating to foreign ocean-going ships being able to carry export and import containers on costal routes centered on Shanghai's Yangshan deepsea port.

Other ports in the region, especially Busan and Hong Kong, have benefited from the Chinese cabotage rules by attracting a large amount of transhipment cargo to their facilities.

Hong Kong, with a high level of autonomy, is considered a foreign port and not subject to the national cabotage provisions.

A further liberalisation, which will virtually abolish the privilege enjoyed by the Hong Kong port, could slash its container volume by 12%, according to an earlier study by the Hang Seng Management College.

Habben Jansen calls for increased boxship scrapping

SCRAPPING needs to increase to its long-term average if the global fleet growth is to be brought back into balance with demand, according to Hapag-Lloyd chief executive Rolf Habben Jansen.

Speaking on a conference call with analysts following the Hamburg-based carrier's second-quarter results, Mr Habben Jansen said today's scrapping rates, at around 2% of the global fleet, were not sustainable.

"When you look at scrapping, the normal level on average is around 4%," he said. "If we are sub 2% that is very low. The older vessels that are getting to 20-plus years will face significantly higher operating costs so it would not be illogical to see more of those ships being sent to the scrap yard."

That in turn, when combined with low levels of orders and deliveries, would help rebalance supply with demand.

"Whether that will happen in 2020 or 2021-2022 remains to be seen, but it is clear to us that the percentage will come up," Mr Habben Jansen said. "That is why I believe that the balance between the orderbook and demand is fairly healthy right now, because the estimates on scrapping are at the low end and are likely to rise."

At just 10% of the existing fleet, the orderbook was at one of its lowest levels in both absolute and relative terms for a long time, and few new orders were being placed. The idle fleet was also at historically low levels, he added.

"There are still some vessel deliveries scheduled this year and next, but we estimate net capacity growth to be around 3%, so more or less in line with what we see for demand growth," Mr Habben Jansen said.

"As long as the orderbook remains small, that gives us some protection from disaster."

Nevertheless, he warned that growth this year would be lower than last.

"But having said that, we don't see any signals that the market is falling apart. What happens in the second half of the year remains to be seen, but what we see is a market that is reasonably stable."

Hapag-Lloyd's outlook for the remainder of the year remains unchanged, however.

"When you look at our volumes, we expect them to increase slightly for the full year, and the freight rate to be somewhat above last year," he said. "But the same goes for the bunker price."

The carrier is continuing with its plan of taking $350m-$400m of costs out of the business by 2021 and that programme remained on track, Mr Habben Jansen said.

"We have implemented what we had planned in 2019 and for the first six months we are on track or slightly ahead."

Evidence of that cost cutting could be seen by the line's decision to withdraw from some services in the intra-Asia market.

"The fact that we are down in the intra-Asia market is not an indication that the trade is down, but we have reduced our exposure to some markets where we could not make money," he told analysts.

"We took 85,000 teu out of the market deliberately by reducing the capacity we deployed on a number of trades."

Volumes were likely to rise and fall alongside trade tensions, but Hapag-Lloyd is trying to take a longer term view of the market, Mr Habben Jansen said.

"If you look at some of the uncertainties that exist because of geopolitics you can be sure that some people will be reluctant to put out orders now," he said.

But that did not mean that global trade would decline in total.

"It may mean that you have a few months when things are a little bit sluggish, but afterwards people need to build up inventory again and you see a rebound," Mr Habben Jansen said. "We tend to look more at 12-24 month trends and those are really not falling off a cliff by any stretch of the imagination."

But he did admit there were some “dark clouds on the horizon”.

“On the other hand, volumes are continuing to grow.”

Mr Habben Jansen also welcomed the fact that Hyundai Merchant Marine would be joining The Alliance as a full member from next April, which he said would strengthen The Alliance’s competitiveness on the Asia-Europe and transpacific trades, particularly with its orderbook of 12 units of 23,000 teu and eight 15,000 teu ships that will be delivered between 2020 and 2021.

Nevertheless, Mr Habben Jansen confirmed that Hapag-Lloyd would not be ordering any new ships on its own account in the immediate future.

“That is not to say that we will never order any vessels, but there is no plan right now to order any vessels. You should certainly not expect any orders from us in 2019.”

ANALYSIS

Capesizes come down from highs

THE capesize market is coming off its recent highs as the tonnage tightness previously seen in the Atlantic dissipates.

The average weighted time charter on the Baltic Exchange slid to $23,885 per day at the close on Wednesday, from $32,963 per day on July 22, which was the year’s high.

“There is still an abundance of vessels heading towards the Atlantic, which has been coupled with a significant reduction in fresh requirements the last few days,” brokerage Fearnleys said in a note.

“Therefore, the downwards market trend will probably continue in the near term.”

The sudden increase in shipments from Vale out of Brazil a few weeks ago had caught owners by surprise, leading to the rally, said Torvald Klaveness’ head of research Peter Lindstrom, adding that some of that tonnage tightness is now easing.

The rising shipments also came at a time when a proportion of vessels were offline for scrubber installations in the Pacific, he said, adding that this should continue to be a positive factor for the sector.

Demand continues to be strong, which means the capesize market “should settle at a higher level than before the spike,” he said.

According to the latest statistics, China keeps producing steel at record levels.

Output rose 10% to 87.5m tonnes in June versus the same month a year earlier, World Steel Association data shows.

Despite a drop in iron ore imports due to supply constraints, China’s coking coal imports rose 1.6% to 6.6m tonnes in June versus the year-earlier period. In the first six months of the year, coking coal imports increased 25% to 36.6m tonnes.

The country has been relying on its iron ore inventories, with levels down at 114m tonnes as of mid-July, according to Banchero Costa research.

But its steel exports fell 24% to 5.3m tonnes in June, while shipments declined by 3.3% to 34.4m tonnes in January to June versus a year earlier, Bancosta said.

That suggests domestic use is increasing as part of the government’s infrastructure stimulus spend.

MARKETS

Slowing container growth hits volume multiplier

BOX volumes are still set to grow this year, despite the escalating trade war between China and the US, according to forecasts from Alphaliner, which has revised its growth outlook from 3.5% down to 2.5%.

The downgrade follows the InternationalMonetary Fund's July update of its World Economic Outlook, which downgraded global gross domestic product growth from 3.3% to 3.2%, with a related decline in trade volume growth from 3.4% to 2.5%.

But Alphaliner said container throughput remained resilient in the second quarter of 2019, with global ports recording a 2.8% increase in volumes in the period from April to June.

"The preliminary growth rate was slightly above the first quarter's rate of 2.7%, as the ongoing Sino-US trade war failed to bring down overall container volumes," Alphaliner said.

Nevertheless, volume growth at Chinese ports slowed to 3.5% in the second quarter, down from 4.2% in the first quarter, Alphaliner noted.

North American volumes growth also slowed to 2.9% in the second quarter, down from the 4.7% growth in the previous quarter.

Alphaliner also warned that the "teu multiplier", the factor by which container volumes increase more than GDP growth, was continuing to fall. Historically, carriers could rely on a teu multiplier of 3.4 during the 1990s and 2.6 in the early years of this century.

But since the financial crisis in 2008, that had fallen to 1.4, and could slip to parity this year.

"The escalating trade tensions will have a negative impact on container volumes, with the teu-to-GDP growth multiplier expected to fall to less than one in 2019," Alphaliner said.

Shipbuilding slows on jitters about world economy and IMO red tape

CHINA'S leading private shipbuilder has warned of tough days lying ahead, with shipowners noted to have scaled down their fleet investment in response to worries about a global economic slowdown and uncertainties about the wave of red tape relating to green shipping regulations, which takes effect in 2020.

Yangzijiang Shipbuilding flagged a halving of global shipbuilding orders in deadweight-tonne terms year on year during the first six months of 2019.

Revenue of Singapore-listed YZJ fell 12% to Yuan7.03m ($998,568) for the three months to June 30 mainly on lower shipbuilding turnover.

The group delivered 18 vessels and rounded off the second quarter with Yuan3.08m of shipbuilding revenue, down from 20 vessels and Yuan5.24m of shipbuilding revenue in the year-ago period.

It secured orders for five vessels totalling $209m during the first half.

These include one 157,000-dwt oil tanker, one 29,800-dwt self-unloading vessel, one 82,000-dwt bulk carrier and two 83,500-dwt combination carriers.

Its outstanding order book stood at $3.1bn for 85 vessels as at June 30.

YZJ took another step to diversify its revenue stream in July by entering into a deal for a 55% stake in Odfjell's liquefied natural gas terminal in Jiangyin, China.

The shipbuilding group expects the terminal to be upgraded in time to benefit from an expansion in China's LNG demand.

Together with Mitsui E&S Shipbuilding, the group has also jointly launched a new facility dedicated to building LNG carriers.

IN OTHER NEWS

China reportedly eyes joining US-led mission to protect Strait of Hormuz

CHINA might join a US-led mission and escort Chinese ships in the Middle East Gulf as Washington continues to lobby countries to join a maritime security coalition that the UK signed up for earlier this week.

Reuters quoted China's envoy to the United Arab Emirates as saying: "If there happens to be a very unsafe situation we will consider having our navy escort our commercial vessels," adding that the Asian giant is "studying the US proposal" on

escort arrangements in the region.

The report noted that it was unclear whether Washington had made an official request to Beijing, which enjoys good relations with Gulf states.

Hapag-Lloyd returns to black in first half

HAPAG-Lloyd has turned around a €101m ($122m) loss in the first half of last year to a €146m profit this year on the back of improved rates and volumes.

The Hamburg-based container line reported volumes rose 2% during the first half of the year to 5.9m teu as average rates increased from $1,020 per teu to $1,071.

"Thanks to higher transport volumes in our core trades, good cost control and slightly better freight rates, we can look back on a good first half-year," said chief executive Rolf Habben Jansen.

Cosco Shipping promotes Zhang to senior management

STATE conglomerate China Cosco Shipping Corp has promoted another younger executive to its eight-member top management team.

Zhang Wei, currently a leading figure at the Chinese giant's container shipping and port business, was appointed as one of the five vice-presidents of the company.

The update was made on the company's official website.

Mr Zhang, 45, is now the youngest member of the top echelon of Cosco Shipping led by chairman Xu Lirong. His colleague, Wang Haimin, 46, was promoted as a vice-president in February.

Mr Zhang is a vice-general manager and the party secretary of Cosco Shipping Holdings, the box shipping and port arm of the parent group.

TEN signs orders for up to two LNG carriers at HHI

TANKER owner Tsakos Energy Navigation has made good on its promise of expanding its footprint in the liquefied natural gas shipping sector by inking an order for up to two new LNG carriers from Hyundai Heavy Industries.

The price agreed for each vessel is $190m, a source with knowledge of the contract told Lloyd's List.

The first of the 174,000 cu m vessels is firm and is scheduled for delivery in November 2021, with an option for a second option for exercise by the shipowner over the next four months.

Maersk launches Asia-Europe ocean-rail service

MAERSK has completed the first voyage of its new combined sea and rail service connecting shippers in Asia with ports in northern Europe via a transcontinental rail journey.

Containers from various Asian export ports are shipped to Vostochniy in Russia's far east, where they are transferred to rail for a nine-day journey to St Petersburg.

The final leg of the voyage involves containers going back on to the sea for the final shortsea connection between St Petersburg and European ports.

The first AE19 service carried Korean cargo loaded in Busan destined for the Polish market. The service can also connect Japan and other Asian origins with several other ports in Europe close to St Petersburg, such as Bremerhaven in Germany or ports in Scandinavia and Baltic countries.

Maersk said the combined rail offering would give shippers significant transit time benefits compared with standard ocean transport and cost competitiveness compared with air freight.

POSH first-half loss widens to $21.4m as rates slide on continuing overcapacity

THE offshore supply vessel sector remains troubled as seen by a 64% widening of PACC Offshore Services Holdings' first half losses to $21.4m from $13m last year, as revenue slid and contributions from its deepsea towage joint venture slipped on lower vessel utilisation.

POSH noted that oversupply of vessels continued to weigh on charter rates, although there were signs of increased activity in some segments.

Second quarter net losses increased by almost half to $8.6m as revenue slid to $74m.

First Ship Lease sees positive signs for second half

SINGAPORE-based shipping business trust and tanker owner First Ship Lease Trust is well on the road to recovery and is optimistic that there will be positive signs in the market in the second half as the industry prepares for the IMO 2020 sulphur cap regulations.

FSLT's trustee-manager said in an exchange release that first-half revenue rose 5.6% to $35.4m while net profit more than tripled to $5m.

Key milestones during the period were the successful conclusion of a preferential offering that raised $31m and was used to repay a bridging loan as well as for instalments for two newbuilding long range 2 product tankers scheduled for delivery in the fourth quarter of 2020 and first quarter of 2021.

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