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Daily Briefing
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Hong Kong to remove profit tax for shipping lessors

HONG KONG IS TO remove income tax for ship leasing firms that are willing to locate their business to the Asian maritime hub.

The move is part of the territory's plan to boost the local shipping sector, according to a senior government official.

Qualified shipping lessors registered in Hong Kong will "enjoy a zero percent profit tax rate", said Frank Chan, secretary for transport and housing.

The objects involved those engaging in operating as well as financial leases, including subleasing and sale and leaseback activities, he told the Capital Link Hong Kong Maritime Forum, as part of the Hong Kong Maritime Week.

"We've heard the industry call for further tax incentives to attract more presence on maritime commercial principles, and we are working on that," he said.

While little detail about the tax exemption was provided, Mr Chan told Lloyd's List on the sidelines of the conference that this new tax regime was "at law drafting stage" and expected to take effect by mid-2020.

In private conversation, local shipowners and lawyers suggested that the legislation may include entitlement of ship lessors to the tax break polies under the so-called section 23B of the Inland Revenue Ordinance, which currently just applies to shipowners.

The charter out of a Hong Kong registered ship engaged in international trade is exempt from profits tax on its charterhire income under section 23B.

The move comes as leasing houses, especially the major ones from China, are playing an increasingly important role in the global ship finance market, and in some cases, even acting as traditional shipowners via rising uptakes of operating leases.

Hong Kong, a formal British colony and now a Chinese Special Administrative Region, should use that momentum to benefit its maritime community, the city's Financial Services Development Council noted in its Maritime Leasing Paper published in May last year.

"Many Mainland China vessel leasing companies with all or part of their fleet based or registered outside Mainland China in low tax jurisdictions are looking into housing their offshore ownership operations in respectable jurisdictions with a stable tax and legal environment, along with other considerations," it wrote. "All these activities present a real opportunity for Hong Kong."

The paper added that Hong Kong's long-standing competitor Singapore offered concessionary tax rates "to shipping-related support services and on qualifying management income of leasing businesses".

Mr Chan told delegates that the tax exemption for ship lessors would be coupled with another move to halve the profit tax rate to 8.25% for qualified ship leasing management companies.

Bill Guo, executive director of ICBC Financial Leasing, one of the largest shipping lessors in China, said his company was about to set up a representative office in Hong Kong, although the process was slightly delayed by the current social unrest that has been rattling city's economy over the past several months.

Hong Kong was an indispensable financial and shipping hub, where international capital, talent and vessels converge, he added.

"Chinese companies, including those in shipping, needs to use Hong Kong as a window to go overseas," he told the meeting.

He told Lloyd's List that his company was also considering a similar structure established by its aviation sector in Hong Kong earlier.

ICBC Leasing, a subsidiary of Industrial and Commercial Bank of China, the world's largest commercial bank by asset size, set up a wholly-owned subsidiary in the city in March last year — about nine months after the government cut the income tax rates for aircraft lessors from 16.5% to 8.25%.

That said, such a move must be approved by the China Banking Regulatory Commission that oversees the country's banking sector before it can take place, Mr Guo said.

WHAT TO WATCH

MSC names Søren Toft head of container businesses

MEDITERRANEAN Shipping Co has announced the appointment of Søren Toft as the new chief executive of its container businesses.

"MSC is delighted that Mr Toft will be supporting the Aponte family at the helm to ensure that the company remains a global leader in the years to come," it said in a statement.

He will report to Diego Aponte, group president of MSC, and Gianluigi Aponte, the group chairman.

"MSC is confident that this appointment will bring significant value to its cargo businesses, building on the company's existing strengths and boosting its development plans even further," it added.

Mr Toft's appointment as head of MSC Mediterranean Shipping Company comes a week after he quit his role as chief operating officer at Mærsk "to pursue an opportunity outside of the company".

"He leaves an agile and strong operating organisation and we all wish Søren the very best in the future," Maersk chief Søren Skou said in a statement.

Mr Toft worked at Maersk for 25 years, and had held the COO role since 2014.

MSC's announcement comes amid speculation of a major management shake-up at the company.

Cash buyer signals scrapping ‘deluge’ after ship recycling falls 35%

GLOBAL ship recycler GMS has raised concerns about a potential “deluge” of vessels being put up for sale for scrap as freight rates for containerships and bulkers cool and new sulphur rules take effect on January 1.

The volume of vessels sold for scrapping or breaking up so far in 2019 is 35% lower than in the same period last year. This comes against the backdrop of a significant decline in crude tankers recycled, Lloyd’s List Intelligence shows.

“Many will be hoping for a positive and improving recycling market going into 2020 and the hope is that we have probably seen the worst of the falls and negativity,” GMS said in a recent report.

There are signs of a more positive market, GMS said.

Rates are $100 per LDT (light displacement) lower than the start of the year across all subcontinent recycling locations, the cash buyer said.

It pegged Bangladesh rates for containers at $375 per LDT, $365 for tankers and $355 per LDT for bulkers.

Market sentiment is “improving” in three of the four of the key ship recycling centres of Bangladesh, India and Pakistan. The situation is “steady” in Turkey, GMS said, though it cautioned that rates may still be under pressure.

“Rather than drip feeding tonnage into a relatively barren market over the course of the year, the fear is that a potential deluge of older vessels (particularly with surveys due) may now start to hit the market, putting downward pressure on prices once again,” the report said.

Lloyd’s List Intelligence data shows that 293 vessels over 5,000 dwt, totalling just over 19.9m dwt, have been broken up so far in 2019. That compares with 31m dwt and 350 ships over the same period in 2018.

A significant difference also lies in wet tonnage scrapped. Eighteen crude oil tankers totalling 3m dwt have been scrapped in 2019, including just three very large crude carriers.

Last year, 92 crude oil tankers totalling 16m dwt were scrapped.

ANALYSIS

US gasoline and blendstock imports gain as European shipments slow

REFINED product trades will be reshaped in 2020, according to a Braemar ACM forecast.

The shipbroker says the most immediate impact will be seen in the US, which is estimated to import 10% more gasoline in the first half of 2020 than the prior-year period.

However, additional volumes will be seen via long-haul trades from the Middle East, rather than Europe, the second-largest supplier of gasoline to the US, after Canada.

The June closure of the Philadelphia Energy Solutions refinery, the largest on the US east coast, removed 130,000 barrels per day from the market, driving shipments to the northeast higher at a time of greater seasonal demand for seaborne gasoline.

However, the US was expected to import from the Middle East rather than Europe during the seasonal peak, which occurs ahead of the summer driving season, Braemar ACM said in its quarterly outlook for product tankers.

This will increase long-haul trades for medium-range tankers, the largest size that can call on the Atlantic coast.

“This is because the European refiners who typically supply gasoline to the US are likely to shift yields away from gasoline to very-low sulphur fuel oil in 2020 on better margins for the latter,” the report said.

The US needs to import greater volumes octane-rich blendstocks from refineries east of the Suez Canal for blending to reduce the sulphur content of gasoline to 10 parts per million, while retaining octane levels. The lower-sulphur gasoline level regulation comes into force in January.

The refinery switchover to VLSFO is seen as shipowners worldwide start using lower-sulphur bunkers as mandated by the International Maritime Organization regulatory changes from January 1.

Demand for 0.5% blended low-sulphur fuel oils in 2020 is anticipated to be 1.6m bpd, up by 1.3m bpd on the prior year, the Organisation of Petroleum Export Countries has forecast. The total marine fuels market is estimated at 4.2m bpd.

Some 3.7m tonnes of gasoline was shipped to the US from the 28 members of the EU in the first seven months of 2019, Eurostat data shows. This equates to about 128,000 bpd.

Demand for tankers to ship clean or refined products will increase by 2% year on year, the report concluded.

As well as increased east to west gasoline trades to the US, there will be additional shipments of middle distillates (jet fuel, gasoil and diesel), it said.

"In 2020, strong clean petroleum product tanker demand growth is underpinned, at the broadest level, by higher refinery runs and the effects of IMO 2020," Braemar added.

"Demand growth for refined products is set to double to 800,000 bpd in 2020 from just over 400,000 bpd this year, encouraging runs to increase. Higher runs are also suggested by a healthy margins outlook for 2020, for both gasoil and gasoline."

However, Braemar ACM remains bearish for naphtha trades, mostly shipped on long-range tankers to Asia from the Middle East.

Naphtha is used as a feedstock for refinery crackers, but rival feedstock propane has been cheaper, curbing shipments.

"We expect only a small recovery in naphtha demand in the Far East in 2020 after a near 10% dip in trade volume this year," it said.

Demand for coated tankers, able to ship refined products gained 1% in 2019, and will grow 2% in 2020, the report estimated.

Supply grew by 2% this year is expected to remain flat next year. Most of the aframax tankers that are uncoated, and therefore able to ship clean as well as crude, are assumed to trade dirty next year, according to the report.

Braemar ACM forecast spot earnings for long range two tankers to rise modestly, to average $25,000 daily in 2020, from this year's level of $23,500, falling back to $22,000 for 2021.

MR tankers, the workhorse of the product tanker fleet were estimated to average $18,000 daily next year, up from $15,500 in 2019. In 2021 earnings were to average $16,000 daily.

Seafarers would change jobs for internet access

INTERNET access is a key consideration for seafarers when selecting where they work, a new survey has found.

Of those questioned by Danica, the Hamburg-based crewing specialist, 80% of those who do not have access to the internet would change jobs.

"This is a huge warning to those shipping companies who do not offer crew internet access on board their vessels," said Danica managing director Henrik Jensen.

Danica, which specialises in officers from eastern Europe, said that close to 50% of the crew members responding to the survey have free access to the internet and 32% of overall respondents said they would move companies for access to the internet.

While 74% of respondents said they would change companies for a higher salary, 73% said they would suggest to a friend to join the company for which they currently work.

A total of 55% of respondents said they had not dealt with serious workplace concerns.

While there appears to be some level of satisfaction with current employers, seafarers continue to face challenges surrounding payment, working hours and conditions.

The survey found that 15% of seafarers said they had problems being paid on time and 14% believed that resting hour rules were being violated.

Among other problems, 12% of respondents said they were stressed and 9% faced shortage of food or drinking water.

"This is unacceptable, and it is not surprising that some seafarers are job jumpers," said Mr Jensen.

Danica's survey is based on responses from 10,000 seafarers questioned between May and September this year.

Recent research by Cardiff University found that seafarers face mental health risks because of long working hours, isolation and extended periods away from family and friends.

IN OTHER NEWS

Russia releases Ukraine naval vessels seized last year

THREE Ukrainian naval ships seized in the Black Sea a year ago by Russian forces have been released, according to Reuters.

The move comes ahead of a four-way peace summit on eastern Ukraine due to be held in Paris next month.

The vessels were handed over in the Black Sea off the coast of Crimea, which Russia annexed from Ukraine in 2014, Reuters reported, the two countries' foreign ministries.

Iraq's port of Umm Qasr disrupted by more protests

PROTESTS have again rocked Umm Qasr port in Iraq, preventing employees from entering, according to media reports.

Port capacity is at 50% with a complete halt expected if the protests continue, port officials told Reuters.

Port operations were stopped at the end of October because of political demonstrations that have hit the country. The port receives imports of grains, vegetable oils and sugar.

Nam Cheong enters offshore engineering with Labuan tie-up

NIMBLE offshore supply vessel group Nam Cheong continues to morph its business strategy by planning a move into offshore project engineering as it takes over a facility in Malaysia's offshore centre of Labuan.

The group's Nam Cheong Dockyard Sdn Bhd subsidiary has signed an Memorandum of Understanding with Malaysian Ministry of Federal Territories agency Labuan Corporation to lease a 7.3 hectare plot of land and to redevelop the existing facilities in Kiansam, Labuan into modern integrated marine engineering and construction resources to buttress the growth of oil and gas industries in Labuan, Sabah, Sarawak and Brunei.

Chief executive officer Leong Seng Keat said: "In line with our strategy to strengthen our business via exploring engineering, procurement, construction, installation and commissioning and related segments, this new project lays a cornerstone for future opportunities."

International Container Terminal Services' bid to develop central Philippines ports

INTERNATIONAL Container Terminal Services' bid to develop central Philippines ports in Iloilo have taken a step forward with the port operator gaining acceptance from the Philippine Ports Authority.

PPA will now begin to evaluate the legal, financial and technical merits of ICTSI's proposal to modernise the Iloilo Commercial Port Complex and the Port of Dumangas within 60 days.

Global corporate head Christian Gonzalez said: "We are excited about this development as we know we submitted a fully compliant proposal that will be the most beneficial for Iloilo. We are fully committed to working with the PPA on this project, and are hopeful to be granted original proponent status."

MSC mega boxship call reaffirms Hong Kong's transhipment value

THE Port of Hong Kong continues to maintain its place as a key transhipment port in Asia with the call of MSC Isabella during the weekend on the completion of its maiden round trip on MSC's Swan service.

The 23,656 teu Gülsün Class vessel called at Modern Terminals' Terminal 9 (South), setting a new record for the port as the first container vessel with a capacity of more than 23,000 teu to call. The biggest previous ship to call was the 21,413 teu OOCL Hong Kong earlier in the year.

"Hong Kong has historically been one of the international maritime hubs and is one of our ports of call for our Asia-Europe Swan service," said MSC.

Indonesia's Kuala Tanjung adds Chinese partner to boost port development

INDONESIA'S Kuala Tanjung Port is looking to tap the Chinese market after signing a deal with Ningbo Port to provide direct shipping services.

Kuala Tanjung International Hub Port and industrial estate operator Pelindo I have signed a Head of Agreement with Port of Rotterdam Authority and Zhejiang Provincial Seaport Investment & Operation Group, which operates Ningbo Port, to develop the port into a world-class port and industrial area.

This includes initiating direct shipping between Kuala Tanjung Multipurpose Terminal and Ningbo through a network owned by Zhejiang Provincial Seaport, as well as developing new business plans and commercial terms to integrate the terminal into the port's operations.

RMK adds to London presence with two key appointments

RMK Maritime has hired two ship finance veterans to expand its London office.

Former Scotiabank transport director David Sparkes has been appointed as managing director of Ascension Finance, RMK Maritime's dedicated first-mortgage ship lending platform.

Mr Sparkes has more than 20 years' experience in ship finance and has been involved in originating and structuring over $4bn of loan transactions, for more than 500 vessels. He also has extensive experience in aviation finance.

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BOURNEMOUTH CHRISTCHURCH POOLE COUNCIL
(POOLE HARBOUR OPENING BRIDGES)
ORDER 2006

PROPOSED Closure of Back Water Channel – Poole Harbour

NOTICE IS HEREBY GIVEN that The Council of the Borough and County of the Town of Poole ("the Council") propose to temporarily close the Back Water Channel for the full width in accordance with the powers granted by Section 17 of the above Order to execute works to the bridge structure.

The Back Water Channel will be closed to all vessels that cannot pass under Twin Sails Bridge when in a closed position. The channel will still be available to low air draft vessels, the height clearance displays will show the available air draft.

The channel will be closed from Friday 6 December 2019 until Wednesday 11 December 2019.

Dated: 13 November 2019