15 Aug 2017 | **News** | United Kingdom | Europe | EU

Post-Brexit customs revolution must meet maritime needs or risk chaos, industry warns

by David Osler

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'Very dangerous consequences' if free trade impeded, David Davis told

Davis: Seeking temporary membership of the EU customs union after Britain leaves the union in 2019.

Source: © 2017 Virgina Mayo/AP

PLANS to totally overhaul Britain's customs arrangements post-Brexit must take shipping and port priorities on board or risk widespread disruption to trade, maritime stakeholders have argued, following publication of a government position paper on the question today.

The document puts forward two alternative suggestions, one of which would mean no customs checks at UK-EU borders, and the other a range of controls that would entail "an increase in administration".

While the first alternative will likely find broad acceptance in maritime circles, the second will inevitably spark fears of a full-scale waterfront congestion crisis, of a kind top port bosses have already warned about.

In a series of broadcast interviews, Brexit secretary David Davis also floated a call for Britain to keep temporary membership of the EU customs union for some two years after it departs the EU in March 2019.

The envisaged arrangement would allow Britain to cut trade deals with third party countries, a right not extended to full customs union members.

The outcome will now depend on whether Mr Davis can get buy-in for this scheme with the Brussels negotiators on the other side of the table, with initial auguries looking unfavourable.

European Parliament Brexit co-ordinator Guy Verhofstadt instantly took to Twitter, branding the idea of Britain being "in and out of the customs union", albeit with "invisible borders", as "a fantasy".

Meanwhile, maritime interests in the UK raised concerns over the clearance of goods, port infrastructure, and support for the UK fleet and seafarer employment.

Richard Ballantyne, chief executive of the British Ports Association, said: "Preserving the beneficial arrangements of customs union membership, such as minimal checks at the border, are extremely important to a number of ports, particularly the roll-on roll-off ferry port gateways."

While the aspiration to streamline controls is welcome, he went on, it is unclear how potential new requirements to check imports will work.

"In our view the UK government has given much attention on achieving a tariff-free trade agreement with the EU without focusing on the potential bureaucratic delays there could be at the border."

Earlier this year, Port of Dover chief executive Tim Waggott told MPs that Britain's biggest ro-ro port could face kingsize congestion headaches.

Dover can currently clear a heavy goods vehicle in about one minute, compared with the four minutes-plus needed at Calais, he revealed.

This had been achieved even though the number of customs staff at the port had fallen by two thirds since the advent of the single market in 1992.

But any kind of additional customs clearance would inevitably prove problematic for a port that handles 2.6m freight vehicles and 12m passengers a year.

The UK Chamber of Shipping said it was pleased to see more detail on the specific measures the government wishes to introduce, and backed plans for a temporary customs union. However, what has been unveiled today remains insufficient, it went on.

"Given the core proposal will be beholden to European agreement, we urgently need the government to develop a plan that is already within its power, namely investment in road infrastructure around major ports, and recruitment of significant numbers of people to undertake any additional customs checks that may in the future be required."

Meanwhile, officers' union Nautilus International also weighed into the debate, hitting out against placing any obstacles in the way of the free flow of maritime trade.

"Mr Davis's proposals would provide some clarity and certainty, but it is by no means certain that they will be accepted," a spokesman said.

"The government has been given timely warnings that underline the importance of shipping to the national economy and the very dangerous consequences of failing to put workable arrangements in place for the free flow of maritime trade after Brexit."

In addition, questions about the potential impact of EU withdrawal upon the UK fleet and British maritime employment and training must also be answered.

More widely, Mr Davis's call for a temporary customs union will almost certainly be supported by British exporters, many of whom have warned against what has become known as the 'cliff edge' scenario of a sudden break with all EU arrangements from day one.

"Business wants to see as frictionless a customs system as possible," Confederation of British Industry deputy director general Josh Hardie said in a statement. "All efforts should be made to deliver a single-step transition, so that businesses don't have to adapt twice."

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Jeremy Nixon warns of risks to container shipping's fragile recovery

by Janet Porter

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New chief executive of Ocean Network Express says industry still vulnerable to boom and bust cycles despite unprecedented consolidation

Nixon: Much of container shipping's problems reflect severe supply and demand imbalances

CONTAINER shipping remains vulnerable to boom and bust cycles despite the unprecedented round of consolidation that will greatly reduce the number of individual lines by next year.

That is the assessment of Jeremy Nixon, chief executive of Ocean Network Express, the new carrier being established by the three top Japanese shipping groups.

Nippon Yusen Kaisha, Mitsui OSK Lines and Kawasaki Kisen Kaisha revealed last October that they planned to combine their container operations after years of resisting outside calls for a merger.

The announcement came just a few weeks after the collapse of Hanjin Shipping, a shock to the entire container shipping world, and one of the factors that almost certainly persuaded the Japanese trio that they could no longer continue to operate separate lines in such a difficult trading climate.

The merger is one of several huge transactions that are reshaping the business in an effort to bring stability and restore profitability to an industry that has lost vast sums of money since the global banking crisis in 2009.

No company wants to lose its independence, Mr Nixon said in a telephone interview, but neither could any survive what container shipping has been through in recent years, with even the very biggest teaming up through alliances or gaining scale via takeovers.

“Whether you are a top three, top 10 or top 20 player, everyone has been caught out to some extent by record losses,” said Mr Nixon, the former head of NYK’s global liner business.

“Those losses have led to value destruction in term of the balance sheets, with most lines having to impair their assets, particularly due to the corrosion of secondhand prices of ships and equipment.”

However, even after so much consolidation that will see the industry dominated by seven global players once Maersk has completed its takeover of Hamburg Süd, Cosco Shipping has finalised the acquisition of OOCL, and ONE inaugurates services next April, Mr Nixon said that there was no room for complacency in an industry that is so exposed to external risks.

Although financial results reported so far this year suggest that the container trades are picking up, with freight rates strengthening from 2016’s record lows, Mr Nixon said he remained “very cautious” about whether the worst was finally over.

“In 2017, we are seeing some semblance of balance returning to the market,” he told Lloyd’s List.

“However, it is early days, and container shipping remains very vulnerable to sudden geopolitical and economic shocks.”

But there is also another risk that could bring the fledgling recovery to a halt.

Much of container shipping’s problems reflect severe supply and demand imbalances, with excessive newbuilding activity in recent years at a time when demand growth has been slow.

That ship capacity surplus has started to recede since ordering came to a virtual halt, but there are already rumours that a leading container line is in negotiations with shipyards about a series of 22,000 teu ships. And once one owner or operator starts adding to its fleet, others may well follow.

Furthermore, Mr Nixon pointed out, the global investment industry is awash with liquidity, with trillions of dollars looking for opportunities that provide a return on capital above today’s depressed bond rates.

Should some of that money find its way into the container shipping industry and be used to finance new ships, that could fuel another boom and bust scenario.
With so many uncertainties, there could still be more consolidation, Mr Nixon predicted, but the industry would need to tread with care.
For if it becomes too concentrated, then there would be no need for any consortia, “and ultimately, the end consumer would have less choice,” said Mr Nixon.
“We have to find the right paradigm between the requirements of the customer, our shareholders, and regulators, where we have a strong enough industry that can ride out these shocks, provide a good and competitive level of service, and still be a servant of global trade.”

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Driller thriller: Transocean swallows Songa Offshore for $3.4bn

by Nidaa Bakhsh

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Combined company will have a contracted backlog of $14.3bn, by far the largest in the world

Songa Offshore's CAT-D drilling rig Equinox is one of four that will form part of Transocean's fleet.

TRANSOCEAN, the largest drilling company in the world by market capitalisation and fleet size, has agreed to buy Norwegian company Songa Offshore for a total of about $3.4bn, giving it access to long-term contracts with oil major Statoil.
The deal, which strengthens Transocean's position in harsh environment and deepwater drilling, will result in cost and operational synergies of about $40m per year, the Zug, Switzerland-based company said in a statement.

The offer of NKr47.50 per share, which is a 39.7% premium to Songa's closing share price on August 14, implies an equity value of Songa of NKr9.1bn ($1.1bn) and an enterprise value of some NKr26bn, it said in a statement.

Transocean said the total transaction value amounted to $3.4bn, comprising shares, convertible bonds and cash, to take up 100% of the equity. Transocean added that the deal increased the contracted backlog by $4.1bn to a combined $14.3bn through a fleet of 51 mobile offshore drilling units.

Transocean has a fleet of 44 rigs, with four to be built, while Songa has four.

Perestroika, Songa's largest shareholder — owned by Songa's chairman Frederik Mohn — will become the largest shareholder in Transocean, with about 12% of the combined group.

Transocean's president and chief executive Jeremy Thigpen said: "Songa Offshore is an excellent strategic fit for Transocean. With this combination, we add four new state-of-the-art Cat-D semisubmersible rigs to our existing fleet, further enhancing our position in the harsh environment market.

"We also demonstrate our continued commitment to the Norwegian market and strengthen our technical and operational presence in that region."

Mr Mohn said: "The combined company will have an unparalleled backlog backed by strong counterparties.

"By adding Songa Offshore's four Cat-D rigs to Transocean's existing harsh environment fleet, the combined company will be the leader within this segment which is showing signs of recovery."

On the Oslo stock exchange, Songa's shares rose to NKr46.20, the highest since March 2016, following the announcement.

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Cheap VLCCs cannibalise smaller crude tanker trades

by Eric Yep

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With suezmax rates near bottom, VLCC competition just makes things worse

THE GLUT of aframax and suezmax tankers across most regions continues to pressure spot charter rates, and falling rates for very large crude carriers have made things worse for smaller tankers.

The benchmark aframax time charter equivalent on the Baltic Exchange has slipped nearly 16% in the past week to $1,102 per day, a multi-year low and an earnings level that falls below operating costs.

The bulk of the losses was driven by weak demand in the North Sea, Mediterranean and Baltic markets. Market sentiment will likely be weighed down by the vessel oversupply in coming weeks.

Suezmax rates fared marginally better, with the time charter equivalent rising 12.2% to $$7,432 per day on the Baltic Exchange, helped by some volumes in the West African market.

There was also an uptick in activity on the TD6 route from the Black Sea to the Mediterranean that propped up benchmark rates, but not enough to boost rates significantly. Cheaper economics of transporting oil on VLCCs trumped demand for smaller tankers such as suezmaxes.

“Asian suezmax rates dipped from last week, capped by a grim VLCC market and a lack of fresh activity. It is currently around $4 per ton cheaper to load cargoes on a VLCC instead of suezmax for an Arab Gulf-Japan voyage,” Ocean Freight Exchange analyst Rachel Yew said in a report.

She said the West Africa suezmax market had been plagued by a lack of cargoes for the last 10 days of the month due to heavy competition from their larger counterparts, causing rates for the TD20 route from West Africa to the Continent to fall by 2.5 points to Worldscale 65.

The aframax market was busier in the Far East-Indonesia region compared to the Arab Gulf, which was fairly quiet other than some shorthaul activity, but ample tonnage plagued both regions, Ms Yew said.

There is little reason for optimism in the market, and owners are more than willing to take up shorthaul trades from Southeast Asia to North Asia, instead of down towards Australia, in the hope that low rates would normalise soon.

A ship broker said rates were so low that charterers in Asia have been bargain hunting for cheap period charters to take advantage of current TCE levels and try to make some money.

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Meanwhile, the International Energy Agency confirmed in its latest monthly report that higher loadings from Libya led to higher activity, but ample ship supply and a lack of shipping bottlenecks in the Mediterranean weighed on prices.

The Organisation of the Petroleum Exporting Countries posted four straight months of production gains, with supply in July rising to a new 2017 high of 32.84m barrels per day, out of which Libya and Nigeria accounted for more than 70% of the increase.

Both are important loading points for aframax and suezmax tankers.

However, clearly it will take a much bigger surge in production levels to offset the oversupply situation.

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Container trades on course for record growth

by James Baker

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Trade and throughput figures bounce back after two grim years

Container trade is showing signs of a return to meaningful growth.

CONTAINER carriers look set for a bumper year after two years of miserable conditions on the box trades, according to analysts at Drewry.

As bellwether and industry leader Maersk prepares to release its results for the first half of the year tomorrow, Drewry has reported that throughput at 150 ports has risen by 6.6% in the first six months of the year, while deepsea and regional trade figures were also showing advances.

This is in marked contrast to the previous two years, where there was little or no growth in throughput.

“If the current rate for 1H17 as suggested by our sample ports holds true for the remainder of the year it will have been the fastest growing year since 2011,” Drewry said.

While the growth comes from a low base, Drewry argues that it is economic growth and not just a statistical anomaly that is behind it.

“The world economy is proving to be more resilient than expected, highlighted by the IMF upgrading its global outlook for 2017 and 2018 in April and maintaining both in the interim July update,” Drewry said. “While the IMF’s upgrades were not earth-shattering they are significant in that they mark a change in mood-music, when previously they chopped down their original assessments with grim regularity.

Companies that have been running down inventories are now restocking and consumer confidence is up in many economies as conditions improve. The easing of sanctions against Russia and Iran had also played a part in increasing container traffic.

Drewry said the surge in container handling had been evident since the end of 2016, and had gathered momentum, forcing it to upgrade its growth outlook for the year.

"We expect the second half of the year to deliver similar volumes as the first half, although because of the tougher comparisons the growth rate might not be quite as strong," Drewry said. "How much of a lift there will be in the traditional third-quarter peak season is debatable as volumes have smoothed out significantly in the past few years. The surge of online shopping now means that buying patterns are spread more evenly through the year."

Nevertheless, there are concerns that container trades are becoming unbalanced, according to analysts at SeaIntel, who pointed out that while headhaul demand growth had been quite stable across the first two quarters of the year, the backhaul trade growth had changed dramatically.

The first quarter saw high demand growth in the backhaul trades whereas the second quarter has seen a complete reversal to the point where headhaul and backhaul have exhibited almost identical growth during the first half of the year.

"It is important to note that until now, 2017 has been a year where backhaul trades grew significantly in the beginning of the year, but this trend has subsequently been reversed, and we are now on track to set the record for the highest level of trade imbalance measured at a global level," SeaIntel said.

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China bans shipment of coal and iron ore from North Korea following UN sanctions

by Inderpreet Walia

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Ban to come into force from September 5 this year

China's ban on certain North Korean imports might not have a significant impact on the dry bulk sector.

CHINA has called for an end to imports of coal, iron and lead ores, and seafood from North Korea, in line with UN sanctions imposed following Kim Jong-un's nuclear and missile proliferation plans.

Chinese media reported that the country's customs agency will stop processing imports from North Korea from midnight on September 5 this year.

However, the shipments already on their way to China will be cleared as usual by customs ahead of the sanction deadline.

Although Beijing had pledged to fully enforce the new sanctions, the development might not cause big ructions in the dry bulk market.

"I do not think that the new announcement really adds much new [detail]," said Ralph Leszczynski, head of research at Banchero Costa.

"For bulk shipping, this is really only about coal, as volumes of other commodities like iron ore and lead are quite insignificant."

The new ban "is more to show to the world that China is doing something at a time when tensions between the US and North Korea are increasing," Mr Leszczynski said.

"China needs North Korea to remain a buffer, but wants to avoid war at all costs. The current belligerence and missile testing by the North Koreans is not helping the Chinese in this, and China feels it must now tighten the leash to make them calm down," he added.

Mr Leszczynski noted that China has already done a lot to curb North Korean imports this year, as it has already effectively halted coal imports from its neighbour after the first quarter of this year.

Back in February, China suspended coal imports from North Korea for a year, in accordance with the UN National Security Council resolution that targeted North Korea's commercial trade to curb the country's nuclear and ballistic missile ambitions.

Since May, customs data show no coal cargoes have been transported from North Korea to the world's largest importer.

Coal imports from North Korea to China in the first seven months of 2017 were down some 75% year-on-year to less than three million tonnes, Banchero Costa data shows.

In 2016, China imported some 22m tonnes of coal from North Korea, about 9% of China's total coal imports.

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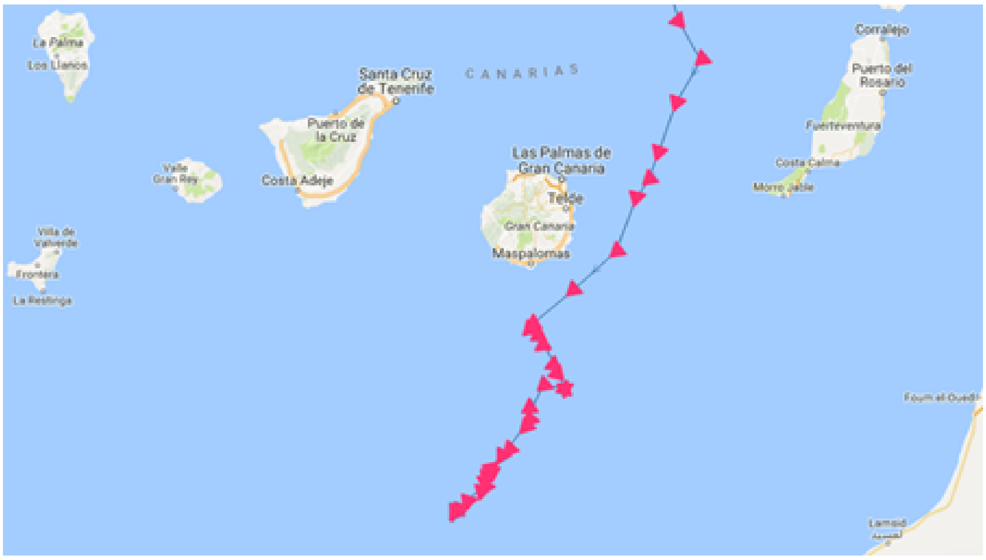
Bulk carrier feels the heat in Gran Canaria

by Kuganiga Kuganeswaran

Salvors called to cool cargo hold after vessel refused entry to port



Lloyd's List Intelligence AIS data placed Cheshire 66.1 miles from the port of Arguineguin.

THE crew of a bulk carrier have been evacuated after raised temperatures were detected in the vessel’s cargo of ammonium nitrate-based fertiliser.

The Isle of Man-flagged, 56,598 dwt bulk carrier *Cheshire,* loaded with a full cargo of the fertiliser, was on passage from Norway to Thailand, said owner Bibby Line.

The port authority at Las Palmas denied the vessel permission to enter. It was directed to head southwards.

At around 1500 hrs on Sunday, the vessel was at a safe position 45 miles south of Gran Canaria.

Light wind conditions mean that fumes from the cargo were not being carried away from the ship, so the crew of 20 seafarers were evacuated.

Bibby Line said *Cheshire* was experiencing elevated temperatures in Nos 4 and 5 cargo holds. Local authorities were offering assistance and the cargo's manufacturer had sent a representative to Las Palmas to advise on cooling.

The temperature in No 4 cargo hold has risen enough to cause damage to the hatch cover. Professional salvors, Resolve Marine, have been appointed to attend the vessel and cool the affected cargo.

An access ladder has been rigged and a stand-by tug is to stay with the vessel, which is drifting in a southerly direction away from land.

Lloyd's List Intelligence automatic identification system data placed *Cheshire* 66.1 miles from the port of Arguineguin at 0155 hrs on Tuesday.

Cheshire is one of three vessels owned by Bibby Line.

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Strong US port volumes bode well for box lines

by Janet Porter

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July the best month on record for top US container ports

Los Angeles: Throughput at the largest US port climbed 16% in July compared with a year earlier to almost 797,000 teu.

CONTAINER lines are enjoying a bumper summer in the US trades as ports on both sides of the country post record volumes for July.

Los Angeles, the largest port in the US, saw throughput climb 16% in July compared with a year earlier to almost 797,000 teu, while volumes so far this year are 9.5% higher. Last month was the busiest July on record, surpassing the 2006 figure.

Across San Pedro bay in Long Beach, July was the best month in the port's history, with container traffic increasing 13.1% to just over 720,000 teu as the port continues to recover from the collapse last year of Hanjin Shipping, a major customer and tenant.

Further up the west coast, Oakland reported an all-time high for inbound containers in July. On the east coast, South Carolina Ports Authority posted its strongest July yet seen for Charleston, while year-to-date volumes were up 13%.

The numbers reflect a strong peak season for US retailers that import merchandise ahead of the Thanksgiving and Christmas holidays when consumer spending surges.

This strong growth in volumes also reflects further good news for US west coast ports after the recent vote by members of the International Longshore and Warehouse Union to extend the existing labour contract by three years to 2022, so helping to restore cargo interests' confidence in Pacific seaboard gateways.

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Supras fall further as vessels vie for employment

by Inderpreet Walia

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Brokers expect the market to stabilise soon

ACTIVITY in the supramax bulker market has slowed over the past week, overshadowed by a lack of enquiries and high vessel availability in both the Atlantic and the Pacific regions. The week began on a quiet note, with route levels in negative territory. But later some resistance was seen, particularly from the US Gulf, where activity increased, the Baltic Exchange said in its weekly note.

In the Pacific, the supramax market started very quietly but gained some footing as the week progressed and was able to hold back any further rate losses, Allied shipbrokers noted.

According to the Baltic Exchange, the weighted time charter average for supramaxes was assessed at $8,609 per day on Monday, down by $21 compared with a week ago and the lowest in four weeks.

The Baltic Supramax Index stood at 760 points versus a week-ago level of 762.

Although the supramax market was described as “suffering from the bearish sentiment” by brokers, few expected the market to stabilise.

Steel and clinker cargoes were the area of concentration for many Chinese charterers, said Gulf maritime brokers, adding that ships’ income remained compromised for these trades but the vessels were not being fixed at discounted rates.

Meanwhile, some optimism was observed in Indonesia for coal cargoes, but so far rate improvements have not materialised.

Spot trade almost halved during the week, with Clarksons reporting 15 fixtures in the past seven days.

On east coast South America, a 2006-built, 55,600 dwt vessel was fixed basis delivery Recalada trip to Turkey at $13,500 per day.

In the east Mediterranean a 2012-built, 50,400 dwt ship was concluded at $15,250 per day for a trip from the Black Sea to the Middle East.

However, the bellwether represented by the period market appeared unchanged in the face of the market pessimism.

Only one vessel was fixed at time charter, for five to seven months at $10,500 per day, the Baltic reported.

In the secondhand market, a 2010-built supramax was sold for $11.9m, according to VesselsValue. That is slightly higher than a deal in July.

The supramax carriers *Xin Qiang* and *Sheng Qiang*, both 19 years old and 45,700 dwt, were sent for recycling by Cosco Shipping Bulk to Chinese yards at an undisclosed price.

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DSME returns to profitability in the first half

by Wei Zhe Tan

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Extensive restructuring and more high-value newbuilding vessel orders help boost operating profit

DSME expects earnings to improve in the second half in light of 20 high-value orders in the pipeline.

SOUTH Korea's Daewoo Shipbuilding & Marine Engineering reported a profitable first half of the year, following losses in same period last year, as its comprehensive restructuring efforts along with the securing of more high-value newbuilding orders pushed results into the black.

The group posted a Won1.5trn ($1.3bn) net profit for the six months ended June 30, 2017 over a Won960.8bn net loss a year ago.

Operating income for the period also returned to the black at Won888.0bn, compared with a Won198.5bn operating loss in the 2016 half.

Revenue decreased to Won6.2trn from Won7.1trn, though the corresponding fall in the cost of sales to Won4.8trn from Won6.9trn helped lift earnings.

DSME said it had negotiated with owners to obtain additional construction related expenses and compensation for delaying the delivery of a number of offshore vessels.

The offshore projects, which were responsible for significant losses incurred in the previous periods, had mostly been delivered to their owners, said DSME in a statement, thus improving earnings as well.

Additionally, the group's extensive restructuring initiatives, such as headcount reduction, cost optimisation measures and its shift to focus on higher-value added vessels such as liquefied natural gas carriers and ultra-large containerships, improved earnings during the period.

The group's independent auditor, Samil PricewaterhouseCoopers, which had issued a qualified opinion on its financial statements at end-2016 due to uncertainties over financing plans and weak internal controls, conducted a review over the first half of 2017 and found an improvement in the company's financial structure due to debt restructuring efforts by Korea Development Bank, said the shipbuilder.

"Profitability is expected to continue to improve as more than 20 high-value merchant ships' projects are scheduled for the second half," said a DSME official.

"In addition, we plan to implement the plan more thoroughly to achieve early management normalization. We will try to give back to creditor banks, corporate bonds, commercial paper investors, and shareholders who have joined in."

Amid a long-running accounting scandal, South Korea's Securities & Futures Commission in May ordered DSME to correct all its financial statements from 2008 to the first quarter of 2016.

After the amendments, the shipbuilder was shown to have incurred losses for five consecutive years between 2012 and 2016 instead of between 2013 to 2016.

The ailing shipbuilder received another much needed financial aid package from state-backed KDB and the Export-Import Bank of Korea over June and July, in exchange for investors swallowing losses on their corporate bonds and commercial paper in a substantial debt to equity swap.

Subsequently, DSME's debt-to-equity ratio dropped to 248% as of end-June 2017, from 1,557% at the end of the first quarter of the year.

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