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# Time for box shipping to get real, says professor

by Linton Nightingale

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'If you base your projections on the relationship between GDP and volume growth you are screwed'


Rodrigue: The gap between expectations and reality is growing.

CONTAINER shipping needs to get used to the reality of slow volume growth and fast.

This is the view of Professor Jean-Paul Rodrigue from the department of global studies and geography at Hofstra University in the US, who today told delegates at TOC Europe in Amsterdam that the industry had failed to acknowledge a trend signifying troubled times ahead.

“What appears to be unfolding creates a lot of backlash for the maritime container shipping business,” he said.

He said that having studied the disparities between growth forecasts and the reference growth prospects used by much of the industry, the worry was that the gap between expectations and reality was growing.

One example, he said, lay on the US east coast where ports had invested heavily in infrastructure to accommodate a new post-panamax era, but there was essentially no major growth anticipated to help pay for these huge outlays.

“There is an expectation that infrastructure will bring trade and it doesn’t always happen,” he said.

While there would be small pockets of growth, these would become increasingly hard to find.

He said: “Containerisation is a cycle and each phase of a cycle is prone to drivers. We are now reaching a phase of maturity, where growth in expanding your network is now rather about what is left in terms low hanging fruit and what are the new niches that need to be deployed.

“Wherever you look, every aspect of the supply chain from manufacturing, distribution to e-commerce, all of this is telling you that the labour component in the manufacturing sector as a factor of comparative advantage is vanishing as we speak.

“And as this labour arbitrage gain which has played alongside globalisation draws itself to an end, it is going to have an impact on the location and decision making process of the supply chain.”

Since maritime shipping was derived of demand, this was going to have a considerable impact on the derived demand function, he added.

“And if we add to this process the rise of nationalism, ‘Trumpism’ and ‘Brexitism’, this gives you a very interesting new context for global trade,” said Mr Rodrigue. “How do you build a business strategy under these circumstances?”

Furthermore, he said that those companies that had based trade growth projections on the gross domestic product/teu multiplier were in for a shock.

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“The last figure I compiled for 2016 showed that this has reached a new record, zero.
“If you base your projections on the relationship between GDP and volume growth you are screwed, as the relationship at this point has diminished.”

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# Maersk suffers massive cyber attack

by James Baker

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Updated: APM Terminals' Maasvlakte II closed

Maersk confirmed its IT systems were down across multiple sites and business units.

DANISH carrier Maersk has been hit by a major cyber attack that is affecting companies around the world.
The attack, which was first noted in Ukraine, has hit a number of companies there, including Rosneft, but has also reportedly affected global advertising giant WPP, which is based in the UK.
“We can confirm that Maersk IT systems are down across multiple sites and business units due to a cyber attack,” Maersk posted on its Twitter account.
“We are currently assessing the situation.”
Maersk's terminals division, APM Terminals, has been forced to halt operations at its fully automated Maasvlakte II terminal in Rotterdam, which it blamed on the cyber attack.
Maersk said it would continue to update on Twitter.

Maersk has been at the forefront of shipping's push towards digitalisation. It takes 98% of its bookings over digital channels and has been a strong proponent of new technologies such as Blockchain.

Any IT failure will come as a severe blow to the company and to APM Terminals, which has invested heavily in automated technologies, particularly at Maasvlakte II, and will call into question the safety and security of online and automated services.

"The safety of our employees, our operations and our customers' business is our top priority," Maersk said.

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# Future of Africa's hub ports in doubt

by James Baker

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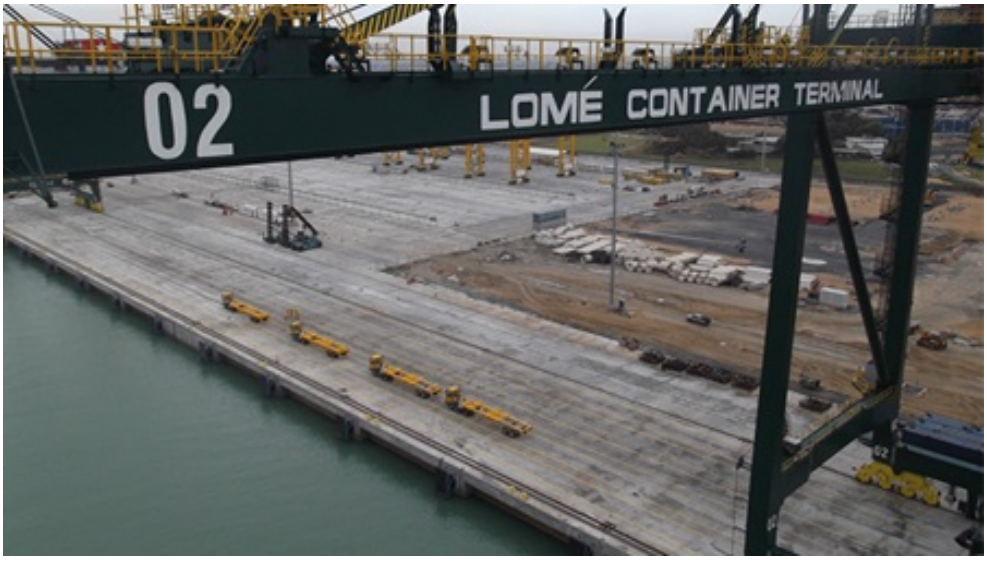
Falling volumes put new developments at risk




Lome has been one of the success stories in Africa.

THE location and nature of transhipment hubs serving the West African port market is changing and slowing volumes mean the progress of new projects has been stymied, according to a report from Drewry.

Two major greenfield projects had been hit by the sharp decline in Nigerian container traffic over the past two years, Drewy said.

"Overall regional activity has fallen by nearly 13% since 2014, with more spectacular falls in some countries, particularly those with oil-based economies such as Angola and Nigeria," said the report.

As the region's largest market, Nigeria had attracted two substantial new port projects at Lekki and Badagry. The Lekki project was backed by ICTSI and CMA CGM, but ICTSI had pulled out of the project due to "delays in execution", and CMA CGM would likely follow, Drewry said.

"The Badagry project, meanwhile, is backed by APM Terminals and TIL (Mediterranean Shipping

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Co) but limited progress appears to have been made, and APMT now has a completely revised corporate strategy focused on optimising existing assets rather than developing greenfield new ones," Drewy said.

"In this context, it is therefore surprising that DP World is reportedly in discussions with the Nigerian Ports Authority to develop a new port close to Lagos, but perhaps the company sees a long-term opportunity if the other projects look like faltering."

The Lagos project will comprise greenfield and brownfield container and bulk facilities.

Nevertheless, there were some bright spots, Drewry said.

The new TIL hub at Lome, Togo, opened in 2014 and handled over 500,000 teu in 2016. Moreover, MSC recently signed a 35-year concession agreement with Ivory Coast's second port of San Pedro to upgrade and operate its container terminal and has said the improvements would allow vessels of up to 14,000 teu to use the facility.

"Abidjan is already established as a hub port in Ivory Coast and San Pedro will surely join it, indicating that MSC is not going to rely on Lome as a single hub in the region," Drewry said.

Port developments were altering carriers' network plans, particularly in light of falling volumes, Drewry said.

"There are significant differences between the way in which the European and Asian routes are served, even though the size of each trade is similar," Drewry said.

"While the Europe route now has 27 loops with an average vessel size of 2,502 teu, the Asia route has only eight loops with a much larger average vessel size of 5,551 teu."

The maximum vessel size operated on the Asia-Africa trade is 13,102 teu, compared with 4,651 teu in the European trade.

"The much larger vessel size on the Asian route – hence the smaller number of loops – is due to the longer route distance in this trade, which makes the economies of scale from employing larger vessels more important than in the European trade."

On the European trade route, rather than operating hubs on the West African coast, they carry out their hubbing 'offshore' in the western Mediterranean.

"This not only gives access to cost-effective hub ports, but they have a range of other services available to carry cargo between the full range of European ports and the hubs, minimising the round voyage time for these loops."

Most West African port projects were in uncertain waters, Drewry said, but in the long run, major new port projects would make sense, although it was unlikely that all the proposed projects would succeed.

"Much will depend on carrier backing and, in this respect, MSC is leading the way in terms of developing hubs within the region," Drewry said.

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# Funding call for US waterways

by Peter Hurme

Crumbling infrastructure is holding back bulk exports from US hinterland

Barges are being held up at the La Grange locks on the Illinois River.

*Source: Andy Turner, Panoramio*

AMERICAN soyabean shippers still prefer to use bulk barges for export markets despite the ageing US inland waterway system being a victim of both its economic success and crumbling infrastructure.

The vast US inland waterways have long represented a commercially viable, robust, low-emissions alternative for bulk commodities sourced throughout America's heartland, and barges are a less time-sensitive, but relatively reliable mode of soyabean shipping.

Approximately 60% of US soyabeans are exported through export grain elevators in the US Gulf, according to Informa Economics data.

Up to 50 barges can be part of a single tow downriver to export grain elevators; the equivalent of a 50,000-tonne panamax bulker.

Built mostly in the 1930s, the lock and dam system was constructed with an estimated lifespan of 50 years and the age of the lock and dams is not matching up well with busy, modern commercial river traffic, causing costly delays.

Approximately one third of the nation's 171 inland waterway lock sites are more than 70 years old.
It is not unusual for cargoes to have to wait for as much as a day to pass through locks.

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That bottleneck includes the La Grange lock on the Illinois River, one of a handful of lock and dam restoration priority projects being considered by the Trump Administration as part of a proposed plan to spend $200bn on critical US infrastructure needs.

“These operators are burning $1,000 per hour when they are slowed down through the locks. The Panama Canal widening has pushed the bottleneck here,” US Army Corps of Engineers deputy chief of operations Thomas Heinold said.

In a speech in Cincinnati earlier this month, President Trump said: “These critical corridors of commerce depend on a dilapidated system of locks and dams more than half a century old.”

In the same way that the Panama Canal Authority needed newer, wider locks to accommodate larger, modern tonnage, the US canal system needs wider, better functioning locks. At present, a multi-barge tow means the barges must be broken up and sent through the locks individually.

The $100m Lafarge lock restoration project will double the size of the locks.  “For every dollar invested [in the locks, it] comes back as $12 in savings,” Mr Heinold said.

The devil will be in the detail of the Trump infrastructure plan. Nothing concrete has been announced yet, even though at least part of the locks restoration funding was to be covered under the Navigation and Ecosystem Sustainability Programme, which was approved by Congress in 2007.

“If the norm of funding persists, we’ll continue with the same [lock and dam] technology and without a major rehab,” Mr Heinold added.

The Illinois Soybean Association puts the cost at well over $3bn to upgrade surface and waterways transport infrastructure statewide. “If we cannot get our beans to market, they’re worth nothing,” said ISA director Mike Levin. “We’re losing our competitiveness.”

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# IMO thinking about thinking about Arctic fuel oil use

by David Osler

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Issue moves up agenda at July MEPC

The proposals do little more than ask for a review of the threat and the identification of possible countermeasures.

OVER a dozen environmentalist groups have lined up to back calls for the International Maritime Organization to at least begin the process of thinking through the risks posed by heavy fuel oil in the Arctic.

A group of countries led by Canada, and also including Finland, Germany, Iceland, the Netherlands, Norway and the US, have come up with some discussion points that will be heard at the next session of the UN agency's Marine Environment Protection Committee, due to be held in London in July.

The rub is that nothing concrete is on the table. The proposals do little more than ask for a review of the threat and the identification of possible countermeasures. For its part, the Clean Arctic Alliance — which brings together over a dozen green groups, including Friends of the Earth US, Greenpeace and the World Wildlife Fund — is reasonably confident that the package will get the nod.

But even if it does, nothing will happen immediately, or even any time soon. Victory will consist solely in getting bureaucratic gears moving, however slowly.

That said, the CAA has good reason to believe things are moving its way, following a recent European Parliament resolution which seeks to prohibit the use of HFO in Arctic waters altogether, in line with an existing ban in the Antarctic.

Even some industry players, such as the Danish Shipowners' Association and Arctic expedition cruise operator Hurtigruten are among those agreed in principle with tighter controls, it points out.

At present, the dominant framework is the IMO's Polar Code, which regulates ship operations in the region for human safety and environmental protection purposes, and which came into effect at the beginning of 2017.

The document is inevitably a compromise, and many green lobbyists do not believe that it goes far enough. The rules expressly forbid overboard dumping, for instance, but do not rule out the carriage and use of HFO on vessels working in the Arctic per se.

What is clear is that the impact of global warming on the planet's northern ice cap is taking its toll. March this year saw the lowest amount of winter ice in the Arctic since satellite records began 38 years ago, most likely resulting from human use of fossil fuels.

Ironically, this in itself makes it easier for shipping to use Arctic waters, thanks to the resultant reduction in transit times on many key routes.

This in turn would mean more burning of fossil fuels, and more emissions of black carbon into the Arctic environment, both of which would accelerate further melting.

Moreover, more open water means more absorption of the sun's warmth and heating of the Arctic Ocean.

Of particular concern is the possible impact of any spill, which would likely to be far harder to clean up than a similar spill elsewhere in the world, given the physical distance from recovery assets.

Moreover, HFO takes longer to break down in cold water than in warmer parts of the world, making for a stronger impact on both ecosystems and the livelihood of residents in the Arctic region.

Unsurprisingly, the shipping industry tends to dislike regulatory burdens, and mandatory use of alternative fuels such as

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distillates would surely prove costly.
And if the recent move by President Donald Trump to pull the US out of the Paris Agreement on climate change is anything to go by, it is not clear that the world's major governments have any consensus on the next steps.
But use of HFO in the Arctic now is on shipping's political agenda. That, as far as the CAA is concerned, can only be good news.

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# January-May VLCC newbuilding activity highest in nine years

by Wei Zhe Tan

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BIMCO warns shipowners to manage the supply side for crude oil tankers as demand is unable to provide support


Demolition of crude oil tankers has remained close to zero over 2015 and 2016.

NEWBUILDING contracting activity for very large crude carriers in the period between January and May this year was at its highest since 2008, according to data from BIMCO.
For the first half of 2017, it said 11.8m dwt of tankers were ordered and out of that, 71% of the newbuilding deals inked were for VLCCs, which comes to a total of 8.5m dwt or 27 vessels.
The 27 VLCC newbuildings were all ordered between January and May 2017, the highest number since 2008. The remaining vessel orders for the fist half were comprised of 2.2m dwt suezmax tankers and 1.1m dwt aframax tankers.
BIMCO said net fleet growth for VLCCs hit 8.1% in February this year, the highest level since September 2009, as the number of VLCCs delivered for the first five months of 2017 reached its highest figure since 2011, while only two VLCCs had exited trading to date in 2017.
These deliveries had added to supply, while demolition of crude oil tankers had remained close to nil for most of 2015 and 2016 amid relatively better rates seen in the sector.
The lack of demolition activities had therefore compounded the oversupply issue and led to higher fleet growth amid increased deliveries.
In June to date, 22 tankers were ordered, at 2.6m dwt.

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Amid that order number, 1.9m dwt were for suezmax crude oil tankers, and 500,000 dwt for product tankers.
"BIMCO continuously stresses the need for managing the supply in the crude oil tanker industry," said BIMCO chief shipping analyst Peter Sand.
"It is essential to handle the supply side, as demand growth will not support the market to the same extent as it did in 2016.
"If the situation doesn't ease off, we might see the same fundamental imbalance for tankers as seen in the dry bulk shipping industry, which will take years to overcome," he added.

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# KHI axes newbuilding contract with Island Offshore unit

by Wei Zhe Tan

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Client is facing financial difficulties


KHI to monitor ongoing developments for Island Offshore.

JAPAN's Kawasaki Heavy Industries has ended a shipbuilding contract for an offshore vessel with a unit of Norway-based Island Offshore Shipholding LP Group.

It noted volatility in crude oil prices over the past few years had posed challenges to many marine offshore-related firms.

While Island Offshore is conducting business as usual, it had suspended the principal redemption of financial debt temporarily, while discussions with banks over debt repayments are scheduled to commence by end-June this year.

"We will pay close attention to future developments and will inform of any major news," KHI said in a statement.

In January 2014, KHI had inked an agreement to construct a combined well intervention and tophole drilling vessel named *Island Navigator*.

KHI had been building the vessel at its Kobe shipyard, with initial delivery scheduled for the first quarter of 2017.

Island Offshore later revealed that expected delivery was in 2018-2019, with the vessel fully funded via Japanese finance institutions.

Lloyd's List has reached out to Island Offshore for comment.

Separately, KHI inked a newbuilding deal with Singapore-based Kumiya Navigation Pte Ltd to build a 82,200 cu m liquefied petroleum gas carrier.

Under the agreement, the vessel will measure 230 metres in length, 37.2 m wide and 21 m in depth.

It will be equipped with a proprietary Sea-Arrow bow shape and fuel-saving components for the engine and propeller.

There will also be an exhaust gas purification device to adhere to the International Maritime Organization's sulphur oxide emissions regulation that will come into force by 2020.

The vessel will be built at the Sakaide yard and is scheduled for delivery over 2020.

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# Hanjin Heavy issues $50m loan to Philippines unit

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by Wei Zhe Tan

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Move comes after full acquisition of the Subic Bay-based yard operations

Loan is to be repaid in six months.

SOUTH Korea's Hanjin Heavy Industries & Construction has said it will make a Won57bn ($50m) loan to a Philippine-based unit HHIC-Phil to cover working expenses.

The sum comprises about 6.4% of HHIC's total Won895.2bn in equity capital at an interest rate of one-month Libor plus 1% and repayment is due on December 27, 2017.

The loan comes after HHIC announced last week it had acquired a 99.9% stake, or 37.4m shares, in its Subic Bay-based affliate for Won56.9bn via a debt-to-equity swap.

The company has been consolidating a number of its units or subsidiaries as it attempts to improve its global competitiveness and, in May, it announced a decision to merge with its technical services unit, HHIC-Total Marine Services.

In January 2016, HHIC received approval from its creditors, led by Korea Development Bank, to proceed with its voluntary debt restructuring as it struggled to stay afloat amid a liquidity shortage.

At that point, the medium-sized shipbuilder had been incurring losses, stemming from the prolonged shipping downturn, over the past six years.

Earlier in June, the company decided to offload its land and buildings in Busan to Samkang Metal and other investors for Won160bn as it attempted to raise liquidity levels.

The transaction is scheduled to be completed by October 31 this year.

HHIC had, in the same month, also successfully bid on a contract to build four warships for the government's Defense Acquisition Programme Administration for Won259.9bn.

HHIC's restructuring is nothing new, with its bigger compatriot, Hyundai Heavy Industries, having spun off a number of divisions into distinct subsidiaries to simplify its business structure and decrease its total debt level by spreading it out to the different entities.

Under the new structure, HHI combined its shipbuilding units Hyundai Mipo Dockyard and Hyundai Samho Heavy Industries into one entity; spun off its electric and electronic division into Hyundai Electric; spun off the construction equipment division into Hyundai Construction Equipment; with Hyundai Oilbank retaining its separate entity status.

Another division, Hyundai Robotics, was designated as the holding company for the four entities to simplify the conglomerate's business structure.

Shares of the four entities were subsequently listed on the Korea stock exchange on May 10 this year, helping to cut net debt levels by 53.1% to Won2.3trn.

Last week, Hyundai Mipo Dockyard offloaded a 7.98% stake in Hyundai Robotics for Won376bn as part of plans to end the cross stockholding structure previously adopted by HHI Group among its numerous affiliates.

HMD has until September 2017 to sell all its shares in Hyundai Robotics.

In turn, due to its status as a holding company, Hyundai Robotics announced plans to sell Won1.71trn worth of its shares to fund the acquisition of shares in HHI, Hyundai Electric and Hyundai Construction Equipment.

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Hyundai Robotics will eventually increase its stake in HHI to 27.8% from 13.4% at present.
HHI won an order to build one 180,000 cu m liquefied natural gas carrier for Norway's Knutsen OAS Shipping last week, along with an option to build another vessel, according to an HHI official.
The vessel will be equipped with an M-type, electronically-controlled gas injection engine and is scheduled for delivery over 2020.
Upon delivery, the vessel will be deployed to transport LNG for Spain-based power firm Endesa, which will purchase 2.25m tonnes of gas per year from the Corpus Christi LNG project, the official said, noting the newbuilding contract price was confidential for now.
In March, HHI had received an order for a 180,000 cu m LNG carrier worth $193m from Knutsen to transport LNG for Spanish power company Iberdrola for seven years, with an option to extend.

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# How to ensure you have a ballast water treatment system on board that actually works

by Ioannis Stefanou

Beware: issues with the installed systems is something commonly experienced

Installing BWTS that might not be fully functional when required is not something any owner would like to see. *Source: Doug McLean/Shutterstock.com*

THE second half of 2016 brought shockwaves to some shipowners who were still in a state of denial about the need to install ballast water treatment systems on board their vessels. The ratification of the Ballast Water Management Convention and the announcement of the first US Coast Guard type-approved BWTS saw many shipowners rushing to drydock their vessels at the beginning of the year, or deharmonise their International Oil Pollution Prevention certificates in an attempt to delay fitting a BWTS on board their ships.

Others have already installed a BWTS on board or have decided to install one. Much has been written on the various constraints that are to be faced for selecting and installing a system, but not much has been heard about the systems installed on board.

So do they work? And by 'work', I am not referring to whether they treat the water to the desired level; I mean whether or not they are operational. The answer to this is that unfortunately many don’t – at least not in such a straightforward way as many manufacturers would like us to believe.

Within the Wallem-managed fleet, we have more than 40 vessels with BWTS installed, either during the newbuilding stage or retrofitted. These are systems across the range of five different treatment technologies and by various manufacturers.

Only two-thirds of the systems installed were fully operational on board within the first six months – on some vessels, they were not fully operational even after a year. The problems weren’t inherent to a specific type of technology or manufacturer, although I have to mention that one type of technology had a 100% success rate for problem-free operations, despite different manufacturers.

I don’t have any official numbers from the industry but it is understood from informal chats that issues with the installed systems is something commonly experienced.

At Wallem, when we realised the extent of the challenges that the crew and the superintendents faced with the operation of some of the BWTS, we decided to follow a centralised approach and have one person focusing on making sure the systems on board had become fully operational, before handing over responsibility to the fleet superintendents.

Our approach to this compromises the three key elements for achieving operational excellence, which are people, assets and procedures. We are focusing on crew training by the manufacturers, both on board and on shore. We also offer familiarisation courses at our training centres as part of the pre-joining training. Lastly, we rotate some of our senior officers who are experienced with certain systems to enable them to share their knowledge and experience on board.

On the BWTS equipment front, we are in close contact with the manufacturers in order to resolve the issues faced. I

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have to mention that the response and support by all manufacturers has been superb. There are inevitably issues with components or new issues (even new to the manufacturer) that crop up, but we are always working together to bring the systems to full operation in the shortest of time.

Finally, we have generated specific job routines in our planned maintenance system based on manufacturers' instructions and our experience and also have created ship-specific operating instructions and troubleshooting advice. Even if it is not required yet, our policy is that the BWTS is operated regularly in order for the crew to become familiarised with the operation and we maintain the system in full operational condition for when we are required to use it.

The road to compliance with the BWMC and US requirements is not easy for owners and is certainly costly. Installing systems that might not be fully functional when required is not something any owner would like to see.
At Wallem, we have discovered that good planning, execution and focus, as well as close co-operation between the BWTS manufacturers and the shipmanager, can minimise the burden to the owner.

*Ioannis Stefanou is group technical director with Wallem Shipmanagement*

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# Jaxport directors approve harbour deepening project

by Wei Zhe Tan

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Project scheduled to commence by early 2018

Project will allow larger boxships from Asia to call at the port.

THE Jacksonville Port Authority announced its board of directors has given the green light to begin the Jacksonville Harbour Deepening project to make room for even larger containerships from Asia to call at the port.

As such, the port authorities have transferred the first instalment of port financing to the US Army Corps of Engineers, who will be working on the project.

It noted the federal project to deepen the aforementioned channel to about 47 ft (14.3 m) will start in early 2018.

The 11-mile (17.7 km) project has secured $484m in state funding and recently got a further $21.5m in federal funding, as well as a new start designation that allows it to request more federal aid.

When completed, the terminal at Blount Island will be able to handle the largest boxships from Asia, while the Dames Point and Talleyrand terminals will be optimised to serve smaller containerships.

"The Jacksonville Harbor Deepening project is the single biggest opportunity to grow our port and reach our potential as a major gateway for international trade," said Jaxport chairman Jim Citrano.

The port authority noted it saw a 13% year-on-year increase in container volumes from Asia in the first six months of its 2017 fiscal year, between October 1 and March 31, at 178,249 teu.

"The Asian container trade is the fastest-growing segment of Jaxport's container cargo business, accounting for 36% of the business in the first six months of fiscal year 2017, up from 33% the same period in fiscal year 2016 and just 7% in fiscal year 2014," it said.

"The port has recorded an average of 21% annual growth in Asian container volumes during the past five years," the port authority added.

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