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Union pushes for increase in seafarer minimum wage

THE NAUTILUS INTERNATIONAL union is to lead calls for the global seafarer minimum wage to be increased.

It will push for an increase of up to $50 per month during negotiations with shipowners at the International Labour Organisation this week.

Seafarer and shipowner representatives are convening in Geneva to negotiate a new two-year global minimum wage agreement for seafarers.

During the previous round of negotiations, in 2016, the ILO recommended holding for another two years the minimum wage at $614 per month for a 48-hour week.

However, the reality of working on board often means that set hours are not observed.

"Most seafarers work overtime and can end up working around 90-hours per week," Nautilus said in a statement. "Many of the world's seafarers earning the global minimum wage sign on for nine-month voyages, although these can be extended by up to two months."

The union's general secretary Mark Dickinson, who will be leading negotiations on behalf of International Transport Workers Federation trade unions, promised to make the moral and economic case for a pay rise of up to $50 per month.

Shipowners are represented by the International Chamber of Shipping.

Mr Dickinson said the talks are based around the ILO Office's assessment on how seafarer spending power has changed during the past two years.

"The current assessment makes it clear that in more than 90% of the countries from which crew are drawn, the value of their wages has fallen — in several cases by more than 15%," he said. "The underlying economics of the shipping industry are currently strong, so we will be pushing for a significant rise."

Mr Dickinson said that shipowners successfully argued against a wage increase citing economic challenges, during the 2016 negotiations.

"Their gloomy predictions proved wide of the mark, so there is an expectation among ships' crews that a different approach will be applied in these talks," he said.

ICS declined to comment when contacted by Lloyd's List.

Earlier this year, the International Bargaining Forum agreed to a 2.5% wage increase that applies to over 200,000 seafarers and dockers beginning in 2019.

A recent report by the Mission to Seafarers cited concerns over static pay as a reason for increased dissatisfaction among seafarers.

WHAT TO WATCH

May's Brexit deal may not be pretty, but it just about works for shipping

INTERNATIONAL agreements rarely please everyone and Britain's 585-page draft divorce agreement with the European Union does little to dispel the fear that the Brexit endgame will please no one.

But as imperfect as Theresa May's divisive deal looks, the consequences for shipping businesses and the economy if the UK were to simply crash out of the European Union next March look worse.

Whatever the shortcomings of the proposals, it is no small merit that they set out a concrete way forward and to the extent that this deal offers a pragmatic endgame, shipping businesses should back it as the least-worst option.

Crucial here is the frictionless trade, especially at Britain's major ro-ro ports, which should have been regarded as a key priority from the day Article 50 was triggered.

That Dominic Raab — who served as Brexit secretary until his not-exactly-shock resignation last week — could freely admit he "hadn't quite fully understood the extent" to which UK trade depends on the 27-mile Dover-Calais route is entirely symptomatic of shipping's perpetual low profile.

In truth, while remaining within the customs union is primarily a 'backstop' to avoid a hard border on the island of Ireland, it is just as much a backstop for what is easily our most important trade artery.

We very much welcome the stance essayed by Bob Sanguinetti, chief executive of the Chamber of Shipping, in urging MPs to "think very carefully before attempting to halt this progress".

His argument, being echoed by the business lobby group the CBI at its annual conference today, is that we have now run out of time.

There is no simple way out of this endgame. But this deal has been presented after years of complicated, detailed and technical negotiations.

While it is understandable that many cannot support the proposed deal given the many shortcomings it presents, but until someone puts forward a clear, unambiguous and workable alternative, this is the only deal on the table.

Respectfully, it is time to put up or shut up.

Unfortunately, although somewhat inevitably, it looks almost certain that the political battle is not done over yet. The odds are stacked against parliamentary approval, and the scenario of no-deal Brexit remains very real.

The consequences of that are well understood.

In a no-deal scenario, there will be long delays in ports putting manufacturing supply chains and just-in-time deliveries at risk. Costs will rise for consumers and it will damage both the UK and the EU.

Industry generally, and shipping specifically, would of course adapt. The UK ports sector is resilient. The question is how long it would take to sort all that out — and for that there is no clear answer.

Those hoping for a no-deal Brexit, or prepared to risk one, have a duty to explain in technical detail why this is a risk worth taking. If they cannot, there is only one pragmatic option left.

Mrs May's Brexit compromise may not be pretty, but it just about works for shipping. Its imminent immolation on the altar of ideology will be a sad defeat for pragmatism.

Hong Kong urged not to rest on its maritime laurels

WHILE Hong Kong has unique characteristics that help preserve its prominent position as an international maritime centre, it can make greater efforts to boost its position further, according to a panel debate at the Lloyd's List Business Briefing.

Foremost among these efforts must be to stop working in silos, said Deepak Saxena, Kerry Logistics' executive director for global ocean.

"We need to talk more and exploit our capabilities more," he said.

That means better communication and connectivity between third-party logistics providers, terminals and the shipping lines, added Mr Saxena.

"This will be the biggest enabler for us to make Hong Kong a strong maritime hub."

Other areas where Hong Kong has room to improve include the sharing of data and using it for different purposes.

"This is not as brilliant as in some other countries; I find the scope for improvement is in more integral data which we can share with the terminals to facilitate and speed up supply chain activities in Hong Kong," said Mr Saxena.

He said data being shared is quite disparate with information coming from many different sources that reduces its utility for end users.

Hong Kong should also play to its strengths such as in the financial services said Wallem sales and marketing director Nigel Moore.

"I would like to see the government do more to incentivise the high-value industries to come into Hong Kong from China," he said.

In this regard, Mr Moore said he would like to see the leasing companies come to the city in greater strength and represented in greater numbers than at present.

"When you look at who the biggest shipowners in the world are now, it is the Chinese leasing companies and they are constantly adjusting their model," he said.

"I think it's a great spin-off for the Hong Kong maritime community and I think it will be an excellent sector to focus on attracting."

OPINION

Brexit is shipping industry's 'next big challenge', says minister

BRITAIN is a great maritime nation, *writes UK Maritime Minister Nusrat Ghani*. We have always relied on overseas trade for our prosperity, and throughout history our ports have risen to the commercial challenges of the age.

During the 19th century, they supported the largest merchant fleet ever seen, with around half of all ocean-going ships under the Red Ensign. By the start of the 20th century, a quarter of total global trade was passing through British ports and they have continued to innovate ever since.

Now the shipping industry faces the next big challenge — Brexit. But it also brings opportunities to expand into vibrant new markets across Asia, Africa and South America.

These are the places where growth will be fastest over the next few decades, and where the greatest untapped potential lies for British business.

The maritime sector has a massive role to play as we become a more outward facing country and exploit our new position in the world.

Ports across Britain are preparing for growth by investing billions of pounds in new facilities.

Immingham, our largest bulk port, is significantly boosting its capacity. Liverpool enhanced its position as Britain's biggest transatlantic port two years ago by opening a new £400m terminal. And Dover is creating new cargo berths and a distribution centre through the £250m Western Docks Revival scheme.

As maritime minister, I am proud that the government has delivered the Port Connectivity Study to get freight moving faster, and we are developing a 30-year strategy for the industry called Maritime 2050, to harness new technologies and ensure we strengthen our position as a maritime leader.

But however, we pursue our global ambitions outside the European Union, Europe will remain our closest and biggest market.

That is why the government's priority in the negotiations is to strike a good deal for the whole of the UK.

We have made good progress on the Withdrawal Agreement and on the scope and structure of the future relationship — including transport — and remain confident of a positive conclusion.

Although we are leaving the Customs Union, we continue to seek a customs arrangement with the EU that would help maintain frictionless trade.

Our recent White Paper set out proposals for such an arrangement, and why it would be the best solution for everyone.

But no matter how confident we are about agreeing a mutually beneficial deal, it would be irresponsible not to prepare for other scenarios.

That is why we are also taking the steps necessary to be prepared in the unlikely event that we leave the EU without a deal, and why we have recently provided advice to businesses and private travellers on how to plan for such an exit.

Ports are playing an active role in these preparations and working with border officials on how to respond to the worst-case implications of no-deal.

We do not want — or expect — to rely on contingency measures, but it is important we plan prudently.

So, as we enter the final few months of EU negotiations, we firmly believe that no-deal would be in no one's interests.

Whatever the outcome of the discussions on trade, we will be doing everything in our power to keep flows moving at the border, and hope that the EU will reciprocate.

But as those talks progress, let us not forget the huge post-Brexit opportunities for Britain to develop a more global outlook, and with the support of our flourishing maritime industry, to strike new trade partnerships around the world.

ANALYSIS

Strong demand drives up transatlantic utilisation

TRANSATLANTIC containerised trade enjoyed a buoyant third quarter of the year on the back of double-digit percentage demand gains compared with the same period last year, helping outstrip supply additions.

Analysing load factors in either direction, MDS Transmodal found that demand growth between Europe and North America grew by 10% during the third quarter of 2018 compared with the same three-month period of last year. Supply growth increased by a rate of circa 4%.

During the three months, the utilisation level is estimated to have grown by three percentage points and it is projected to exceed a level of 83% during the final quarter of this year.

For the fourth quarter, MDST forecasts demand to grow by approximately 6%, while boxship slot space will fall by around 4%.

Analysing the load factor for the two directions separately, however, we expect volume in the eastbound direction (North America to Europe), to increase at a higher rate than westbound trade (Europe to North America), during the fourth quarter of 2018.

Utilisation levels in the final quarter of the year will tighten on the eastbound transatlantic trade, as demand grows by approximately 8% and supply falling by about 10%.

Based on the latest trade data available at the time of this analysis, we estimate that the principle country pairs on the eastbound transatlantic trade during the third quarter of the year were the US to Turkey, the US to the UK and the US to the Netherlands.

These pairs are estimated to account for more than 30% of overall traffic moved on this route. A similar share is expected for the fourth quarter of 2018.

However, the growth rates of trade moved between these countries vary.

Trade from the US to Turkey and the US to the UK are estimated to have decreased by 4% and 1%, respectively, while containerised trade moved on the US-Netherlands trades is projected to have increased by 12%.

For the fourth quarter of 2018, MDST forecasts growth in the region of 5% on the US-Turkey and US-UK trades, whereas for the US-Netherlands route similar strong growth (12%) is expected.

Looking at the commodities, on a Standard International Trade Classification five-digit level, the strongest driver behind third-quarter growth on the US-Turkey trade was 'ferrous waste and scrap', up by more than 3%.

'Non-specified appliances, which are worn or carried or implanted in the body to compensate for a defect or a disability', rising 3%, was a key contributor to the 5% growth level on the US-Turkey trade.

On the eastbound US-UK trade a notable development on was a 20% drop in commodities classed as 'other books, brochures and similar printed matter, not in single sheets'.

On the westbound transatlantic trade, or Europe to North America, MDST anticipates demand to grow at a higher rate than supply, resulting in improved load factors.

Demand is expected to grow by more than 5% in the fourth quarter compared with last year, while supply is expected to increase by about 1% during the corresponding period.

Based on MDST's trade data, it is estimated that volumes moved from Germany to the US increased by 16% in the third quarter of 2018 compared with last year.

During the same period, the other two major country pairs on this trade lane, Italy-US and France-US, are estimated to have seen an annual increase of 11% and decrease of 1%.

For the fourth quarter of 2018, MDST forecasts the Germany-US, Italy-US and France-US trades to grow by 2%, 7% and 4%, compared with last year.

On a SITC five-digit level, the main commodity driver on the German-US trade will be 'photographic plates and film, exposed and developed, other than cinematographic film', rising by more than 63%'.

Meanwhile, on the Italy-US route, the major commodity group is expected to be 'macaroni, spaghetti and similar products (pasta), uncooked, not stuffed or otherwise prepared', up by around 5%.

From France to the US, 'casks, barrels, vats, tubs and other copper products and parts thereof, of wood (including staves)' will contribute the biggest cargo numbers, however, trade is expected to fall 40% during the fourth quarter of the year.

MARKETS

Between the Lines: Third-quarter results show promise

AT the time of writing, eight of the 10 global liners that report financial and volume data on a quarterly level have reported their third-quarter figures.

The only remaining carriers are CMA CGM and HMM, both of which are expected to release their results by the end of the month.

All eight carriers saw revenues increase annually, with only Yang Ming and Ocean Network Express reporting net earnings before interest and taxation losses. Despite these encouraging signs, only two carriers recorded ebit higher than the corresponding period in 2017.

In terms of volumes, all carriers that report global volumes recorded an increase annual in their volumes, with Maersk Line and Cosco heavily boosted by recent acquisitions.

Furthermore, while all carriers that reported volumes on a trade lane level grew their volumes on the transpacific and Asia-Europe, ONE saw volumes contract on both when compared with the combined volumes of the three Japanese carriers. This is hardly surprising as one plus one rarely equals two in liner shipping mergers, and this merger was faced with several operational challenges.

Meanwhile, September 2018 global schedule reliability dropped to the lowest recorded September level of 67.1%, down 2.2 percentage points monthly and 5.3 percentage points year on year.

None of the top 15 carriers recorded a monthly improvement in schedule reliability in September 2018, while only Maersk Line recorded an annual increase in schedule reliability. Maersk Line was also the most reliable carrier in September 2018, with schedule reliability of 74.3%.

Three of the top 15 carriers do not publish financial data. Mediterranean Shipping Co is a privately held company that does not publish accounts, and APL and Hamburg Süd have recently been acquired by CMA CGM and Maersk Line, respectively, and their results are included with their parent companies.

Two carriers have not released their financial and volume figures at time of writing, but we will update the online edition of this column once they do.

For the three Taiwanese carriers, we have sourced their data from their Taiwan Stock Exchange filings. The remaining carriers have all released their financial and volume figures, except for OOCL, which only releases an operational update in the first and third quarters, with revenues and volume figures only.

This analysis covers all major shipping lines that publish financial figures, either directly, or in the form of an earnings release or stock exchange filings. Following are a few methodological choices that we made:

The three Japanese carriers — NYK, MOL, and K Line — have merged their container shipping business into Ocean Network Express (ONE), and we have included ONE in the analysis while removing the three independent Japanese carriers from the preceding years as well.

We have not compared the combined financial figures of NYK, MOL and K Line with that of ONE, as the combined revenues of the container segments of the three Japanese carriers and ONE do not match, which indicates that revenues from related activities are also included on either side.

Secondly, ONE has reported a very bare minimum of figures, only reporting a profit/loss for the third quarter of 2018; presumably 'net' and not 'operating'.

In the absence of any other figure, this is what we have used as a basis for benchmarking. Further, ONE's fiscal year runs from April to March, therefore we have used their 2018 second-quarter results, which match the third-quarter period of the carriers that follow the calendar year.

Maersk has from the first quarter changed its reporting structure, and instead of reporting figures for Maersk Line, has grouped its 'Ocean' segment into one, and regrettably it has also stopped reporting ebit for individual business segments and is only reporting earnings before interest, taxes, depreciation and amortisation as segment result.

While it could be argued that ebitda is a better measure of operational performance in an asset-heavy industry, it fails the more important aspect of comparability, as only a few other carriers (CMA

CGM, Hapag-Lloyd and OOCL) report ebitda.

You cannot compare ebit with ebitda, as the depreciation and amortisation costs would seriously disadvantage the companies reporting ebit.

This means that for Maersk Line we have had to use the group's 2017 third-quarter and 2018 third-quarter ebit rather than the 'Ocean' segment, while 2010-2016 is based on the ebit for Maersk Line.

While Cosco has reported revenues and ebit including the impact of OOCL, we have decided to also include OOCL in the analysis separately where possible, to include as much detail on the industry as is available.

Secondly, Cosco reports volume figures both including and excluding the impact of OOCL. We have therefore included both figures when analysing transported volumes as this was the level of detail that was reported by Cosco.

Of the eight major shipping lines that have so far reported, all recorded an annual increase in revenues, with Maersk Line and Cosco recording the largest increases of 32.1% ($1.8bn) and 45.1% ($1.7bn) to $7.3bn and $5.4bn, respectively. Both carriers are no doubt boosted by their recent acquisitions of Hamburg Süd and OOCL.

OOCL itself grew revenues by 7% ($102m) to $1.6bn.

Hapag Lloyd's revenues were boosted by the acquisition of United Arab Shipping Co, and it grew their revenues further by 6.0% ($198m) to $3.5bn, which should be reflective of their "real" growth as both third quarters include the impact of the UASC acquisition. Zim recorded revenues of $841m, an increase of 2.9% ($24m), the smallest annual increase of the reporting carriers.

Two of the three Taiwanese carriers — Evergreen and Yang Ming — recorded revenues close to each other. Evergreen reported revenues of $1.5bn, growth of 6.9% ($95m), while Yang Ming generated revenues of $1.3bn, a growth of 7% ($83M). The last of the Taiwanese carriers, Wan Hai, generated revenues of $568m, growth of 8.3% ($44m) year on year.

All but two carriers recorded a positive ebit, with ONE recording a net loss of $192m and Yang Ming recording negative ebit of $22m.

While it is not surprising in the case of ONE, as teething problems with the merger were bound to have an operational impact, Yang Mang has now seen a negative bottom line in three of the past four third quarters, recording a cumulative ebit loss of $225m during this period.

On the other hand, Maersk Line reported ebit of $365m, an annual increase of $344m. Hapag Lloyd was the only other carrier with a nine digit ebit, of $246m, a relatively smaller increase over its 2017 third-quarter ebit of $212m.

Cosco, Evergreen, and Zim were the three other carriers with ebit higher than $10m, reporting ebit of $87m, $33m, and $16m, respectively.

All three carriers however, recorded a negative annual change in ebit, of $47m, $67m, and $38m, respectively. Wan Hai was the last remaining carrier to record a positive ebit in third quarter, of $8m, considerably below the $48m recorded in the corresponding quarter of 2017.

It is worth noting that Hapag-Lloyd and Wan Hai are the only two carriers to not have seen a negative third quarter ebit in the 2012-2018 period, recording cumulative Q3 ebit of $837m and $180m, respectively.

Maersk Line recorded the highest cumulative 2012-2018 third-quarter ebit of $2.4bn. Cosco, Zim, and Yang Ming were the only carriers which had reported to see a negative cumulative third-quarter ebit, of $381m, $57m, and $6m, respectively.

However, we do expect HMM to be in that category once it has published its financial results, as it already has a negative cumulative 2012-2017 third-quarter ebit of $279M. The remaining carrier, Evergreen, recorded cumulative ebit of $148m.

Dry bulk weakness sets in

SEVERAL factors have culminated in weakness setting into the dry bulk market, according to Morgan Stanley.

It cites the emergence of Chinese demand concerns, a rising US dollar, high port inventories and an iron ore train derailment at BHP's mine in Western Australia which has led to the "accumulation of vessels at major ports" forcing owners to lower offers.

The weakness in earnings power even led to a 20% slump in shipping stocks compared with two months earlier, according to a note by the bank.

"The unusually early rate weakness of the past few weeks, coupled with the drop in Chinese steel prices… has raised concerns over the underlying demand of the dry bulk market," it said.

"As we are heading into 2019, the market has turned increasingly concerned on Chinese commodity demand, particularly as infrastructure investment was down 1.5%" in the first nine months compared with a year earlier and property has begun to slow down since the third quarter of the year, it added.

Although the panamax segment fell from the year's high of $14,385 on October 17, it is leading the pack in terms of absolute earnings, with the average weighted time charter assessed at $11,497 per day on the Baltic Exchange at the close on Monday.

The supramax sector started a decline on October 12 after reaching the year's high of $13,431 per day, and is now at $10,987 per day, according to the Baltic Exchange.

The handysize segment started to slide at the end of October and was quoted at $9,323 per day on the exchange.

Capesize was trailing all segments, with the average weighted time charter at $8,722 per day, a slight increase from $8,458 seen on November 15. The market had slumped from $19,501 at the end of October to $7,987 two weeks later.

The Forward Freight Agreement market also took a battering, with capesize seen at $13,000 per day for December, falling to $11,850 per day for January, according to brokers GFI on Friday.

Consultancy Maritime Strategies International was however more positive on near-term iron ore demand based on better-than-expected steel output in China.

MSI expects China's traditional winter cuts to reduce pollution to be less severe this year, while iron ore throughput will soon start after the train derailment in Australia. The event was only temporary.

But seasonal factors will drive ore trade lower in the first quarter of next year, it said in a note, adding that slower trade out of the US for soyabeans during the next three months will also be a bearish factor.

That will combine with an expected rise in fleet growth, as 45m dwt is scheduled to be delivered next year, compared with 35m dwt that is due to enter the fleet in 2018, according to MSI.

Alliances support box line competition

AS THE European Commission begins its deliberations on whether to extend the consortia block exemption for another five years, battle lines are being drawn over the costs and benefits of alliances and vessel sharing agreements.

A recent International Transport Forum report concluded that "liner shipping does not have unique characteristics that justify exemptions from competition law, either for conferences or for alliances".

But Drewry has come down on the side of the carriers, arguing that shippers have benefitted from the existence of consortia as they have helped facilitate competition in an increasingly consolidated market.

"The formation of the current alliance structure was a defensive move to lower costs at a time of serious financial distress that brought about the demise of Hanjin Shipping," Drewry said. "Without such agreements in place, it is our view that market concentration would accelerate at even faster pace than it is as it would place even higher barriers of entry into European trades."

The assertion is because economies of scale have led to the introduction of ultra-large containerships on Asia-Europe trade, and that there would be a shift in the balance of power between carriers that could afford to invest in this class of ship and those that could not.

"Alliances have at least kept entry into the ULC club open to more lines than otherwise would have been the case, negating the need to purchase all of the ships required to operate a weekly service," Drewry said.

While it was possible that some carriers could maintain similar port pairings without being in an alliance, it would require the introduction of additional tonnage, making it hard to sustain utilisation. It would also extend transit times and reduce direct services.

"The reality is that the Asia-north Europe trade will in the not too distant future be entirely populated with ULCs, so without access to alliances any lacking carriers would be at such a cost disadvantage they would likely be dissuaded from entry," Drewry said.

But few carriers will have enough ULCs in the short-to-medium term to run their own loops.

"Given it requires 10 to 12 ships per service, even Maersk and Mediterranean Shipping Co could entertain running maybe three Asia-Europe services on their own, down from the six offerings they have now," Drewry said.

But if consolidation continues among container lines, alliances may reach a natural endpoint of their own, Drewry noted.

"The economic efficiency of alliances may decrease as carriers become larger and fewer, being better able to fill the biggest ships on their own," Drewry said.

"Instead of three or four alliances or vessel sharing agreements involving 15 carriers per trade, we can envisage a future with say only four independent mega-carriers per trade and no alliances. On the flip side, if containerships grow larger than the current maximum the need for alliances will become more imperative."

For now, however, shippers should not fear alliances that have aided competition during a period of concentration.

"That process is ongoing, but will likely accelerate without consortia block exemption," Drewry said.

IN OTHER NEWS

Costamare buys stake in five large boxships

COSTAMARE has agreed to buy a 60% equity stake of partner York Capital in a series of five large 2016-built container vessels under long-term charter to Evergreen.

The five 14,424 teu vessels — *Triton*, *Titan*, *Talos*, *Taurus* and *Theseus* — are on charter to the Taiwanese carrier until 2026.

They were co-ordered with York under the pair's joint venture for investment in the boxship sector that currently embraces another 12 co-owned vessels.

Ultrabulk explores wind power for vessel

SHIPPING companies have joined with the energy industry to design a concept cargo ship equipped with innovative sail technology.

The partnership aims to reduce carbon emissions from the ocean transportation of biomass fuel cargo to the UK's largest power station.

The stakeholders will conduct a feasibility study into whether a vessel owned by Danish dry bulk cargo operator Ultrabulk and used to import biomass into the UK for power generator Drax, could be refitted with sail power.

BD Group says chairman arrested

BD GROUP, which announced plans to charter in about 60 tankers from several leading western owners, said its chairman Sun Hengchao has been detained in connection with unspecified criminal charges.

Local police revealed the arrest on Friday, according to an exchange filing by Shenzhen-listed Baota Industry Co.

Baota Industry is a subsidiary of BD Group, a privately run conglomerate whose businesses range from refinery and finance to education and trade.

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