Lloyd's List

lloydslist.com | Wednesday February 25, 2015
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Asia ship finance rise 'unstoppable', says HSH's Nieswandt

European lenders need to look east to stay in the game

ASIAN ship finance is set to power ahead and will dominate the market inside a decade, according to Christian Nieswandt, global head of shipping domestic clients at what was until recently the world's largest shipping lender, HSH Nordbank, *writes David Osler*.

The situation is poised to become so acute that European banks will have to step up activities in Asia simply to stay in the game, he added.

Mr Nieswandt was speaking after publication yesterday of a report from HSH, which found that an overwhelming 80% of its shipping clients responding to a survey expect Asian providers of capital to continue the expansion seen since the global financial crisis.

"It's unstoppable," he told Lloyd's List. "I expect that Asian banks will climb up the ladder here. In 10 years' time the Asian banks will account for a huge chunk," he stated frankly.

Around a third of survey respondents are already collaborating with Asian banks in financing newbuildings or purchasing secondhand tonnage, the research discovered. Some 16% already obtain capital primarily from strategic investors in Asia.

Nieswandt: "I expect Asian banks will climb up the ladder here. In 10 years' time the Asian banks will account for more than 50%."

Factors at work appear to include a desire by policy banks and export credit credit agencies to keep Asian yards rolling, and well as the desire by many European financial institutions to downsize shipping exposure.

An expat European working for one of HSH's rivals, speaking on condition of anonymity, pointed specifically to Chinese policy banks' continued support for major Chinese shipowners.

For example, China Shipping Group has secured credit lines totalling Yuan170bn ($27.2bn) from state lenders since last October alone, as well as backing from sundry ECAs.

However, he was notably more cautious on the changing balance of power than Mr Nieswandt, arguing: "I agree that Asia is growing in importance for the shipping industry as a whole, but I would hesitate to say that this is a tectonic shift or something particularly new."

In Europe, Commerzbank and most likely Royal Bank of Scotland are pulling out of shipping altogether, while HSH itself has been forced to make write-offs in the wake of the European Central Bank stress test last year.

Even those determined to stay the course face regulatory pressures and sometimes a need to extricate from loans that are clearly underwater.

European and Japanese lenders are currently being very aggressive on pricing and structure for the top tier deals.

However, some banks seem to be more restricted in terms of the length of the loan that they can provide, especially if
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they are not ECA-covered, the second source added.

Mr Nieswandt continued: “The lesson for us — and European banks — is to be aware of this when it comes to setting up business in the future.

“We are there to stay in the play. We have positioned people in Singapore and Hong Kong already, being the hubs of maritime developments in Asia.

“We started Asian business in 2006, we started with a mixture of European and Asian people and now the business is more or less with Asian people.

“We have hired the people and developed the business over there, and the same applies to most of the other non-Asian banks doing business in Asia.”

The second source claimed that the dynamics are specific to vessel type and that there is a divergence of drivers behind the bulker segment versus the container segment, VLCCs or product carriers

“One observation is that Asian banks like to support their local clients, so there may be a question mark as to whether a European entrant into the Asian shipping market will be able to attract financing from Malaysian, Taiwanese or Singaporean banks, certainly to the extent and on the terms that more local shipping companies could,” he said.

Owners expect continued Asian ship finance push

Europeans more upbeat on profit and revenue, HSH Nordbank survey finds

AN OVERWHELMING 80% of HSH Nordbank’s shipping clients expect Asian providers of capital to continue expanding in ship finance, a sector that has been traditionally been dominated by European lenders, according to a survey published by the German bank yesterday, *writes David Osler*.

Around a third of the sample is already collaborating with Asian banks in financing newbuildings or purchasing secondhand tonnage, the research discovered. Some 16% already obtain capital primarily from strategic investors in Asia.

Factors at work appear to include a desire by policy banks and export credit guarantee agencies to keep Asian yards in production, and well as the desire by some European financial institutions to downsize shipping exposure.

Commerzbank has for some years been in the process of exiting the industry altogether, Royal Bank of Scotland has at least flirted with the idea and HSH itself has been forced to make write-offs in the wake of the European Central Bank stress test last year.

HSH global head of shipping Ingmar Loges said: “The steadily increasing significance of Asia for the shipping sector is strongly correlated with the financial clout of the providers of capital and the key position of Asian shipyards in building new ships.

The significance of Asia for shipping is correlated with the clout of its capital providers and its shipyards, says HSH.

“On top of this, a number of established European banks have reduced their exposure to ship finance substantially on account of the difficult situation in shipping and the strict regulatory requirements.”

Some 60% of shipping companies already have a presence in Asia, mostly through the presence of a subsidiary.

Of these, almost 80% named access to the growth market and thus to cargo as the main reasons for their move to Asia.

The proximity to banks and investors was not decisive, accounting for only 9% and 5% of such decisions, respectively.

By contrast, 67% of respondents without offices in Asia stated that they wished to move closer to Asian investors, and 44% wanted to be closer to Asian banks.

The most important location for European shipping companies is Singapore, followed by Hong Kong and the Chinese mainland. In addition, the Philippines is a sought-

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after location because crewing is often outsourced to this country.

Although the Asian market is becoming more and more important, the companies surveyed still make their strategic decisions, such as fleet development or the award of contracts to shipyards, in the home country.

Offices in Asia assume mainly operational corporate functions, such as marketing and sales, freighting and crewing.

What was also noticeable is that Asian and European shipowners have divergent market expectations, with Asian companies substantially more downbeat than their European and German counterparts.

Only around one-third of Asian respondents project rising revenues for 2015, with a similar percentage forecasting a drop in revenues.

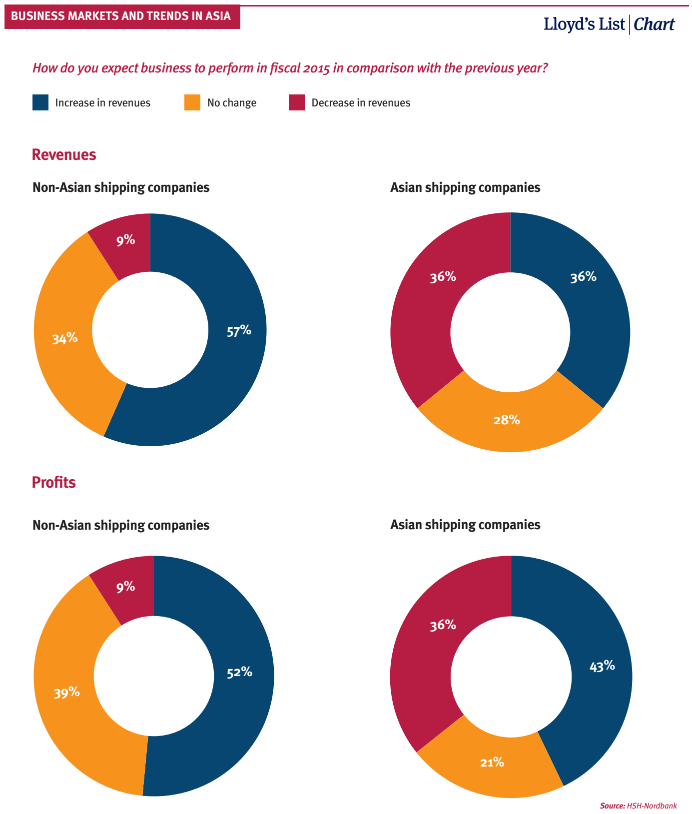
The situation is broadly the same with reference to profit expectations: While 43% of Asian shipowners expect rising profits, more than one-third anticipate a fall in profits.

By contrast, the respondents from outside Asia are more optimistic about the future.

For 2015, most European shipowners expect a better business performance than in the previous year. Around 57% project rising revenues and only 9% expect revenues to fall.

This optimism is reflected in profit expectations too. More than half expect profits to rise, while only 9% forecast a decline in profits.

Sample size was 150 shipping executives, mainly from European companies but also from companies from east Asia and Southeast Asia.



INFORMA LNG SHIPPING CONFERENCE IN LONDON

US cargoes are the future for LNG shipping

Positives outweigh the negatives, say gas shipping experts

US exports of liquefied natural gas represent the future for the LNG shipping industry, changing the face of the industry, gas shipping experts said yesterday, *writes Hal Brown*.

Exports from the US, expected to start at the end of this year, require more than 150 vessels if cargoes are hauled to Asian customers, according to Fearnleys LNG director Per Fett.

Some 1m tonnes of US LNG is enough cargo for two and half ships bound for Asia, Mr Fett told the Informa LNG Shipping Conference in London.

Given that 67m tonnes of LNG per year is likely to eventually be produced from US projects, more than 150 ships will be required to carry these volumes.

"That's a lot of ships," said Mr Fett.

An additional 70m tonnes per year of US volumes is possible, requiring even more ships, he said.

Exports of LNG from the US are expected to start at the end of this year. *© 2015 Cliff Owen/AP*

The likelihood is that around 100m tonnes per year of LNG will come out of the US Gulf by 2025, he said.

"The future of LNG is exports from the US," said Total vice-president of LNG Shipping Jacques Besse.

Asian customers of US cargoes will include India, South Korea, and Japan, he said.

However, there are hurdles to overcome.

"I see some clouds over the US export business," said Mr Besse.

A lot depends on tolls charged by the Panama Canal Authority when LNG ships transit for the first time when the expanded canal opens in 2016.

The toll level currently proposed is reasonable, but this could rise in the future to pay for the expansion's large cost overruns.

Another issue is the local market for gas in the US, which could impinge on exports.

Nevertheless, the positives currently outweigh the negatives when it comes to US exports of LNG.

"Let's be optimistic," said Mr Besse. "The years 2017-2020 will certainly be good years for the shipowners."

Others have questioned whether US export projects at the early stages of development will actually go ahead.

The lower oil price has cut capital expenditure budgets of oil and gas companies, leading to fears that a percentage of US LNG export projects will fail to materialise.

Around 30 US projects are at various stages of approvals and planning.

The Cheniere project at Sabine Pass in the US Gulf is expected to start exporting cargoes at the end of this year or in 2016.

East Africa must act swiftly to grab LNG market share

Potential exists for East Africa to become major global exporter, but it won't be straightforward

EAST Africa has the potential to be a major exporter of liquefied natural gas on the global stage but must act swiftly to grab market share due to competition from other producers, *writes Hal Brown*.

Mozambique is targeting sending out LNG in 2019 and Tanzania is targeting 2021, said Gaffney Cline and Associates commercial manager Ryan Pereira.

Both countries could be in the top five exporters in the world by 2030, perhaps in the top three, given the gas discoveries in the region, he said at the Informa LNG Conference in London.

However, there are several hurdles that East Africa needs to overcome before it reaches its potential.

These include the need to develop infrastructure, skilled labour and a regulatory regime.

In addition, East Africa requires investment in ships to haul cargoes to international markets.

However, no ships can be assigned to East African projects until those planned projects receive final investment decisions.

"You shouldn't order ships until projects get an FID [final investment decision]," said CS Solutions consultant Keith Bainbridge.

It would be "commercial suicide" to order new ships without FID, added Mr Bainbridge.

Mozambique is targeting exporting LNG in 2019 and Tanzania is targeting 2021. *Oleksandr Kalinichenko/Shutterstock.com*

A fleet to carry East African cargoes could be developed relatively quickly once FID on projects is obtained, said Mr Pereira.

The rise of exporters such as Australia this year, and the US next year, means East Africa must act fast to grab market share, he said.

If East Africa is targeting exports in 2019 and 2021, then FID needs to arrive soon, given that it takes around four years to build an export plant, he pointed out.

"The comfort is that East Africa can learn from West Africa in overcoming these hurdles," said Mr Pereira.

US west coast congestion 'worse' than 2002 lockout

It will take at least six weeks to clear backlogs of containers, ports warned

CONGESTION at ports on the US west coast reached levels even worse than the fallout of the infamous 2002 lockout earlier this month, according to industry analysts Alphaliner, *writes Linton Nightingale*.

Alphaliner noted how back then at the height of the lock-out during contract negotiations, some 75 containerships were waiting to berth outside west coast harbours. However, following successive weekend port closures in February before a tentative labour agreement was reached this time round, as many as 100 boxships were at anchorage up and down the west coast.

As a result, west coast carriers have been forced to cancel 20 scheduled sailings so far this month. To fill this void, shipping lines are currently deploying a further 61 vessels with an overall capacity of 364,000 teu, said Alphaliner. This includes 14 boxships that have been diverted to the more reliable US east coast.

Alphaliner also warned ports on the west coast that in 2002 it took more than six weeks to clear the backlog of containers and even longer for productivity levels to returns to normal after contract negotiations ended.

Earlier this week, the Port of Oakland, in welcoming the news of a new five-year labour contract, also said that

As many as 100 boxships are at anchorage up and down the west coast. *© 2015 Jae C Hong/AP*

it believed it could take up to eight weeks for ports to fully recover. On Monday, Oakland reported that nine vessels occupied its berths, while 18 vessels were still waiting to call its docks.

However, it also important to remember that the agreement has still to be ratified, and that a date for exactly when the vote will take place is still to be confirmed.

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Nevertheless, the mayors of both Los Angeles and Long Beach, home to the largest port complex in the US, were in buoyant mood yesterday and, after thanking the unions and port employers for "heeding their call to resolve the labour dispute", wanted to tell the world that the west coast is already on the road to recovery.

"Now that our ports are moving again we plan to redouble our efforts to invest in port infrastructure, increase trade and ensure that we remain the best place to do business on the west coast," said Long Beach mayor Robert Garcia.

The Californian ports have already been working alongside their three main chassis pool providers as they look to finalise a "grey chassis pool" from March 1 to help ensure that there is a sufficient supply of truck-trailer chassis.

Furthermore, the port also plans to hold a supply chain stakeholder summit once the labour contract is ratified, which will look at specific solutions to the cargo flow challenges in San Pedro Bay.

In Portland, the news that a new contract for west coast dockers had been agreed failed to bring any respite with tensions still high after Hanjin Shipping, its biggest deepsea customer, made the decision to pull its call at the port earlier this month.

In a statement, International Container Terminal Services Inc Oregon, responsible for handling Portland's container services, said that as it awaits the final details of the coast-wide agreement it is not seeing a good faith effort by the ILWU to bring productivity at Terminal 6 to acceptable levels.

ICTSI Oregon also claims that the ILWU is failing to provide sufficient labour to the port.

Crowley to expand at Jacksonville

Jones Act shipping line will move to a different terminal and take extra space as it prepares for arrival of new container/ro-ro ships in 2017

US carrier Crowley is moving its Puerto Rico service to the port of Jacksonville as it prepares for the arrival of its new liquefied natural gas-powered ships, *writes Damian Brett*.

The deal will see the Jones Act shipping line move its Puerto Rican service from its private terminal in Jacksonville's harbour to the Jaxport operated Talleyrand facility. Crowley, which already has a 48,000 sq m space at Talleyrand, will also expand its site at the terminal to 202,300 sq m under a 20-year lease.

The lease deal will begin from January 2017 and also includes two 10-year mutual renewal options.

The deal follows on from Crowley's 2013 order of two container/ro-ro ships to be powered by LNG from VT Halter Marine, to be delivered in 2017.

The vessels, which have a container capacity of 2,400 teu and space for up to 400 vehicles, will replace the carrier's towed triple-deck barge fleet.

Crowley senior vice-president and general manager Puerto Rico services John Hourihan said: "Concluding this lease agreement is an important milestone for Crowley as we look to transition to state-of-the-art, commitment-class ships, which will require terminal space like this to allow us to perform both lo-lo and ro-ro cargo operations."

Crowley also recently expanded its Puerto Rico service with the addition of a 400 feu capacity flat deck barge after rival Horizon Lines announced it would withdraw its presence.

More containers online

Seaspan posts 56% drop in full-year earnings
Underlying earnings show growth for the year and fourth quarter
www.lloydslist.com/containers

Crowley will move its Puerto Rican service from its private terminal in Jacksonville's harbour to the Jaxport-operated Talleyrand facility.

Standard sets up Singapore war risk class

P&I war cover up to $550m available via Asian shipping hub

THE Standard Club Asia has launched a new Singapore-based war risks mutual class and has lined up the full backing of the Singapore Shipping Association for the initiative, *writes David Osler*.

The Singapore War Risks Mutual, as it will be known, will operate as a class of Standard Asia, with its own class committee, and will act with what is described as a high degree of autonomy from the club, which is managed by Charles Taylor.

The cover offered by the class will include P&I war up to $550m, hull war up to the insured value of the ship, detention and diversion expenses, sue and labour, discretionary cover and optional additional insurance such as loss of hire.

According to SSA president Patrick Phoon, the idea was first mooted with the aim of strengthening Singapore's offerings in the marine insurance sector and to boost its status as an international maritime centre.

"Having invested a lot of time and effort on this project, I am pleased to see its fruition," he said.

"Our shipowners will get to benefit from flexible coverage and more control over their war risks insurance cover at competitive rates."

Standard Club loses 3m gt in renewal round
But Charles Taylor mutual insists performance was 'very strong'
www.lloydslist.com/insurance

Phoon: Shipowners will benefit from flexible coverage and more control over their war risks insurance cover at competitive rates.

UK Club makes net gain despite tonnage turnover

Achieved premium increase well below announced general increase

THE UK P&I Club picked up 1.2m gt of tonnage in the current renewal round, despite a general increase of 6.5% last year, among the highest in the International Group, *writes David Osler*.

However, the headline figures apparently mask a swings-and-roundabout outcome that also witnessed substantial departures.

In addition, the stated achieved premium increase of 3.5% also suggests a large degree of flexibility when it came to actually doing deals.

The marine mutual is now covering a fleet of 127m gt, and that total rises to 225m gt once chartered tonnage is factored in, an increase of over 3% on this time last year.

Wynn-Williams: It has been another good and strong renewal for the club.

In a statement from the club, negotiations with members with poor claims records are described as "robust", with some owners choosing to leave in consequence.

Hugo Wynn-Williams, chief executive of UK Club manager Thomas Miller P&I, said: "It has been another good and strong renewal for the club, marked by continued controlled growth for the fourth year in succession while maintaining a resolute approach to underwriting.

"We are delighted by the interest shown in the club, which was reflected by the 6.1m gt of new business which came into the club during this renewal.

"The club maintains its commitment to quality and declined to quote on over 2m gt of new business from more than 20 owners and charterers."

A net gain of 1.2m gt on new business of 6.1m gt points to 4.9m gt of tonnage leaving the club, indicating some substantial departures.

Brazil volumes could help difficult capesize market

Extra volumes from Brazil could be good for the market, provided they are not hoovered up by Vale's own fleet

WHILE most of the key routes were slightly up this week, although still well short of where they were a year or so ago, the Baltic Dry Index is still at record lows, *writes David Sexton*.

Capesize carriers are still taking flak from multiple sources. The Baltic Capesize Index remains quite low at a sluggish 543 points on Monday, up from the early January slump in which it slipped to 311 points but short of the mini-peak of 971 back on January 21.

One positive note comes from Brazil, where iron ore exports are expected to start rising beginning in the second quarter of 2015, according to a report from New York-based Morgan Stanley analyst Fotis Giannakoulis.

Based on current trends, an estimated 381m tonnes of iron ore will be exported from Brazil during 2015, 390m during 2016, 447m during 2017, 508m during 2018 and 519m during 2019.

Longhaul iron ore exports from Brazil to China could help the market in terms of pushing up capesize tonne-miles and rates.

A Singapore broker said the extent to which this may move the market will be determined by how much cargo is moved by spot shipping and how much will be moved by the fleet belonging to Brazilian mining giant Vale.

If it is the latter, then the impact might be limited.

As has been reported extensively in Lloyd's List, Vale seems likely to gain access to Chinese ports for its giant very large ore carriers.

"You have to ask, 'How much of the excess is going to be soaked up by the valemaxes?'

"If the amount is substantial, then the difference it may make could be limited," the broker said. "But we'll just have to wait and see."

Last week, Vale released production figures of 319.2m tonnes of iron ore during 2014, breaking through the 300m tonne-a-year barrier.

Meanwhile BHP Billiton has used its latest half-year results statement to predict sustained growth in China during 2015 along with moderate growth in iron ore demand.

Morgan Stanley has also noted how Chinese domestic iron ore production is declining as cost of production is more expensive, thus creating demand for seaborne imports, with Chinese iron ore imports increasing 14% during 2014.

Of course the lower prices were brought on, in part, by intense competition between Australia-based miners Rio Tinto and BHP Billiton and Vale, something that looks set to continue.

Analysts Banchero Costa report the big three miners are adding some 400m tonnes per annum of iron ore capacity.

This is as well as the 55m tonne a year Roy Hill mine in Western Australia due to start work later this year and Anglo American's Minas Rio project in Brazil that has production of about 26m tonnes.

Looking to the markets more generally, the Singapore broker noted that with the Chinese New Year period almost over, there was actually some optimism about.

"After New Year there is always a sense of optimism even if there isn't really anything to base this on," he said.

"But people still need to fix and there is still good volume out there so you could say that it is 'business as usual'."

An equitable adjustment to encourage compliance

The US has a tough but transparent approach to regulatory non-compliance. Why can't other coastal states copy this model?

A $40,000 a day fine, and the risk of criminal prosecution and a jail term should probably be enough of a deterrent against infringing any of the US environmental regulations, *writes Craig Eason*.

It would appear that the desire by some ships' crews to bypass oily water separators to make more expedient ship operations still exists, despite so many engineers being caught fined and imprisoned.

The same is true of garbage disposal rules, and will be true of the sulphur emission rules if one is in the North American emission control area.

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In the US, the sulphur emission control area extends to 200 nautical miles off the coast. Compliance and therefore determining the scope of non-compliance is relatively straightforward. The US Coast Guard has also had a well-known pragmatic but strong approach to enforcement.

Owners can declare non-compliance, proving a difficulty to operate in accordance to the regulations, and the USCG can be lenient. If the USCG finds vessels where they have not been notified of non-compliance, they are less amenable; I have heard this from several people in the USCG and elsewhere.

The phrase the US uses is "equitable adjustment to encourage compliance".

The Environmental Protection Agency, the US agency which administers the cases for non-compliance the USCG finds, has issued a recent marine penalty notice.

It makes for sober reading for any shipowner willing to allow its vessel to consider sailing into a US port without the required fuel quality. The penalty for record-keeping violation could amount to $15,000 a day, and that as only a component of the overall fine.

This kind of deterrent is what the Trident Alliance would like to see in Europe.

The alliance is a group of shipowners from around the world that have committed to meeting the sulphur regulations of the International Maritime Organization and the European Union.

The Danish/German ferry owner Scandlines recently became the 33rd member of the alliance, which is calling for strong enforcement action that will be a deterrent for less scrupulous shipowners to use cheaper non-compliant fuels

Representatives of the European countries impacted by the ECA rules will meet with Russian and North American counterparts, along with the European Maritime Safety Agency this week in Denmark. The meeting has been instigated by the Danes, who have already said they will take a strong stance gainst SOx cheats, and is a bid to discuss the legal and technical complications to enforcement that are being faced by coastal states.

While this meeting is welcome, it does all seem a bit late. One would have thought such meetings could have been envisaged a couple of years ago so that the rules could have come into force with a clear message to owners of the impact of breaches to the rules.

Europe has already agreed a set of inspection goals, which will also see fuel suppliers targeted. Guidelines have also been developed by Emsa on how countries should go about inspections. But the proof is in the pudding. Having left it so late and given a rather confusing message regarding how serious non-compliance should be taken, it might be a good idea to take a leaf out of the EPA's books and make sure there is an equitable adjustment to encourage compliance.

If you have not already done so, please take a few minutes to complete our third annual sulphur survey, the most comprehensive assessment of industry sentiment regarding the sulphur rules and compliance.

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