Lloyd's List

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KGs back within three years, says Hansa Treuhand

But higher thresholds and tougher rules will elbow out smaller investors, according to Hermann Ebel

Ebel: "[KGs are] not dead but what we need for typical investors is that ships will pay dividends to shareholders." *Hansa Treuhand*

KGs will stage a comeback in the next two to three years, a leading German shipping figure has predicted, in defiance of the conventional wisdom that the whole system is effectively all over, *writes David Osler*.

But Hansa Treuhand Holding chief executive Hermann Ebel believes KGs will henceforth comprise just one element in the German ship finance toolbox, and will no longer be geared primarily to small retail investors.

"It's not dead but what we need for typical investors is that ships will pay dividends to shareholders," he told Lloyd's List as he outlined his strategy for the coming period.

While Hansa Treuhand has taken its share of knocks since the global financial crisis and has seen a considerable reduction in fleet size, Mr Ebel points out it has nevertheless come through in one piece.

Survival tactics have included diversification into aviation and the cruise segment to give itself a broader base, and it is now on the hunt for new sources of finance from outside its home market.

Hansa Treuhand is likely to join the rush of German shipping companies tapping US capital, Mr Ebel confirmed, although this will most likely be via private placement.

The sort of initial public offering being mulled over by Claus-Peter Offen and Bertram Rickmers is practically impossible on account of Hansa Treuhand's insufficient volume.

Hansa Treuhand is among the many German owner-managers that built up strong positions in the container sector thanks to the KG system, which provides generous tax breaks to incentivise investors to pool their savings, thus allowing companies to buy vessels with little leverage.

For years, that way of working delivered handsome returns for middle-class professionals, often seeking to provide for their retirement.

But since the onset of the shipping downturn in 2009, tens of thousands have disastrously lost most or all of their outlay, leaving few keen to sign up to new schemes.

Hansa Treuhand itself lost three of its KG ships to receivership, the first time this has happened in its history, and co-founder Mr Ebel admits the process was painful.

While it made every effort not to go down this road, German law provides for personal responsibility in these cases, leaving no other practical alternative. Even so, the banks lost money on the deals.

"In the end, this was a decision for the banks, but it wasn't a good decision for the banks. It's always good business for lawyers," he remarked with perhaps a hint of bitterness.

Most local players — including major past beneficiaries — have in practice written KG funding off,

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with the likes of Lloyd Fonds now seeking to buy KG ships out in return for equity.

But Mr Ebel is more bullish and insists it is too soon to write KGs off completely.

"KG business we expect to exist in future, but as just one aspect of how we expect to raise capital in the future," he said.

The minimum investment threshold is likely to be around €50,000 ($46,580), well up on around €10,000 or sometimes even lower in the past.

That would be sufficiently high to price out dentists and widowed grandmothers, while still pitched at a level affordable to, say, senior managers. Mr Ebel also envisages fewer KG houses and tougher regulations.

More generally, he is also upbeat about the prospects for the wider shipping milieu, insisting that a big part of German shipping is moving in the right direction.

"It looks like the crisis is more or less over," he said. "I think the banks have turned the corner. The banks are not through the crisis, but I don't think they will go down further."

It all looked rather hairy at one point, with even some medium-sized owners in billions of euros' worth of debt.

But according to Mr Ebel and his chief operating officer Jan Bartels, that made them "too big to fail" and there are few circumstances in which the banks would have pulled the plug, for fear of the knock-on consequences across the whole of north Germany's maritime clusters.

However, the climate for shipowners could actually be more dangerous now than it was 12 months ago, as improved secondhand values have moved loan to value in favour of the banks.

Now there is a higher likelihood of recouping loans after a forced sale, banks can be expected to take a more hardball stance, Mr Ebels cautioned.

Arms race of ultra large containerships will not end, says OOIL

Bigger ships have become a must for carriers to compete with their rivals

TUNG Chee-chen, chairman of Orient Overseas (International) Limited, parent of Orient Overseas Container Line, has said the arms race of ultra large containerships will continue as liner players are forced to order for survival and have easy access to finance, *writes Cichen Shen*.

"You cannot get out of this arm race; it's a nature of our business," Mr Tung told the audience at the ninth Singapore Maritime Lecture yesterday.

The race all started with Maersk, which took the lead in vessel upsizing with its Triple-E class in 2010, when a sudden resurgence of demand for container transport occurred.

The move enlightened the industry as to how significantly these giant vessels could drive down unit costs and increase operational efficiency, Mr Tung said.

"Chief executives in shipping, especially in container shipping, all have huge egos," Mr Tung said. "In good times, we all want to increase our profitability and efficiency, and try to build up size, believing the extra capacity can be absorbed."

However, when the market started to sour later on, liner companies, despite concerns of overcapacity, realised that ordering the bigger vessels might actually turn into the only way to survive — even though lower oil prices have now watered down the cost advantage.

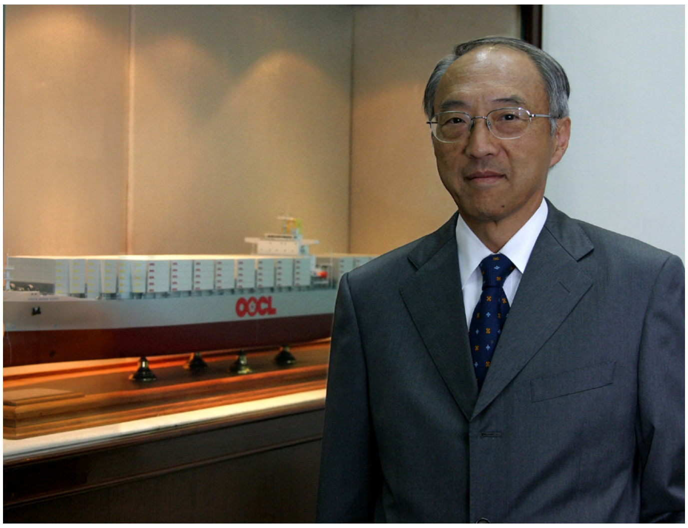
"We are into the sixth year of recovery and consumer spending growth is still rather weak," Mr Tung said.

To tackle the predicament and be able to compete with rivals, he said carriers have to rely on efficient operations, and with more ultra large boxships coming on to the water, following suit has become a 'must do'.

"Everybody [who] wants [to] remain competitive in the market today must have the same size of vessels in operation."

Meanwhile, Mr Tung pointed out that the easy access to funds have also fuelled the industry's wholesale upgrade to ships of 18,000 teu-21,000 teu capacity.

"Money is freely available; even in the worst times, when the banks are not lending, there are private equity and traditional shipowning business, who find this is a big opportunity to invest in ships because shipyards are hungry



Tung: "You cannot get out of this arm race; it's a nature of our business."

and offering lower prices.

"So operators will find numerous interested parties to provide funding to build ships," he said.

In a recent interview with Lloyd's List, Alan Murphy, chief executive of SeaIntel Maritime Analysis, said now the most defining competitive advantages of liner carriers appeared to be the ability to raise capital to fund new tonnage that will fundamentally lengthen the current crisis of overcapacity.

"Importantly, investing in mega-vessels will often be the best choice for the individual carrier, although it is a terrible thing for the industry as a whole. It is a sort of 'prisoners' dilemma' with mega-vessels," he said.

More from Singapore

Industry leaders remain upbeat about shipping market

But lingering overcapacity still poses a threat, Singapore conference is told

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Ferry operators seek go-ahead to restart US-Cuba services

United Caribbean Lines is among handful of companies to apply for a licence

UNITED Caribbean Lines is among a handful of companies that have applied for a licence to restart ferry services between the US and Cuba in the belief that thawing relations between the two countries will shortly lead to official approval for the resurrection of regular passenger links by sea, *writes Nigel Lowry*.

There have been no ferry crossings for more than 50 years, since the once-popular service was stopped shortly after the 1962 Cuban Missile Crisis.

The company, which is the new vehicle of two iconic names of the international cruise and ferry businesses, plans to offer ferry services from Florida starting in the autumn of 2015, according to a preliminary web page.

Advertising the intention to launch the service — and later on links with Cancun and the Yucatan Peninsula in Mexico — UCL says it will follow all US regulations in effect for travel to Cuba, observing the 12 categories of travel currently approved by Washington.

However, those eager to re-establish ferry services are hopeful that rules will be further relaxed after the easing of travel restrictions that began last year and this month's move by the Obama Administration to take Cuba off the US' list of state sponsors of terrorism.

UCL has been formed by executive chairman and major shareholder Alexander Panagopulos, who cut his teeth with father Pericles Panagopulos' Royal Cruise Line and later had a lead role in launching Superfast Ferries, the family's innovative ropax service linking Greece and Italy that first sailed exactly 20 years ago.

UCL executive chairman Alexander Panagopulos (right) with company president Bruce Nierenberg

In the past few years, Mr Panagopulos has been cultivating Arista Shipping, his Greece-based dry bulk operation, but has made no secret of the fact his heart is still in the passenger shipping industry.

His partner, UCL's president Bruce Nierenberg, is a cruise industry veteran who in the past has helmed companies such as Premier Cruises, Orient Lines, American Family Cruises and the Delta Queen River Boat Company.

According to Mr Panagopulos, the company is focusing on first launching a Miami to Havana overnight service, a route of 220 nm, but later it may also look at opening a fast ferry link on the shorter 90 nm route between Key West and Cuba.

"In the beginning, we believe we will need a ferry with a configuration that will resemble more the type of ro-pax ferries we used to operate in the Mediterranean," he told Lloyd's List.

The first vessels were likely to be "more utility" in nature than Scandinavian-type cruise ferries.

"Of course all the services and amenities will be adjusted to the local market," he said.

Mr Panagopulos said his interest in the market can be traced back to 1998 when Attica Group, the owner of Superfast Ferries, expressed interest in a Cuba service when the prospects for a thaw in relations seemed to flicker under the Clinton Administration.

UCL is aiming to go beyond simply launching a ferry service and its ambitions stretch beyond Cuba to becoming a major player in a region where ferry services are chronically underdeveloped, he said.

The company sees relaunching of a regular ferry service as a unique contribution to growing the Cuban economy, boosting jobs, and helping the island become a significant player in passenger shipping.

It has already established ties with the University of Havana to help Cuban nationals train for the maritime business, across the marine, technical and hotel sides of the industry.

"While Cuba is the 'crown jewel,' the economic impact of ferry service in the region goes way beyond Cuba," said Mr Panagopulos.

"Everyone expects Cuba to be successful. UCL knows how to and will serve Cuba better than anyone else.

"But it is the goal of UCL to make the Caribbean basin the next growth market of the worldwide ferry industry," he said. "Here in the Caribbean there is no significant ferry operation and no overnight ferry transport at all."

The intention is to expand services not only to Mexico, but thereafter to Jamaica, The Bahamas, The Dominican Republic, and Puerto Rico.

All have millions of visitors each year and no overnight ferry service from the US.

"Our goal is not only to bring passengers but to use our car decks to bring containers to lower the cost of providing the tools necessary for these

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island nations to continue to provide consistently high-quality tourism resort products," he said.

The company says the initial response to its web page has been "phenomenal", with "hundreds of requests" for more information every week.

UCL is projecting that its service is likely to cost as little as 50% of the existing cost of air trips from Miami and Tampa to Cuba.

The ferry will also allow Cuban Americans, who are estimated to bring an average of $1,000 per trip in humanitarian goods when they visit Cuba, to bring much larger quantities of goods in their own cars.

Although the precise number of applications lodged with the Treasury Department's Office of Foreign Asset Control for launching new ferry services is not known, informed industry sources put the number of applicants at no more than five.

Other companies that have expressed an interest in launching ferry links with Cuba include Fort Lauderdale-based CubaKat, which wants to operate a 200-passenger catamaran service, and Miami-based United Americas Shipping Services, an affiliate of Paris-based Unishipping and Baja Ferries, which operates a Mexican service.

GLOBAL LINER CONFERENCE

German shipowners call for massive expansion of Mediterranean rescue efforts

Berlin and EU urged to step up support for merchant shipping and Italian coastguard as migrant numbers swell to unprecedented numbers

Seafarers are "carrying the load" in trying to rescue as many refugees as possible. © *2015 Francesco Pecoraro/AP*

THE refugee crisis in the Mediterranean is finally forcing politicians to pay attention to shipping, German shipowners said, as they called for a huge injection of state aid to help deal with the emergency, *writes Janet Porter*.

The German Shipowners' Association VDR issued an appeal to both the federal government and EU heads of state to expand rescue efforts as migrants escaping Africa swell to unprecedented numbers.

Addressing Containerisation International's Global Liner Shipping conference in Hamburg, the VDR's Max Johns said there had been a "remarkable" shift of politicians' focus over the past week.

"All of a sudden, politicians are listening and talking to us," he said.

He was speaking as VDR chief executive Ralf Nagel travelled to Berlin to explain in person how seafarers, as well as the Italian Navy, "were carrying the load" in trying to rescue as many refugees as possible.

Seafarers are reaching their physical and mental exertion limits on these emergency missions, the VDR said, as it called for more assistance for those on the front line of this humanitarian crisis.

"In the past several months, our member companies have rescued more than 5,000 refugees in distress in the Mediterranean Sea," said Mr Nagel.

"Merchant vessels are summoned by the Italian coastguard for rescue missions on a daily basis. In the process, our seafarers keep reaching their physical and mental limits.

"Refugees drown time and again before their eyes, or die on board due to exposure. Despite all preparations, merchant vessels are not equipped for rescue and medical treatment of several hundred refugees."

Speaking as the German Bundestag debated the refugee crisis in the Mediterranean Sea in a special session, Mr Nagel said: "We expect support from the German Bundestag, as well as a clear mandate to Chancellor Merkel for tomorrow's EU summit meeting to expand search and rescue operations by EU states massively in the Mediterranean Sea — and very soon.

"In addition, we need medical assistance on board. The refugees include many sick and injured persons, but also women in an advanced state of pregnancy.

"Germany needs to make a substantial contribution and the other EU member states must make a concerted effort as well. After all, the number of refugee boats is expected to rise even further in the next few weeks. A passage on

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hopelessly overloaded, non-oceangoing boats represents a mortal hazard, even in the spring."

The maritime co-ordinator of the CDU/CSU faction in the German Bundestag, Rüdiger Kruse, has pledged to make additional funding available and to adopt short-term measures to rescue the people in peril at sea.

"We explicitly wish to thank Rüdiger Kruse for his clear commitment to giving seafarers on merchant vessels relief by extending the scope of state resources for rescue missions. We are also very grateful for his immense appreciation of the enormous efforts made by seafarers to rescue thousands of human lives," said Mr Nagel.

"We hope that in the course of [Wednesday's] Bundestag debate, there will be no repetition of statements to the effect that too many rescue missions at sea indirectly support the criminal human traffickers. That certainly would be a bizarre signal to our seafarers.

"After all, rescuing people in danger of drowning is a legal and iron-clad duty for ship crews. In doing so, we do not draw any distinction with regard to the origin of the people in distress and what their objectives are.

"However, we expect the EU member states to provide the maritime shipping sector with much stronger relief from this task than in the past. Moreover, we need political solutions fast in order to be able to manage the flow of refugees via the Mediterranean Sea as a whole."

Last year, merchant ships took more than 40,000 refugees on board in more than 800 rescue missions. In the past several days alone, more than 10,000 boat refugees have been rescued by maritime shipping and the Italian coastguard, according to VDR.

Call for action

Meanwhile European and global shipping industry groups have insisted that the urgent priority is for EU member states to immediately launch a proper EU search and rescue operation with sufficient resources to prevent the further loss of thousands more lives.

The shipping industry says the decision taken by EU foreign ministers to bolster the Frontex-led Triton mission is a step in the right direction, but potentially falls short of the need for an operation with similar resources and geographical scope as the Italian Mare Nostrum operation, which was suspended last year.

In Brussels, Patrick Verhoeven, secretary-general of the European Community Shipowners' Associations, said: "The shipping industry recognises that the underlying issues are very complex. But when dealing with the imminent life or death of thousands of people, fast and decisive action is needed to avoid further escalation of the problem."

He added: "Ideally, we need an EU operation similar to Mare Nostrum, but the critical thing is that search and rescue resources, rather than border control resources, are increased now, and that they are increased immediately — not later in the year, or even in a few weeks' time."

Peter Hinchliffe, secretary-general of the International Chamber of Shipping, added: "When we talk about increased search and rescue operations, we mean increasing the number of coastguard and other appropriate vessels that are immediately available to help, and expanding the geographical area of patrols to those areas where migrants are most likely to be found before they get into serious difficulty.

"When called upon to assist, merchant ships will always come to the aid of anyone in distress at sea, but as the tragic events of the weekend seem to have shown, merchant ships are really not best equipped to deal with such large-scale operations involving hundreds of people."

NSB in industry first with widening of panamax boxship trio

Three ships chartered to MSC are being expanded from 4,860 teu to 6,300 teu in pioneering project

THREE panamax-size containerships managed by Germany's Reederei NSB and chartered to Mediterranean Shipping Co are being widened in an industry first, *writes Janet Porter*.

With the panamax sector of the container shipping industry oversupplied, sending charter rates and values sliding to unsustainable levels, NSB worked out a way of broadening the KG-owned trio in order to raise capacity from 4,860 teu to 6,300 teu. This size is in much greater demand, giving the ships substantially better employment opportunities.

News of the widening was revealed by Lutz Weber, president and chief financial officer of Reederei NSB, at Containerisation International's Global Liner Shipping conference.

The 2006-built *MSC Geneva* is the first to be widened, with two more to follow. All three had been on charter to MSC.

When those hires expired, and with little future charter prospects, NSB consulted MSC about expanding the ships' capacities by around 1,500 teu. They will be rechartered to MSC at a higher rate for another three years, Mr Weber told Containerisation International.

Three rows of containers have been added, and the

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Weber: The same concept could be used for other ship sizes, such as from 7,000 teu up to 10,000 teu.

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bow reshaped on the enlarged ship. The cost of each retrofit is about $10m, financed by the KG owners and banks.

At present, the secondhand value of a 4,800 teu vessel is around $15m.

"So you get a 6,300 teu vessel for the price of $25m, which is very much better for the owners," who now have a sound investment in a ship with upside potential, in contrast to the standard panamaxes, said Mr Weber.

NSB has patented the system it developed to widen the ships. Considerable interest in the process is being received both from owners and operators with panamax boxships in their fleets, and banks with loans against ships of that size that otherwise would have to be written down.

Traditional panamax designs have fallen out of favour because of their relative inefficiency compared with more modern ships. Although charter rates have recovered from less than $8,000 a day a year ago for a 4,250 teu ships to around $14,700 a day for a 12-month fixture, this is way down from highs of almost $30,000 a day four years ago, ConTex data shows. With their narrow hull form, panamaxes require a large amount of ballast water, which adds to their operating costs. Prior to its retrofit, *MSC Geneva* had a width of 40 m.

Addressing the conference, Mr Weber said not every panamax ship would be a suitable candidate for widening. The hull strength and number of containers under the deck were two considerations to take into account.

However, he predicted that the same concept could be used for other ship sizes, such as from 7,000 teu up to 10,000 teu, for example.

But panamaxes were ideal for this concept because most are overpowered. Therefore, there is no need to install larger engines in the bigger ships, said Mr Weber.

The work is being carried out by HRDD shipyard in China. The enlarged *MSC Geneva* was floated out on Monday and hauled to the shipyard's fitting-out berth for the remaining work.

More options

NSB said widening offers shipping companies and investors more options. For example, apart from converting

The widening work underway on *MSC Geneva*.

ships of existing fleets, purchasing a used ship and having it widened is less costly than ordering a new one. It is also faster to realise.

Reederei NSB said it first had the idea to widen panamax containerships in the summer of 2013. A central element was to cut the ship in low-use areas. The widening significantly increases both the load-carrying capacity and the transverse stability.

In addition, sustainability is also increased, while carbon emissions per tonne of cargo will be substantially reduced. Furthermore, converting a ship instead of scrapping and building a new ship is less harmful to the environment.

Conversion of the first ship took about four months, but work on the next two is expected to be faster, said NSB.

After *MSC Geneva*, the HRDD shipyard will start working on sister vessel MSC Carouge and the 4,500 teu Buxhai.

"Candidates for widening are panamax ships delivered after 2005. We believe that the market potential is big. The inquiries we have received in the past months indicate that the special know-how we have acquired is very much in demand," said Bozidar Petrovic, who heads and supports the first widening project at HRDD on site.

The project has been carried out together with classification society DNV GL.

"We were extremely pleased to have been given the opportunity to work with NSB on this project from its beginning," said Marcus Ihms, DNV GL ship type expert for container vessels.

"As this is a major conversion, we worked intensively with NSB, the yard and flag state authorities to ensure that all of the applicable environmental and safety rules were met. But we believe that this is a solution that allows forward-thinking owners to keep their vessels competitive in the market for longer."

More online

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SeaIntel study shows little improvement in schedule and container delivery in past three years
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Scorpio Bulkers confirms sale of seven ships

Previously reported sales of four bulkers and three LR1 tankers bring a total of $290m

SCORPIO Bulkers has confirmed the sale of seven newbuildings for a total of $290m, as well as the financing of an ultramax newbuilding for $17m, *writes Tom Leander*.

The sold contracts take in three capesize ships, a kamsarmax vessel, and three newbuilding long range one product tankers. The New York-listed, Monaco-based bulker operator will use the money to continue shoring up its balance sheet in the wake of the downturn in the dry bulk market.

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More bulk news online

BHP Billiton puts key Port Hedland project on hold
Miner says there is no rush to boost capacity at Australia's largest iron ore terminal
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Kembla remains closed, while entrance to Newcastle is still restricted
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Scorpio Bulkers' sold contracts take in three capesize ships, a kamsarmax and three newbuilding LR1 product tankers.

Meanwhile, Scorpio Bulkers has agreed with its bankers to transfer a $17m loan applied to one of the sold capesize contracts to finance an ultramax newbuilding currently under construction at Imabari Shipbuilding in Japan, set for delivery in the third quarter of this year. The newbuilding matches the description of a Scorpio Bulkers ultramax being built at Tsuneishi Zhoushan, listed in Clarksons for later delivery in 2016.

Lloyd's List reported the sale of the three bulkers to John Angelicoussis for $44m each, very near the market low for capesize newbuildings in recent years.

As for the LR1 product tankers, the three ships are being built at South Korea's Sungdong Shipbuilding and Marine Engineering and are due for 2017 delivery.

Following the sale of the seven ships, Scorpio Bulkers still has contracts for 59 dry bulk vessels being built in Asian yards, comprised of 25 ultramax, 19 kamsarmax and 15 capesize vessels. One of the kamsarmax ships is being held for sale.

Rongsheng changes name, plays game over suitor's identity

Takeover from Yangzijiang ruled out for now as CSSC unit comes under spotlight

China Rongsheng Heavy Industries, now China Huarong Energy, remains vague about the identity of the potential buyer.

CHINA Rongsheng Heavy Industries, which has renamed itself as China Huarong Energy, claims it has made progress in negotiations over the sale of its shipbuilding and offshore engineering assets but remains vague about the identity of the potential buyer, *writes Max Tingyao Lin*.

Huarong, formerly the largest non-state shipbuilder in China, told the Hong Kong Stock Exchange that it had reached "consensus" with relevant parties and government authorities over the potential sale of those core assets, which are of modern standard but carry heavy debts.

To offer comfort to investors, Huarong stressed it had obtained letters of consent from "various creditor banks" that conditionally agree to the sale. It didn't elaborate on which conditions but added talks were under way over the scope of assets and liabilities that will be involved in this sale.

In addition, the company even hinted the potential buyer — which signed a memorandum of understanding to explore the sale in March — is a company with A shares listed in Shanghai or Shenzhen but still didn't disclose its actual identity.

This statement has, in effect, ruled out the possibility of a takeover from Yangzijiang Shipbuilding, the China-based, Singapore-listed yard that confirmed it was approached by some Chinese government agencies to consider purchases of Huarong assets.

Now, China CSSC Holdings, the Shanghai-listed flagship unit of China State Shipbuilding Corp earlier rumoured to be asked by local authorities to buy Huarong, is expected to come under the

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spotlight until the MoU expires on June 30.

These latest announcements, while vague in detail, proved to be bullish nonetheless and pushed the share price of Huarong up 15.5% to HK$0.97 ($0.13) on Wednesday's trading session.

In a separate statement, Huarong gave out the reasons behind its name change, which was first proposed last October.

"We believe that the change of company name would better reflect the expansion of the group's business scope and diversified operations with a more accurate display of the group's strategic positioning, and offer the company a new corporate identity and image," the statement said.

The company, which was launched in 2007, has seen its massive shipbuilding business reduced to a pared-down, cash-strapped operation with 35 vessels on order in a matter of four years.

Struggling to survive in the shipbuilding downturn, Huarong has been busy cancelling construction contracts and posted heavy losses. Full-year net losses amounted to Yuan7.8bn ($1.2bn) in 2014, compared to the 2013 level of Yuan8.7bn.

As of end-2014, the company's total liabilities stood at Yuan27.9bn, of which Yuan20.5bn was in borrowings. In comparison, cash and equivalents amounted to Yuan7.1bn at year-end, compared with Yuan14.2bn a year ago.

Huarong has stated it would use cash from the asset sale to settle its remaining liabilities and to finance its push into energy.

While lacking liquidity, the company announced last August that it had bought a majority stake in New Continental Oil & Gas for $281.8m. New Continental, along with Kyrgyzstan's national oil company, operates four oilfields in the central Asian nation.

Nanjing Tanker declares success of court-ordered restructuring

Tanker arm of Sinotrans & CSC returns to black for first quarter while selling 19 VLCCs

Nanjing Tanker has completed the sale of its VLCC fleet and refocused on shipping petroleum and chemical products. *CSICL*

NANJING Tanker has declared its court-ordered restructuring a success as it has returned to profitability for the first quarter, after scaling down its business, *writes Max Tingyao Lin*.

Net profits for the tanker arm of Chinese state conglomerate Sinotrans & CSC Holdings during the January-March period amounted to Yuan119.6m ($19.3m), compared with the year-ago losses of Yuan255.5m.

The improvement was in large part due to a fall in its financing costs to Yuan76.2m from Yuan184.4m in the year-ago period, according to its quarterly report.

The carrier has completed the sale of its very large crude carrier fleet and refocused on shipping petroleum and chemical products, while significantly reducing its debt burden, Nanjing Tanker said on its website.

The carrier, the first Chinese state-linked firm delisted in the Shanghai bourse after four consecutive annual losses, sold its VLCC fleet of 17 vessels on the water and two on order to China VLCC — a joint venture 51% owned by China Merchants Energy Shipping and 49% by Sinotrans & CSC.

While creating one of the largest VLCC giants in the world, the move allowed Nanjing Tanker to repay debts totalling Yuan2.4bn, the website said.

In addition, Nanjing Tanker reduced its liabilities by Yuan6.2bn via debt-to-equity swaps and new share issues from common reserves.

"After those measures, we managed to renegotiate with our lenders on the payment periods, methods and interests of the remaining Yuan3bn on our balance sheet. This will reduce our financing costs and liquidity worries from now on," Nanjing Tanker said.

"We have revitalised our business after restructuring."

With a fleet of 65 vessels, composed of mostly medium range product tankers, the company also benefited from the upturn of freight earnings in shipping oil products.

Nanjing Tanker posted operating profits of Yuan123.6m in the three months, versus operating losses of Yuan254.2m in the same period of last year.

Having falling behind on many payments amid heavy losses, the company was ordered to enter restructuring procedure by Nanjing Municipal Intermediate People's Court last July upon a creditor's request.

The procedure went relatively smoothly and was completed within six months, with creditors guaranteed full repayments, thanks to mediation by the provincial government of Jiangsu, where the company is based.

More tankers online

West Africa to Asia fixtures add spice to VLCCs
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Finn Amund Norbye accepts job, then turns it down after second thoughts
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Banks favour eco-ships

HSH Nordbank and KFW-Ipex Bank say eco-ships are less risky loan investments and confirm two-tier market

Wiebers: KfW-Ipex Bank has now implemented design efficiency criteria into its credit approval process.

MODERN, fuel-efficient tonnage is less risky and more likely to win preferential bank loans, say two leading shipping banks, *writes Craig Eason*.

HSH Nordbank and KfW-Ipex Bank confirm they use a vessel's position on a controversial A to G emissions rating scheme created by the Carbon War Room and the vetting group Rightship, when determining the risk and return of a loan.

The implication is that less fuel-efficient vessels are considered a higher risk investment when financing secondhand purchases.

There is also evidence, according to a quote from KfW-Ipex, that a two-tier market may be developing. Newbuildings that are seen as more fuel-efficient than the market norm are more expensive to order, but are more likely to be chartered, maintain their secondhand value over time and have a longer lifespan.

The comments from the two banks come from the Carbon War Room, the lobby group that has been promoting fuel efficiency in shipping, and will no doubt fuel further debate on whether owners should order newbuildings or continue to retrofit older tonnage to compete in the market.

In a statement, KfW-Ipex Bank's global head of maritime industries Carsten Wiebers said as a consequence of the correlation of energy efficiency and loan risk, the bank had analysed its shipping portfolio based on the methodology of the [mandatory] Energy Efficiency Design Index. This is the same index on which the RightShip/Carbon War Room system is based.

He said the bank had now implemented design efficiency criteria into its credit approval process. In a recent interview with Norwegian/German classification society DNV GL, he revealed that the bank had been using a "CO_2 calculator" designed by the class society as early as 2011, when it saw the trend of fuel-efficient tonnage emerging.

"In view of the beneficial risk profile and environmental benefits, we favour eco-ships over ships with poorer energy efficiency," he said.

His comments contradict those of Jeffrey Pribor, head of shipping at Jefferies, who suggested late last year that the so-called eco-ship debate was over.

The trend towards a two-tier market is clear, Mr Wiebers said, as more fuel-efficient tonnage will have enhanced marketability and a higher revenue potential, so a more favourable risk profile for investors.

KfW-Ipex has already said it has found there can be a 30% difference in fuel consumption between a fuel-efficient containership and a less efficient one of the same size.

HSH Nordbank's global head of shipping Ingmar Loges confirmed that HSH also uses the RightShip system to help evaluate its portfolio risk.

"HSH can also supply financing for a retrofit, when its analysis of the A to G Rating and other vessel data finds retrofitting to be a viable and desirable option and if certain general conditions are fulfilled."

The Carbon War Room has been a keen advocate of shipping efficiency and has been promoting more efficient tonnage since its inception in 2009. It helped promote the Rightship efficiency tool, to the chagrin of shipowning bodies that believed it to be inaccurate and were concerned about its influence.

ICS and green lobby groups battle over eco-ship claims

War of words over impact of EEDI and how to improve shippings CO_2 footprint heats up

LIES, damned lies and statistics, so the saying goes, *writes Craig Eason*.

Take a set of statistics, such as ship efficiency or eco-ship claims, and they can be used as selectively as needed to make a point.

And so it is with the latest ship efficiency argument. The most recent twist stems from a CE Delft report, which suggests that vessels being designed and built at the start of this decade are less fuel-efficient than those designed and built in early-1990s.

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It is no doubt a sweeping generalisation and one that could easily raise the hackles and cause concern among owners investing in new ships that seem constantly to be called eco-ships.

The lobby groups Transport and Environment and Seas at Risk have jumped on the report — which admittedly they commissioned — to help push their drive to get the target improvements under current ship design regulations strengthened.

The International Chamber of Shipping has said these lobby group claims are inaccurate and that ships are improving. It cites the latest greenhouse gas emissions report for the International Maritime Organization to support its claim.

ICS secretary-general Peter Hinchliffe told Lloyd's List that it is clear the CE Delft report focuses only on ship designs; it does not cover other aspects, such as improvements in engine efficiency and cargo.

The report also only focuses on ship-to-ship comparisons of similar size; it does not account for the trend of owners building larger vessels.

The crux of the argument is that Transport and Environment wants to use this report to push for improvements in targets that ship designs must meet in the future. These are percentage targets, based on regulations that came into force in 2013 after years of work at the IMO. Even the ICS admitted at the time of their development these rules were likely to be complex.

They are, but not because the formula for the Energy Efficiency Design Index is complex; it is not.

The EEDI formula, while looking complicated, is basically a ratio of the ship's CO_2 emissions and the work benefit of the vessel.

Hinchliffe: it is clear the CE Delft report focuses only on ship designs; it does not cover other aspects.

Devil in the detail

The complexity, and part of this latest argument, stems from a reference line that was created by the International Maritime Organization, to determine how much more efficient ship designs should become in the future.

This reference line used a simplified EEDI formula on real ships built between 1999 and 2009 to determine how efficient their designs were, and then to determine an average, which is the reference line. This simplified EEDI formula is known as the estimated index value.

The EEDI regulations say a ship designed from January 1, 2015 needs to have an EEDI figure that is 10% better than its relevant reference line. Any vessel built after 2020 must be 20% better and a vessel constructed after 2025 must be 30% better.

What CE Delft has said — and has now gone to pains to clarify, given the latest statements from Transport and Environment and ICS — is that by using the EIV on tankers and bulk carriers from 1960 and container vessels from 1970, design efficiency for similar ships and sizes improved up to the 1990s and then deteriorated to 2010.

CE Delft used the same data sources the IMO used when it used the EVI formula to create its reference lines for the EEDI.

The IMO applied the EVI data to vessels built between 1999 and 2009, the very period CE Delft reports that ship designs deteriorated.

There is anecdotal evidence to support the CE Delft design claims, as firstly, some shipowners took the opportunity to get certification on their existing fleets, given the growing interest by shippers in fuel efficiency; and secondly, struggling shipyards suddenly rustled up so-called novel eco-ship designs for ships that were well beyond the first requirements of the EEDI regulations.

The main reason for the deterioration in the 1990s was the trend for vessels to be built with fuller hull forms, with what is known as a high block co-efficient, rather than more slender hull forms.

During the 1990s, the focus of ship operations was more on cargo and trade, so vessels were naturally designed to carry more cargo yet remain within the same dimensions. This left it quite easy for designers to improve the hulls by creating ones with block co-efficient that were used before the dates the IMO used to create the EEDI reference lines.

CE Delft also admits its report does not account for improvements in engine-efficiency improvements; it only accounts for the data for the EVI, so it now clarifies that with the work enginemakers have undertaken in recent years to improve engine performance, the deterioration in design efficiency since 1990 would be less than it reports.

MAN Diesel and Wärtsilä have all developed new engine models with superior fuel

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The main reason for the deterioration in the 1990s was the trend for vessels to be built with fuller hull forms.

performance over the past decade.

Nor has CE Delft accounted for improvements to ships' performance based on operational measures. A well-designed ship operated poorly could have worse fuel efficiency than a similar vessel with poor design but operated efficiently.

The current IMO regulations have two aspects to them: the design improvements, and those aimed at improving how a ship is operated.

This latter is the ship energy efficiency management plan. It can be seen as a simple paper exercise, but with the uncertainty of fuel prices, it can be used as a tool to make sure any vessel is operating as efficiently as possible.

Future improvements

What Transport and Environment and Seas at Risk really want is for the 2020 and 2025 target percentages for the EEDI to be higher than the current 20% and 30%.

There is a review of this at the next meeting of the marine environment protection committee in May and the lobby groups hope to influence the outcome. If they are successful, it could drive the demand for more fuel efficiency achievements through either ship design or technology application.

The ICS' Mr Hinchliffe is less convinced that ship design targets should be changed now. The rules only came into force in 2013, and as of January 1 this year, all newbuilding designs need to have an EEDI value 10% below the benchmark.

The timing of the demands of Transport and Environment are wrong, according to Mr Hinchliffe. There needs to be time to measure the improvements before any adjustments, if needed, are made.

The elephant in the room is, however, the ongoing debate over other measures to reduce shipping's greenhouse gas footprint.

The reality is that both the IMO and the European Union remain on track to develop their own measures to monitor and report the CO_2 emissions from vessels. This process is the less controversial of the diplomatic steps toward a more market-based measure for reducing shipping's Co2 emissions.

Rulemakers will soon have data from the MRV methods available. Coupling this data with the data of the IMO's third GHG study last year, and the understanding of how the EEDI is having an influence on ship designs from 2013, will allow them to make their decision on how tough a market-based measure shipping should have.

If the EEDI is seen to be having little effect, the pressure will be to make sure that any new market-based measure does have a strong effect on reducing CO_2 from shipping.

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