SCI Australia

Pty Ltd

In This Edition

November 2015 Newsletter

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November Edition

Welcome Message

Welcome to the November Newsletter for the clients and friends of SCI Australia. This newsletter is designed to be an informative source about the company and the general industry and includes news, forthcoming events and the lighter side of the people who work for SCI.

We hope that you find this newsletter beneficial and the information provided of great value and interest. We appreciate your suggestions and input for future issues.

Low Sulphur Limits Need to Be Enforced

The Danish Shipowners' Association has said the international maritime community must help ensure that low-sulphur limits in the emission control areas are complied with to prevent further damage to the environment and to keep Danish ships competitive in the global arena.

The association called for international maritime authorities to enforce the 2015 regulations so as to prevent the formation of economic incentives to bypass the ECAs.

"There is a lot of money to be made in circumventing the requirements of the directive, and that makes effective international enforcement crucial," said Danish Shipowners' Association senior adviser Jesper Stubkjaer.

"Without enforcement, we risk losing the environmental and health-related improvements. Similarly, law-abiding shipping companies will suffer from unfair competitive disadvantages and will lose out to those who cheat."

The DSA has partnered with the Danish Environmental Protection Agency to focus on enforcing regulations in green shipping. Pilot initiatives such as gauging vessels' sulphur emissions from aircraft and bridges were carried out and received support from Danish shipowners. It added that vessels in all waters should be ready for unannounced sulphur controls at any time.

Effective from the start of 2015, ships sailing in the North Sea and Baltic Sea ECAs are required to use fuel with a maximum sulphur content of 0.1%.

With the price difference between conventional heavy fuel oil and low sulphur fuel amounting to around $200 per ton, the association is concerned that shipowners may attempt to skirt the rules.

Source: **Lloyds List Australia**
http://bit.ly/1GBSbc8

South-East Asia Maritime Crime Rises

Southeast Asia recorded a 38% increase in maritime crime incidents for the first nine months of the year compared with the same period in 2014, said Dryad Maritime in a report.

The number of reported cases has climbed to 194 for the nine-month period in 2015 from the previous year's 140 incidents with the criminal gangs mainly targeting engine parts and other high value machinery in ship stores for resale in the black market. A total of 14 ships have been hijacked in Southeast Asia in 2015 to date.

The maritime intelligence agency noted that the Singapore Strait was a key area for increased vigilance as more than 80% of the 90 recorded instances of theft or attempted theft occurred in the Traffic Separation Scheme area between Pulau Karimun Kecil and Pulau Besar during the hours of darkness.

Although Malaysian and Indonesian maritime authorities had repeatedly pledged to step up patrol co-operation and co-ordination in the region, there still does not seem to be a regular security presence in the area, said Dryad warning that the last quarter of 2015 will likely see an uptick in vessel hijackings and petty theft.

"In Southeast Asia, the final quarter of the last three years has seen the highest numbers of incidents per quarter and we see no reason why this will not remain the same this year; a year in which we've already seen the highest number of incidents in the first nine months," said Dryad Maritime chief operating officer Ian Millen.

"There is a pressing need for a joined-up security effort in the Singapore Strait and other areas. Without a high visual presence from security agencies, criminal gangs will continue to operate freely with little fear of capture or prosecution."

Highlighting the rise of armed robbery on the sea in Asia, a 105,571 dwt tanker carrying a cargo of marine fuel was attacked by pirates in the Strait of Singapore late last week, though the robbery attempt was foiled by Malaysian maritime security forces.

Source: **Lloyds List Australia**
http://bit.ly/1LVUdEC

Victorian Business To Finish Strong in 2015

Port of Melbourne is set for a strong final quarter with industry groups taking heart from what they say is rising business confidence.

The quarterly Victorian Employers Chamber of Commerce and Industry (VECCI) survey noted that in “an encouraging sign for business”, sales performance had improved for one in three surveyed businesses during the September quarter.

This was an improvement on the June quarter, when sales trends were comparatively flat across surveyed industries. A VECCI statement said they anticipated a positive end to 2015. “Following a tough second quarter of 2015, it is pleasing to see key business indicators rebound and the Victorian economy poised to round-out 2015 on a healthy note,” said chief executive Mark Stone.

According to VECCI, sales are likely to improve in the lead up to Christmas, with 34% of respondents anticipating growth in the December 2015 quarter. That bodes well for demand for containerised goods from China.

The VECCI survey of almost 450 businesses across seven major industry sectors also selling prices are expected to rise, with almost one in five (17%) surveyed businesses predicting a rise.

A positive sales and selling price outlook suggests business expects stronger consumer spending during the fourth quarter. “It is positive to see both business trading conditions and confidence on the rise, however the underlying soft job market and intense international competition remain headwinds to a sustainable lift in business performance,” Mr Stone said. Victorian Transport Association chief executive Peter Anderson said the results were promising for the transport and logistics industry. “Increased consumer confidence and sales figures mean more goods being delivered to meet these rising demands, and more work for our industry,” Mr Anderson said.“These figures also emphasise the need to invest in major infrastructure projects, such as the Western distributor, to ensure that Victoria’s roads can handle the increasing needs of an ever growing population.”

Mr Anderson said the logistics industry was vital to every Victoria and it was crucial the state and federal governments continued to consult with industry to ensure sustainable operating conditions.

Source: **Lloyds List Australia**
http://bit.ly/1OQ3HUh

Shanghai - Next Singapore?

Shanghai will eventually join Singapore and Hong Kong as a leading Asian shipping centre, while Europe can maintain a place at the table by healthy innovation, according to the president of the Singapore Shipowners' Association.

Esben Poulsen, a 38-year veteran ex-pat in the Far East, made the predictions as part of a potted history of the rise of Asian shipping offered to the Shipping & The Law conference in Naples.

On his account, the breakthrough came in 1949, following the fall of China to communism. This led to a diaspora of the Shanghai shipowner community, with many moving to the British colony of Hong Kong.

Meanwhile, Japan's requirement for shipping services, boosted by the Korean war from 1950, saw Japanese banks finance Hong Kong owners to buy vessels for long-term charter to Japanese interests.

Companies such as BW Group and Wah Kwong are rooted in this period, said Mr Poulsen. Further boosts were delivered in the 1960s by the advent of containerisation, giving birth to the likes of Evergreen and OOCL, and the emergence of Filipino seafarers on the world labour market. Shipbuilding took centre stage in the decade after that. Hyundai only built its first its ship in 1974, but today its combined yards can produce 300 vessels annually. Now the likes of Daewoo and Samsung are shifting production to Vietnam and Philippines in search of lower cost.
More recently, China's introduction of market-based economics added 1bn tonnes to seaborne cargo in the years 1998 to 2008 alone.

Eight out of ten of the world's largest container ports are now in Asia, with the International Monetary Fund predicting that growth in intra-Asian trade is set to outstrip east-west trades growth. Mr Poulsen said that it is "no accident that Hong Kong and Singapore are the two most prominent shipping centres in Asia".

Both countries benefit from robust and properly enforced legal systems in which the international community can have confidence.Small wonder, then, that 130 international shipping groups are now located in Singapore.

Singapore's shipping orientation has spurred growth in related services, such as broking, legal services and insurance. It is also becoming a notable arbitration centre, especially for cases involving two Asian parties. The Standard Club's Singapore War Risk, which only started underwriting in February this year, already has 300 vessels.

Moreover, the Singaporean government's high investment in education means that good young candidates are available for shipping jobs. Shanghai will be a factor in the future if China's legal system improves. But Europe should not despair, and can remain central to shipping if it achieves a continued healthy rate of technological innovation

Source: **Lloyds List Australia**
http://bit.ly/1kGdxLX

Aussie Trade Stats Looking Good

Australia performed well in international goods and services trade in August, with imports and exports values both up compared to July, according to the latest data from the Australian Bureau of Statistics.

Goods and services imports for August 2015 were up $173m, or 1%, compared with July, at $29.6bn, and up by $2.27bn, or 8%, compared with July last year. In seasonally adjusted terms, the value of goods imports alone in July was up by $202m, or less than 1%, at $23.56bn. Year-on-year, goods imports were up almost 10%, from $21.45bn.

General merchandise accounted, by far, for the highest value of goods in July, worth $23.22bn, while consumption goods came in next at $8.08bn, both records for Australia.

Imports from China were worth $5.09bn, making the country Australia's biggest import trade partner in monetary terms. The United States followed, with imports from the country worth $2.33bn, slightly down compared with the last six months. Japan was Australia's third strongest import trade partner for August 2015 in terms of value, with imports from Japan worth $1.73bn.

New South Wales imported almost 40% of Australia's total imports in August, with goods to the state worth $8.55bn. Victoria imported $6.04bn, Queensland $2.95bn, Western Australia $2.43bn, South Australia $670m, Northern Territory $381m, and Tasmania $65m. Australia's goods exports were worth $21.9bn in August, up $262m, or just over 1% compared with July.

However, compared with August last year, goods exports were down by $34m, less than 1%.General merchandise and non-rural goods were the top two export categories, worth $20.49bn and $16.75 respectively.

Exports to China were worth $7bn in August, which is 32% of Australia's total exports. While those to Japan were worth $3.52bn, up by $269m, or 8% compared with the month before. Exports to Japan were worth the most since March 2015. Goods shipped to the US were worth $1.18bn, slightly down on last months' figure of $1.3bn.

Source: **Lloyds List Australia**
http://bit.ly/1S579J5

A Volatile World (Page 1)

With intense competition causing a rates war that is driving down prices, and the major trade lanes facing an imbalance in supply and demand, the management side of the liner shipping industry is not an easy place to be, says NYK Line chief executive Jeremy Nixon.

"It's quite a lonely, cold, dark place on occasion, with a lot of challenges," Mr Nixon told Containerisation International during an interview at the Global Liner Shipping Asia conference held in Singapore in September.

Mr Nixon says container shipping has become a commoditised industry, where rates are set by supply and demand. But the supply and demand side has recently become out of equilibrium, leading to volatility and sharp swings in rates.

"We need to somehow find a way in collaboration with our customers and the industry regulators to create more stability in the way the market prices," Mr Nixon says. "Carriers cannot control prices. We live in a regulatory environment where operators cannot come together and decide on pricing levels. We are working on pure economics, which is why we are seeing such volatility."

This is good for neither lines nor their customers, he adds.

"I know our customers hate it; it also adds a lot of complexity into the way we do our business in terms of trying to forecast results to our shareholders and how we do our invoicing."

Moreover, an overemphasis on spot market pricing is distorting the industry, Mr Nixon says. "Some customers want to be on long-term contracts and some want to work the spot market, we understand that. But if you want to have a spot rate that's what you get this week, subject to space and equipment. But if you want a long-term contract it has to be a contract and we have to protect that space and keep the customer happy, but we can't mix up the two."

The impact of this volatility can be seen in lines' financial results over the past couple of quarters. The 16 of the top 20 lines that release financial data reported an average operating margin of just 2.6% in the first half of 2015, which while positive in some respects, is not acceptable by any industry standard.

However, within those figures lies a large range of numbers, with lines such as Wan Hai delivering an operating margin of 11% and others working in negative territory. "Fortunately, at NYK we're in positive territory but we continue to be buffeted by the global markets," Mr Nixon says. But overall, scale is an important factor, he adds.

"We are in a business of economies of scale and the larger you are the more you can dilute down your administration and operational costs," Mr Nixon says. "If you get caught in too many long, thin trades you get caught out. That is why the consortia model is so important for our customers and the industry as a whole".

The second consideration is where each carrier is in its investment strategy. "Some are well down the track in having ordered and built big ships, and there is no doubt big ships help. If you can deploy 14,000 teu vessels in the Asia-Europe trade and not 8,000 teu ones you have an initial advantage. On the US east coast if you can deploy 8,000 teu-9,000 teu ships instead of the current panamaxes that makes a big difference."

The third thing is the speed with which a line can accelerate its own performance. "I still believe this is a people business," Mr Nixon says. "It's about managing, motivating and getting performance out of your team. If you've got good teams focused on costs and yield you can outperform a larger carrier that doesn't have a sense of urgency."

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Mr Nixon is more sanguine on the ordering spree that has led to overcapacity in the market, particularly on the Asia-Europe trade lane and where the lines stand accused of exacerbating the supply and demand imbalance. “Ships are long-term investments that take 18 months to three years in the planning cycle,” Mr Nixon says. “When you order a ship you don’t just order one but a set of them to operate a loop. It does take some crystal ball-gazing and some lead time to bring the assets online. As we’ve seen this year, suddenly you get a change in the demand situation and demand can contract much more quickly than we can control the supply side.”

Nevertheless, ships are still needed, and if orders dry up because the operators cannot make a realistic return, then there would be significant concerns for the whole global economy, he says. “If the overall market globally is about 170m teu laden, even with a 3% growth in trade you still need an additional 450,000 teu of standing slots a year. Even if you use 25 years as the age for scrapping ships, on a fleet of 20m teu today, 800,000 teu is needed just to replace that. If you add that up you need about an average of 1.3m teu a year to stand still. “The problem is that over the past couple of years we’ve been adding about 1.5m teu-1.6m teu, which is in hindsight over the top in relation to where the demand picture is now, but in the longer-term interests of the trade we still need to order.”

The added complexity is that most of the ships that have been ordered in the past two or three years have been larger ones that are focused on the Asia-Europe trade, which accounts for only 22m teu out of the global 170m teu. “Most carriers have ordered the right number of teu, but they’ve just decided largely to put them all into one asset class and all onto one particular trade, which has then kicked off this massive cascade that we’re going through now,” Mr Nixon says. Despite the problems that lines are facing with overcapacity and pricing, there is a limited appetite for any major consolidation of operators, according to Mr Nixon.

“I think it’s getting harder to justify the case for mergers and acquisitions,” he says. “If you go back 10-15 years ago it made a lot of sense because not all players were global. You were able to increase your range of products and could access new customers you’d not had the opportunity to engage with before. There were also significant IT and admin costs to be saved.”

These days, however, most players are global and are interacting with the same customers and have already gone through the process of stripping out costs in the front line office. “Lines have to ask what cost synergies are available and what new trade lanes they would get and what new customers they would get,” Mr Nixon said. “Then you have the disruption of a merger where the whole organisation takes their eye off the ball for at least six months.”The case for mergers now is not so straightforward and the number of candidates is not so open, he adds.

“What valuation would you put on a liner company right now? Listed liner stocks have fallen by around 20% in the last three months,” he says. “If you’d decided to do an acquisition three months ago you’d have paid 20% more than you needed to.” Nevertheless, where there is a political will to bring state-owned or nationally sensitive companies together there could be mergers to give those lines more scale. A better approach may be for lines to take a deep look at themselves and ask what is their strength and core competence.

“Trying to be a global carrier with a 3%-4% market share is challenging,” Mr Nixon says. “Do you need to be in every geography and trade lane?” However, wholesale return to carriers’ historical markets is not realistic either, as the fleet profile of most of the top 20 carriers is not set up to do that. Customers have also become more multi-trade in terms of their sourcing and trading requirements.

“There may be a desire to change the emphasis on some trades, but fundamentally the ability to retool overnight and have the right type of assets to change direction is not so realistic,” Mr Nixon says.

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While consolidation may be out of the frame, the case for alliances remains strong, according to Mr Nixon. By working together to create a network where they can deploy assets to get the most efficient scale and the most frequency, more carriers can offer more services. "On the G6 we took it very carefully," Mr Nixon says. "We started with Asia-Europe, then added the transatlantic, then the US east coast and then finally the US west coast."

But the G6 has seen one of the steepest declines in market share, particularly on the Asia-Europe trades. "Maybe it was a smart move," Mr Nixon says. "If you look at the Asia-Europe trade, it's contracted by 3%-4% this year. If you look at G6 capacity for the first six months of this year on Asia-Europe westbound compared with last year, we've taken out 4% of capacity. We've cut our cloth to the trade."

Speed of reaction and the ability to change are critical to alliance success, Mr Nixon says. "G6 read it right and we voided services to take excess capacity out," he says. That meant we could keep our utilisations up, still look after our loyal customers, and we weren't chasing ultra-low margin spot freight to try and fill the network.

All the same, alliances are a necessity rather than a choice. "We'd all like to work independently," Mr Nixon says. "To be a single company with a 20% global market share and then we wouldn't have to deal with consortia and we could deploy our assets and make those network decisions week by week without having to involve external parties. But we are where we are and that's the reality of the situation." Nevertheless, the ability of six carriers to come together and deploy a network which they would not be able to do individually as one line is a positive step, he says. While six companies operating together may make for complex negotiations, Mr Nixon says there are some benefits.

"In terms of decision making, when there are six parties that have to make a decision instead of three it is a different dynamic," he says. "When there are only three, if one doesn't want to do something it is very hard for the other two to sometimes convince the third one. So one line can actually block quite effectively.

"When there are six, if one of you wants to go counter you want to be very sure of what you're doing because if the other five go in the other direction you'll get shut out."

Safety first

For Mr Nixon, who went to sea at 18 and has worked in the terminal business, shore side and in the liner trade, the biggest issue facing the industry right now is not supply and demand but the human factor.

"My concern is about the image we have as an industry, our professionalism and the importance of the global liner business to global trade," he says. "I think that is not fully recognised by the regulators or all governments. Every government wants low import/export prices for their shippers, and we get that. But we need to also think about the long-term investment in the industry, in professionalism and seafarers."

For the seafarer out on the bridge wing, being at sea is not as safe as it used to be, Mr Nixon says. "There are more ships out there and the quality of the navigation and seafaring is not what it used to be," he says. "At NYK we work very hard to train our officers and engineers, but generally as an industry we still have marine accidents that just shouldn't be happening. " Mr Nixon makes the comparison with airlines, where the level of accidents seen in the maritime industry would not be tolerated. "We would be forced by regulators to invest much more in safety systems and protecting the marine environment," he says.

There are also problems with issues such as hazardous and overweight cargo. The explosions and fire at Tianjin was a wake-up call to all of us. "We need to make the supply chain safer and raise global standards," Mr Nixon says. "But that's challenging if most players in an industry are making consistently poor returns and prime focus is survival. We need to be thinking about some of the longer-term structural issues that are needed to keep our industry at the top of its game and help deliver growth to the global economy."

Source: **Lloyds List Australia**
http://bit.ly/1O1KZc1

How Good is Your Trivia Knowledge

1. Australia born actor George Lazenby stared as James Bond in which film?
a) Goldfinger
b) On Her Majesty's Secret Service
c) Thunderball
d) The Spy Who Loved Me

2. The Beatles classic "Elanor Rigby" was released in which year?
a) 1961
b) 1963
c) 1966
d) 1969

3. How long is the length of a day on Mars?
a) 1 day and 40 minutes
b) 1 day, 3 hours and 22 minutes
c) 1 day, 6 hours
d) 1 day, 17 hours, 3 minutes

4. The famous Einstein formula "$E=mc^2$" is titled?
a) Theory of Relativity
b) Mass-Energy Equivalence
c) Theory of Quantitative Mass

5. Complete the pattern: 1, 4, 9, 16, 25, 36
a) 59
b) 49
c) 25
d) 64

1) b 2) c 3) a 4) b 5) b

Staff Spotlight

Our Staff Spotlight this month is CSO Assistant, **Ivengilin Puc**

Favourite Sports Team: Don't Have One

Ideal Holiday: The Maldives

Hobbies: Playing Netball

What is Playing in Your Car Right Now: Radio Smooth FM

Where Have You Travelled To: Europe, New Zealand, Singapore, Korea, Taiwan

If A Genie Gave You A Wish What Would You Wish For: Health

What Would You Like People To Know About You: I'm a secretive person…

Feedback

Should you wish to discuss any of the issues contained in this newsletter please contact your CSO or any of the people listed below:

Mile' Jurcic', Jeremy Nash (Melbourne), Mark Hingston (Brisbane)

Thank you for continued support.
SCI Australia Pty Ltd

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