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Singapore Shipping Forum 2017

The Future of Shipping: Game Changers

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The Future of Shipping: Game Changers

The future of shipping will be dominated by the themes of Asian lease financing, innovation, and sustainability, according to Mr. Mick Aw, Senior Partner of Moore Stephens LLP, Singapore.

Speaking at the Singapore Shipping Seminar, jointly organised by Moore Stephens LLP and BNP Paribas, Mr. Aw pointed to the escalating shipping portfolios of Asian banks to highlight the growing role of Asian banks in shipping. According to data from Petrofin Bank Research, the largest Asian portfolios up to November 2015 were held by Bank of China (US$21b), the Export-Import Bank of Korea (US$19b), and Industrial and Commercial Bank of China ("ICBC") (US$18b). In tandem with the development of Asian banks, financial leasing has emerged as a key financing structure. For example, the assets of ICBC Leasing, which is the financial leasing arm of ICBC, have grown from less than US$700 million in 2009 to nearly US$9 billion by June 2016, according to data from Marine Money. Mr. Aw opined that the role of Asian banks and financial leasing in the sector will continue to grow.

Mr. Mick Aw, Senior Partner, Moore Stephens LLP, Singapore, pointed to the escalating shipping portfolios of Asian banks to highlight the growing role of Asian banks in shipping.

Turning to Innovation, Mr. Aw noted that this will become increasingly crucial as most sectors of the industry continue to endure a prolonged downturn. Ship owners and operators today have access to an expanding range of innovative tools to manage their businesses, and astute utilisation of these tools can provide competitive advantages to enhance profitability. One such tool is forward freight agreements, or FFAs, which can lock in favourable freight rates. This can be an invaluable tool in a highly volatile industry. Other tools include data analytics and automation, which can lower costs and improve efficiencies.

The effective use of these tools will be even more critical at a time when compliance costs in the industry are rising as a result of higher environmental consciousness. Pointing to the recent ratification of the Ballast Water Management ("BWM") Convention and the agreement to cap sulphur emissions, Mr. Aw noted that these developments will lead to rising costs for the industry.

Mr. Steve Saxon, Expert Partner of Shipping at McKinsey and Company, discuss on macroeconomic drivers of the shipping industry.

Shipping – Quo Vadis?

Over the longer term, two of the most optimistic sectors are the cruise ship industry and Liquefied Natural Gas (LNG) carriers, based on research conducted by McKinsey and Company. This was shared by Mr. Steve Saxon, Expert Partner of Shipping at McKinsey and Company, who came on stage next to discuss macroeconomic drivers of the shipping industry.

Mr. Saxon remained sanguine about the industry in general, highlighting positive trends including continued growth in container trade volume, and increasing trade among developing economies. However, challenges abound, arising from macroeconomic and political trends including protectionism, near-shoring, and orientation towards economies driven by services rather than physical goods among developing and developed countries. Indeed growth is slowing in most shipping sectors, with limited exceptions such as in Agribulk carriers and Liquefied Petroleum Gas carriers. According to Mr. Saxon, the largest threat is still over-building of vessels, as worldwide shipbuilders aggressively seek orders to fill existing shipyard over-capacity. Over-building has led to large-scale industry consolidation through mergers, and in Mr. Saxon's view, this trend will continue.

Thereafter, Mr. Saxon provided an analysis of vessel demand based on predicted long-term commodity trends. Expected continued growth in gas fuel and clean liquid fuel consumption is expected to have positive long-term implications for gas and product carriers. Long-term development in bulk carriers, however, will be challenged by limited growth in bulk commodities. Drawing on in-house research data up to 2020, Mr. Saxon noted that seaborne iron ore demand has peaked in the medium term, while seaborne thermal coal demand is expected to remain flat, and seaborne coking coal demand will only grow modestly, driven by India.

Mr. Mark Jackson, Chief Executive Officer of the Baltic Exchange, will implement a slew of changes to enhance support for its members and the shipping industry in general, that will take place in the coming months

Future of the Baltic Exchange

The Baltic Exchange will implement a slew of changes to enhance support for its members and the shipping industry in general, that will take place in the coming months, according to Mr. Mark Jackson, Chief Executive Officer of the Baltic Exchange.

Firstly, changes to the distribution policies of Baltic Exchange data will be effected after a six-month engagement period with members and the industry to amend, educate and enforce the new data licences. There will also be a new requirement to appoint a Baltic Exchange panellist as a calculating agent when Baltic data is used for financial settlement of freight contracts.

In addition, the Baltic Exchange is re-looking closely at its indices, and has initiated a program change for its Panamax, Supermax, and Handysize tanker assessments. Plans are also in place to develop new data segments focusing on LNG, the containers segment, and Asia.

Thirdly, the Baltic Exchange will enhance its role as a dispute resolution and disciplinary intermediary, stepping up efforts to help members recover monies from disputes through various mechanisms, including leveraging on P&I Clubs and government contracts. This will also involve the enhancement of the Baltic Code, which governs members, to reflect the changing regulatory climate.

Another development is the proposed establishment of an escrow facility by the Baltic Exchange that can be used by members to support vessel sale and purchase transactions. In due course, it is hoped that the escrow facility can be extended for other purposes including acting as financial security for ship arrests and disputes.

Also in the pipeline are plans to develop an electronic platform that is envisaged to support safe and efficient post-trade contract development, digitisation and management. It is envisaged that this will help to reduce errors, improve auditability, and reduce transaction costs.

Finally, a new Asian Advisory Committee is being set up to advise the Baltic Exchange on all shipping matters in Asia. The Committee will have 12 members including BHP Billiton, BW LPG, Cargill, Cosco Shipping, FIS, Fortescue Metals Group, Howe Robinson Partners, Louis Dreyfus Company, Oldendorff Carriers, ST Shipping & Transport, Thurlestone Shipping, and Zodiac Maritime.

Developments in Shipping Regulations

An improved process to develop regulations for the shipping industry would have done much to reduce difficulties for ship owners brought about by regulations such as the BWM convention, in the view of Mr. Peter Hinchliffe, Secretary-General of the International Chamber of Shipping ("ICS"). Pointing to the historical development of BWM, Mr. Hinchliffe highlighted the myriad pressures and difficulties involved in regulatory development, and concluded that the shipping industry can better protect its interests by providing strong financial and technical support to national shipping associations. At the international level, new proposals need much greater scrutiny at the level of the International Maritime Organisation (IMO), including impact assessments, cost benefit analyses and cross-checks with existing regulations. In this respect, ICS has kick-started progress by making joint submissions with the International Association of Classification Societies ("IACS") to the IMO Council. Finally, noting that BWM has been left unratified for 13 years, Mr. Hinchliffe suggested that Conventions which remain unratified for long periods should be abandoned and redeliberated, as the long ratification period is likely to be indicative of underlying issues.

Mr. Peter Hinchliffe, Secretary-General of the International Chamber of Shipping ("ICS"), highlighted the myriad pressures and difficulties involved in regulatory development.

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Conclusion of a panel, led by (left) Mr. Logan Chong, Managing Director of Transportation Sector and Investment Banking Asia Pacific at BNP Paribas. The panel comprised of representatives from the major Chinese financial leasing companies including (second from left) Mr. Jack Xu (Head of Shipping, CMB Financial Leasing), Ms. Stacy Zhang (Senior Manager, Shipping Finance, ICBC Financial Leasing) and Mr. Jerry Yang (Head of Shipping, Minsheng Financial Leasing).

Shipping Finance: West to East

Chinese financial lessors have been rapidly expanding their shipping portfolios, and will continue to do so, with increasing partnership from traditional financiers. However, they will become more discriminating in the selection of financing targets.

That was the conclusion of a panel, led by Mr. Logan Chong, Managing Director of Transportation Sector and Investment Banking Asia Pacific at BNP Paribas. The panel comprised of representatives from the major Chinese financial leasing companies including Mr. Jack Xu (Head of Shipping, CMB Financial Leasing), Mr. Jerry Yang (Head of Shipping, Minsheng Financial Leasing), and Ms. Stacy Zhang (Senior Manager, Shipping Finance, ICBC Financial Leasing).

Noting the rise of Chinese lease financing in the shipping industry over the past 8 years, Ms. Zhang opined that this can be attributed to the rise of the Chinese economy, which has driven Chinese banks to seek overseas expansion. Shipping assets were an ideal investment for the financial leasing subsidiaries of these banks to enhance their asset base, especially since the growth of these leasing companies coincided with the withdrawal of certain Western banks from the industry. Mr. Yang and Mr. Xu both noted that the ability of Chinese lessors to provide higher leverage ratios and greater financial flexibility, as compared to traditional financiers, contributed further to their growth.

Despite the exit of certain Western banks, Mr. Chong observed that there are still many banks providing financing for the industry, including BNP Paribas. In fact, more banks are approaching Chinese lessors for partnership to meet the needs of ship owners, according to Mr. Xu. In selecting the right banking partner, the bank's ability to provide funds at a competitive cost and strong industry expertise will be critical for the leasing company, in the view of Ms. Zhang.

Going forward, panellists generally concurred that there will be increasing focus on credit risk management. Mr. Yang noted that financing targets sought after are not necessarily large corporates, but rather, businesses with strong models and long-term sustainability, particularly in light of the over-building issues previously highlighted. Mr. Yang also cautioned against unrealistic financing expectations by ship owners. The panel highlighted that poorly-funded ship owners will find it increasingly difficult to obtain financing.

Closing panel and polls

The seminar ended with a participant poll which was conducted simultaneously with a closing panel led by Mr. Julian Bray, editor-in-chief of Tradewinds. The panel comprised of Mr. Chong and Mr. Saxon, together with Mr. Carl Ackerley, Director of Grindrod Shipping, Mr. John D'Ancona, Divisional Director of Dry Bulk Analysts at Clarksons Platou Asia, and Mr. Matthew Forrest, Director of Transportation Sector and Investment Banking Asia Pacific at BNP Paribas. The poll was conducted using polling devices supplied by Complete Corporate Services.

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Based on the poll results:

1. Most participants (39%) will not invest in the traditional shipping sectors (bulkers, containers, tankers, and offshore). Of those which will invest, the majority opted for bulkers (33%). Commenting on the results, Mr. D'Ancona observed that prior year bulk carrier prices have been over-suppressed, and are returning to normal levels in the current year, which has created significant returns for astute buyers. Mr. D'Ancona opined that dry bulk owners will achieve lower but reasonable return levels going forward, but Mr. Ackerley cautioned that this will depend on continued industry discipline against over-building of vessels.

2. Sulphur emission (34%) and BWM (34%) regulations will have most impact on shipping operating and capital expenditures. This is closely followed by carbon emissions (30%). Commenting on the results, Mr. Ackerley opined that sulphur emissions could be most challenging, although those regulations only take effect in 2020. Challenges include finding scrubber systems that are small enough to be retrofitted on ships, scrubber reliability, as well as uncertain cost of low-sulphur bunker fuel considering that demand for such fuel will escalate when the regulations take effect. An added consideration is that the ability of vessels to comply with regulations can affect the procurement of financing for those vessels, in the view of Mr. Chong.

3. Trade wars (48%) constitute the key geopolitical risk for shipping. Commenting on the results, Mr. D'Ancona observed that the impact of trade wars can vary greatly. In some cases, trade wars benefitted shipping when they resulted in countries needing to procure commodities from more distant destinations.

4. Supply (44%) is the major challenge facing the shipping industry.

5. Leasing (36%) is expected to be the major source of funding going forward, followed by bank loans (26%). Commenting on the results, Mr. Forrest pointed out that although certain banks have exited, many banks still lend to the industry. Banks are also lending to financial leasing companies to support their ship leasing activities. On this basis, Mr. Forrest remained optimistic that traditional financiers will continue to be very active in shipping.

6. Most participants are either optimistic (29%) or very optimistic (43%) that Singapore will remain as a global maritime and financial centre. Commenting on the results, panellists generally shared the optimism over the Singapore maritime sector, but also cautioned that there are challenges, including rising labour costs and growth of regional maritime competition.

Thereafter, tokens of appreciation were awarded to speakers, panellists and sponsors, and the seminar concluded amidst a lively networking session.

The four-hour Singapore Shipping Seminar was jointly organised by Moore Stephens LLP and BNP Paribas at Marina Bay Sands, on 27 April 2017, in conjunction with the Singapore Maritime Week that is driven by the Maritime and Port Authority of Singapore. It was well-attended by over 250 delegates from shipping corporations and financiers from around the world, as well as key maritime legal and governmental associations.

Closing panel led by Mr. Julian Bray, editor-in-chief of Tradewinds.

Mr. Carl Ackerley, Director of Grindrod Shipping, cautioned that this will depend on continued industry discipline against over-building of vessels.

Mr. Matthew Forrest, Director of Transportation Sector and Investment Banking Asia Pacific at BNP Paribas, pointed out that although certain banks have exited, many banks still lend to the industry.

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Wrapping up the session with a group photo of the speakers and panelists of Singapore Shipping Forum 2017.

Delegates interact during networking session.

From right: Mr. Lim Peng Huat, Director of Complete Corporate Services had a fun conversation with the two delegates.

These delegates certainly had a great time meeting with new people.

Conversation that leads to a better opportunities.

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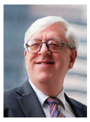

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