You must be an optimist to be in shipping

By ROD NAIRN

As 2016 dawned there were few in the shipping industry who could muster a smile. I scarcely have to remind you of the plunge in oil and commodity prices that killed the offshore exploration and construction industry, which led to record low dry bulk charter and shipping rates and decimation of the break bulk and project cargo business. But consumer demand also slumped and the container industry was also dragged down. The tanker business has changed shape too. As more and more refineries close down, the demand for crude carriers is focussed of VLCCs and we have seen a bit of a resurgence in the need for smaller product tankers. The shine has also come off the previous darling of Australia's shipping industry, LNG carriers, as the fruits of a few years of panic ship building has increased capacity and brought the supply and demand equation back into balance.

For the optimists though, the year in shipping has ended in a lot better shape than it began. The cruise ship industry continues to flourish, with record new builds arriving into what appears to be an insatiable market and not yet appearing to impact on utilisation or price. Dry charter rates have risen by more than 300 per cent from February's lows, and in the container sector, while freight rates have remained low, for the first time in history, ship scrapping exceeded new build deliveries in July. Albeit by one TEU, but that trend is set to continue as the forward orders for new ships is very weak. The cost of converting existing ships to comply with the Ballast Water Conventions will likely further accelerate scrapping across the industry over the next twelve months. So things are indeed looking up.

As we reach the end of a tumultuous year for the box shipping industry I had to laugh at the "Four weddings and a funeral" headline of the November edition of *Containerisation International*. That just about says it all... but not quite. Of course they are referring to the merger of China Shipping and COSCO, CMA CGM's takeover of APL, the merger of Hapag-Lloyd and UASC, and the joint venture announcement between the "three J's", K-Line, MOL and NYK. And then there was the funeral, the unprecedented failure of Hanjin. But clearly their article went to print before the latest bombshell, the Maersk purchase of Hamburg Sud. So the phrase must be corrected to "five weddings and a funeral".

But perhaps this was just what the doctor ordered? What better way to get the message across that shipping companies will never make a profit by fighting for market share by selling container space below cost? It's pretty simple really, if you lose money on each box to gain volume, then the more volume you gain the more money you lose. Sure, some are out there with deep pockets playing the long game, hoping that the other guys will blink first and fail – now we've seen a bit of that play out, but it's been going on for too long, the operating losses are ubiquitous and the banks are showing their nerves. The Hanjin collapse was one such example. The salesmen selling container space didn't seem to have good understanding of the cost of the product that they were selling, so they aimed purely for market share and the losses just kept on accumulating, until the banks just would not keep stumping up to keep the business afloat.

Another wake up call to come out of this unfortunate event is the impact on other consortia partners when one company collapses. With the arrest of the *Hanjin California* in Sydney soon after the news of the insolvency broke, there is no surprise that Hanjin was reluctant to allow another ship to berth in Australia and suffer the same fate. So their ships stayed at sea, with thousands of containers belonging to their consortia partners delayed, until Hanjin could obtain cross border insolvency protection. It took almost three weeks for Hanjin to gain bankruptcy protection in Korea but even after this was granted Hanjin did not apply for protection in

Australia for another three weeks (this gives a hint of the low importance of Australia in global trade). Eventually protection was given by the Australian Federal Court on 25 September, clearing the way for the *Hanjin Milano* to berth, which she did two days later. Though all their cargo for Brisbane, Sydney and Melbourne was discharged in Melbourne.

The five "weddings" I have referred to above will only result in living "happily ever after" if the mergers not only optimise their administrative and operational arrangements to deliver savings but also reduce capacity on over-serviced routes. The "funeral" will only result in an improvement in trading conditions if capacity is removed as a result - which certainly hasn't happened in the Australia/ North Asia routes vacated by Hanjin. There we have seen a number of eager actors' keen to step in and restore the overcapacity. It is likely that there will be more weddings and funerals in the year ahead.

Throughout this year Shipping Australia has faced some big policy challenges and none more challenging than the introduction of verified gross mass of containers. This work, initiated by Ross McAlpine and pursued by the Container Steering Group, under the excellent stewardship of Captain Melwyn Noronha, over a period of 18 months, resulted in an almost seamless transition to the new VGM regime, with minimum impact on shipping companies. To achieve this, SAL reached out to all sectors of the logistics industry, bringing together customs brokers, freight forwarders, terminal operators, shipping companies and agents. The specific work undertaken with 1-Stop and AMSA ensured an effective solution and finally, a reasonable system of audit and enforcement.

SAL has continued to fly the flag for international shipping by injecting facts and figures to offset the misleading information and exaggerations by union sympathisers and agitators, in both the Senate Inquiry into So-Called Flag of Convenience Shipping and ACTU organised Coastal Shipping summit. Unfortunately, the Government's proposed Shipping Legislation Amendment Bill was thwarted by a hostile and ill-informed Senate, and Australian shippers continue to be disadvantaged by uncompetitive

Radiance of the Seas arriving in Wollongong

domestic bulk transport costs on the Australian coast, as they look to import from overseas rather than source locally.

Many were surprised that coastal shipping was not a major area of debate in the double dissolution general election this year. The reality is that it is too difficult to explain in an "eight second grab", the usual time allocated to a topic by the television news. And in our age of influencing voters by Tweets or fake news in Facebook, like the classic "medi-scare" campaign, neither side of politics was willing to take the risk of bringing this important matter into focus. The Government had already been hacked by the cross bench, the Opposition were exposed by being responsible for the current failed legislation in the first place and the trade unions were keeping their heads down so as not to attract a backlash against Labor. But that is all behind us, so let's get on with it.

We are looking for some sensible bi-partisan changes that will allow international shipping to carry coastal cargo efficiently and sustainably for the benefit of Australian manufacturers and primary producers. Efficient coastal shipping will create jobs in Australia by reducing import substitution, it will reduce the amount of greenhouse gas produced by inefficient overland transport, reduce the demand for road infrastructure spending and reduce road congestion and accidents, yes it will save lives. Compelling arguments indeed.

So let's end the year with a simple solution. Get rid of the "five-voyage" requirement and the volume variation restrictions from the temporary licensing regime, provide a blanket exemption under Ministerial determination (just like for cruise ships greater than 5000 GT) for non-competitive cargoes on the coast, such as break bulk, heavy lift, and container ships with TEU capacity exceeding 2500, and remove the application of the Fair Work Act to coastal freight. And what can we do to encourage and develop Australian seafarers? Let's consider a simple 'coastal levy' per unit of cargo that can be administered and collected in conjunction with the existing freight tax. The revenue from this levy can be used to support placement of cadet deck officers, engineers, and trainee pilots on foreign vessels, to get true blue-water seagoing experience. This is what they need if we truly wish to maintain our maritime expertise.

The year ahead will provide plenty of challenges too: maintaining access to our ports through essential maintenance dredging, implementation of the domestic ballast water management and keeping a lid on the costs of ship visits to Australian ports, come to mind. We certainly live in interesting times and in the shipping industry it definitely helps to be optimistic.