Chinese shipbuilders wary of expansion despite increasing orders

Yards' orders grew 76.7% year on year in the first nine months, but they are alert to the cyclical shipbuilding market

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Chinese shipbuilders have been reminded 'history is a good teacher' when choosing whether to boost capacity. Memories of bad markets are still fresh despite a recent resurgence in orders

Source: Hudong-Zhonghua

HUDONG-ZHONGHUA SHIPBUILDING (PICTURED), PLANS TO INCREASE ITS ANNUAL PRODUCTION CAPACITY FROM SIX VESSELS THIS YEAR TO AROUND 10 SHIPS BY 2027.

CHINESE shipbuilders should be wary of expansion despite an expected demand boost, a Shanghai industry forum was told.

"We are very cautious about expanding our capacity," said Jiangnan Shipyard (Group) vice-president Lin Qingshan at Capital Link.

Lin said Chinese shipbuilders should always keep in mind the industry's highly cyclical nature, saying it struggled to secure orders before the pandemic.

The shipbuilding industry had endured a lengthy downturn since the global financial meltdown in 2008. A robust recovery started only at the end of 2020, supported by demand for containerships.

During the first nine months of this year, Chinese shipbuilders have won new orders of 57.3m dwt with a year-on-year increase of 76.7%, surpassing the total new orders of 28.9m dwt for the entire year of 2020, according to official data.

Their order backlog has risen by 30.6% compared with January-September 2020, reaching 133.9m dwt, also exceeding the 71.1m dwt in the whole of 2020.

In order to meet the decarbonisation check points set by the International Maritime Organization, a total capacity of 85m gt of zero-emission vessels, including both newbuildings and retrofitted ones, should be introduced into service annually from 2027 to 2030, according to a White Paper by ClassNK titled "Pathway to Zero-Emission in International Shipping".

In Asia, 12 previously closed shipyards have reopened since 2021, including eight in China, according to consultancy Maritime Strategies International.

Lin said his shipyard has been closely monitoring the market to assess how long the prosperity will last.

The Shanghai-based shipbuilder intends to adjust the investment focus after having won orders of large LNG carriers, which are more technically demanding and harder to build than other vessel types, he said.

Jiangnan, a subsidiary of China State Shipbuilding Corp, the country's biggest shipbuilder, had a wide product portfolio excepting large LNG carriers before securing an order of two 175,000 cu m LNG carriers in March of 2022 from Abu Dhabi National Oil Company's shipping arm Adnoc Logistics and Services.

According to Clarksons, Jiangnan has 80 ships on order, including eight large LNG carriers, with deliveries scheduled until 2027.

To ensure the delivery, Lin said that Jiangnan Shipyard has adopted new technologies, including robotics and brought outsourced employees into its own management system to ensure a steady labour supply.

Cosco Shipping Heavy Industry, the shipbuilding and marine engineering branch of Cosco, head of the shipbuilding department Xu Aizhong echoed Lin's view on capacity expansion, saying: "History is a good teacher."

But Hudong-Zhonghua Shipbuilding, another major unit of CSSC, plans to increase its annual production capacity from six vessels this year to around 10 by 2027, vice-director of business and marketing Zhang Heng, said at the forum.

The expansion plan is helped by an efficient management system and an enhanced supply chain, with Lin stating: "More local suppliers have won acceptance from our shipowner clients."

Hudong-Zhonghua started building a new shipyard specialising in LNG carriers in Shanghai's Changxing island at the beginning of 2021, with completion expected by 2024.

It has 59 vessels on order, including 42 large LNG carriers, with delivery scheduled by 2028, according to Clarksons.

United Maritime closes in on Chinese leasing deals for veteran capesizes

Greek shipowner turns to China for financing unavailable from ESG-constrained Western banks

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As well as bypassing the Poseidon Principles, the deal also reflects Chinese leasing companies' willingness to provide more 'flexibility' as they try to grow their loan books against a quiet backdrop. This may be the precursor to an uptick in bite-size deals

UNLIKE WESTERN BANKS, CHINESE LEASING LENDERS HAVE NOT SIGNED UP FOR THE POSEIDON PRINCIPLES, GIVING THEM MORE FREEDOM TO LEND MONEY.

GREEK dry bulker owner United Maritime, a spinoff of US-listed Seanergy Maritime, is nearing $30m financing pacts with Chinese leasing funds for three vintage capesizes, as growing competition spurs lessors to look harder for deals.

The shipowner has received terms from three Chinese lessors and anticipates finalising contracts by end-November, chief financial officer Stavros Gyftakis told Lloyd's List on the sidelines of a Capital Link forum in Shanghai.

United Maritime's website shows it has three capesizes — *Gloriuship* (IMO: 9266944), *Goodship* (IMO: 9311476) and *Tradership* (IMO: 9310135) — built between 2004-2006. Its chairman and chief executive, Stamatios Tsantanis, also heads Seanergy, which owns 16 much younger vessels of similar size in service.

"Chinese leasing houses do not usually do such type of deals. I am very happy to see them adapting to the changing conditions," Gyftakis said.

He noted financiers historically had a short horizon on vessel age, ending financing at about 15 years old.

But amid energy transition uncertainties over future fuels and delays in ordering newbuildings that could replace ageing tonnage, existing ships need extended lifespans and financer support, he argued.

Western banks are loathe to finance this, owing to the red tape attached to environmental, social, and corporate governance concerns and doubts as to whether older ships will hold their value.

Gyftakis said he hoped Chinese lessors would show innovation in this niche.

"Just giving more leverage than the European banks or a lower margin by a few basic points will not make them more innovative," he added.

Unlike Western banks, Chinese leasing lenders have not signed up for the climate-aligned Poseidon Principles. The less-constrained position by the Chinese may provide flexibility for ship assets deemed less green by the red-tape culture in the West.

Gyftakis said that among his company's potential lessors — which he would not identify, citing commercial reasons — is a top player, surprisingly to him, given the said player's circa-$20bn shipping portfolio.

He said energy-saving devices were being installed to make the trio more efficient. Charterers, all renowned names, supported the plan to extend the ships' working lives.

For the 20- and 19-year-old ships, United seeks two- and three-year financing. It wants a four-year contract for the 18-year-old vessel.

Chinese lessors are facing growing pressure as fewer deals seem to be floating about.

During a Capital Link session, Chinese leasing panellists said challenges included high asset values and interest rates, a reduced need for cash from shipowners, rising competition from Western banks and new financing entrants, and external risks such as war. Most still expressed optimism, however.

Asked if ship leasing is hitting bottlenecks, CMB Financial Leasing's Jack Xu said no business sees infinite growth. He indicated that large lessors used to prefer big-ticket deals, but may now need more bite-sized transactions to match past funding scales.

A subsidiary of China Merchant Bank, the company is among the top three ship lessors in the country by fleet size.

Xu jokingly told fellow speaker Sharon Guo, director of ship finance at the larger Bocomm Financial Leasing: "Before, Bocomm could do one deal for $1bn. In future, they may need to do 10 or 20 deals."

Guo told the audience her company was willing to "do everything possible" to support shipowner clients.

Bocomm Leasing would continue financing green shipping and also provide funds to existing vessels, including older tonnage.

"As long as the vessels are compliant with regulations, there is no reason for us not to support. So, basically, we can do everything," Guo said.

She emphasised lessors' flexibility on leverage, tenor and vessel profile. Flexibility also meant a willingness to communicate with clients to jointly solve problems of any kind, she added.

Source: avada / Alamy Stock Photo

Shipping getting to choose its future fuels a ‘hallucination’: O’Neil

Columbia Group chief voiced caution on shipping’s alternative fuel rush

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Mark O’Neil said hydrocarbons will likely be the dominant fuel for the next two decades albeit burned more efficiently. The view adds to the heated debate between decarbonisation reformists and conservatives

O’NEIL: ‘IT’S TIME FOR THE INDUSTRY TO WAKE UP AND SMELL THE COFFEE.’

BELIEVING shipping alone can choose its future clean fuels is a “hallucination”, Columbia Group president and chief executive Mark O’Neil has declared.

The remarks, at a recent Capital Link forum in Shanghai, have added to the heated debate between reformists and conservatives on shipping’s decarbonisation.

Columbia Group controls one of the world’s largest ship management firms, overseeing more than 400 vessels, alongside logistics, leisure and energy services.

“Decarbonisation is about so much more than alternative fuels, it’s time for the industry to wake up and smell the coffee as they say,” O’Neil told the audience.

He said insufficient green ammonia and hydrogen would persist for 10-30 years for lack of infrastructure. Additionally, shipyards lacked capacity to replace all old tonnage within the next two decades.

“We shipping can’t and shouldn’t get ahead of us," he said.

The industry emits just 3% of the global greenhouse gas emissions, far less than the energy industry, for example, making O’Neil “a firm believer” that bigger industries will lead and shipping follow the fuel transition.

“So we will be burning hydrocarbons in a more optimised way for the next 20 years and they will probably be the dominant fuel over that period of time,” he said.

O’Neil echoed many in the industry who have reservations about, or oppose the urgency of, shipping’s move to alternative fuels. These voices were particularly loud at the Maritime Cyprus 2023 event earlier this month, especially among some veteran Greek shipowners.

They largely believe over-radical emission-cutting regulations and timelines will severely disrupt the industry and supply chains, stressing more practical approaches for now, such as retrofitting the existing fleet with energy-saving devices and carbon capture as the technology matures.

Fellow speaker Stamatis Tsantanis, who heads Seanergy Maritime, reiterated this in Shanghai: “Keep things simple and apply solutions that do not require too much sophistication.”

He described orders for newbuildings powered by alternative fuels as an “exotic” solution given the unclear outlook over future propulsion systems.

O’Neil added: “We will have all sorts of technologies available to us in that time on the optimisation side. Companies have to show determination and dedication to an optimised decarbonisation but not to zero carbon. That’s unrealistic.”

He said majors like Maersk and CMA CGM are taking the lead on fuels because they have moved beyond just shipping companies and control many logistics chain assets like terminals, allowing them to invest in and control infrastructure for their chosen future fuels.

“However, I still believe that the majority of their fleets will be burning hydrocarbons in the future. Everybody is hedging their bets to a certain extent.”

He even suggested that the International Maritime Organization could need to revise its emissions reduction targets to reach net zero GHG emissions from international shipping by around 2050.

O’Neil said the EU’s rollback of the ban on combustion engines under pressure from Germany offers lessons. The legislation originally planned to prohibit sales of any vehicles using fossil fuels by 2035, but will now make exceptions for carbon-neutral e-fuels.

“I have some relatives from one of the largest [companies] in motorcar industry in Europe, they are very much of the [opinion] that there will be an effective carbon stripping or capture technology for the combustion engine in the next few years.”

He added this technology will likely get extended to marine engines given many engine makers are owned by automakers.

“I think the whole net zero debate will become a lot more intelligent and will become a lot more holistic,” O’Neil said.

Contrasting views also arose, with Oeyvind Lindeman of Navigator Gas asserting: “If you don’t think big, nothing is gonna happen.”

He said ambition alongside realism was needed or shipping would struggle to evolve, adding one of the challenges would be attracting talent from the younger generation with their growing environmental awareness.

Source: Columbia Shipmanagement

Inaccurate or contradictory fuel consumption data risks CII disputes

Ensuring oil consumption data is accurate is hard without full automation, says Wah Kwong's Zhang Xiaoxi

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Non-EU shipowners face difficulties in starting EU ETS operations due to a lack of detailed guidance

Source: Dave Donaldson / Alamy Stock Photo

WAH KWONG OFFICIAL CALLS FOR 'COMPLETE AUTOMATION' OF DATA RECORDING AND TRANSMISSION TO SHORE.

INACCURATE reporting of ships' oil consumption could hamper compliance with emissions regulations and lead to disputes between shipowners and charters over efficiency ratings.

It is hard to completely avoid mistakes when seafarers manually record oil consumption, a prerequisite of tracking carbon emissions, Wah Kwong Maritime Transport Holdings general manager Zhang Xiaoxi told a Capital Link forum in Shanghai.

Misreporting and typos are possible when crew members record the meter readings and later email the data to shore, Capt Zhang said.

Manually recorded logbook figures are still seen as the yardstick for compliance and settling disputes even if they differ from those collected by sensors on board, he added.

Shipowners and charterers may rely on different data sources for oil consumption, which could lead to potential disputes over vessel CII ratings.

"The ultimate solution lies in the complete automation of the data recording and transmission system," he said.

Cosco Shipping Green Digital Intelligence Ship Services general manager Lu Xusheng pointed out a loophole in the calculation of the Carbon Intensity Indicator, which grades ships' carbon efficiency.

As the basic CII is calculated with CO_2 emitted per cargo-carrying capacity and nautical mile, ballast voyages could improve the CII rating instead. This went against the goal of decarbonisation, he said.

Lu also pointed to a lack of guidance for shipowners, especially those not in the EU, over opening accounts and getting allowances ahead of the EU ETS tax taking effect next year.

The EU ETS tax, a cap-and-trade system established in 2005, will extend to the shipping industry from next year, affecting all shipping activities within the European Economic Area, consisting of EU member states, Iceland, Liechtenstein and Norway.

To take part, companies or individuals must open an account in the EU registry by sending request to Union Registry, which is an online database, according to the European Commisson's website.

But the website only lists links for EU members to reach the Union Registry.

Lu also cautioned that small and privately owned shipowners were ill-prepared for decarbonisation. They would face significant challenges due to accelerated depreciation and devaluation of their ageing vessels, which they heavily relied on.