OPPORTUNITY. 機匯

HUTCHISON PORTS ROLLS OUT UBI APP TO DRIVE EFFICIENCY THROUGH INTEGRATION

THE WHOLE PORT IN YOUR POCKET

ubi™

UNITY IS THE FOUNDATION OF OUR SUCCESS. | MIDDLE EAST PORTS VITAL LINK IN HUTCHISON PORTS' STRATEGY FOR GROWTH. | HUTCHISON PORTS REBRANDING... MORE THAN A CHANGE OF SIGN. | E-COMMERCE DRIVING SURGE IN TECHNOLOGY INNOVATION. | SHIPOWNERS MUST BE PREPARED AND EQUIPPED FOR NEW CHALLENGES. | LOW GROWTH TRAP MORE SERIOUS THAN PROTECTIONISM. | SHIPPING INVESTORS TAKE A WAIT-AND-SEE APPROACH.

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UNITY IS THE FOUNDATION OF OUR SUCCESS.

The rebranding of Hutchison Ports has its foundations in the company's unity of thought and purpose which has provided the platform for our success.

Part of the rebranding process is to better communicate our core values to our customers, colleagues and the shipping community worldwide. **OPPORTUNITY**, our new in-house magazine, provides us with a new communications tool, to not only highlight our own developments and news, but also provide a platform for opinions from shipping and logistics industry leaders.

In recent years, we have aligned the business to harness our strengths from the yard to the boardroom.

As part of this rationalisation and productivity drive we are now a leaner organisation very much focused on our cost-based activities. We have also improved our communications and contact between corporate level executives and our General Managers around the world.

Our General Manager Programme has been a pivotal part of the realignment, where we have moved the focus from business unit level financial responsibility to include operational management and oversight. The programme enables our General Managers to understand and develop strategic alignment to the company's core values to prepare them for senior management level positions. Many of our current division heads have all followed this career path.

My goal is to provide the company with a clear pathway to corporate unity, for all managers to lead by example and understand every aspect of our business. To support this objective, I have been travelling to many of our ports and speaking with managers about our strategy for the future and to emphasise our strengths and values.

Our real strengths are that we have a robust corporate culture with long serving managers providing the continuity and experience which provide our customers with peace of mind that their ships and cargo are in good hands.

Our stability and reliability has engendered long-term support from the world's leading carriers, highlighted during the recent major shifts in the alliance structure, as the changes did not adversely affect us. For the future, we see opportunities to further develop our global network of ports notably in Latin America, the Middle East and South Asia and we also want to expand our landside capabilities to provide upstream logistics services for our customers.

Eric Ip
Group Managing Director
Hutchison Ports

HUTCHISON PORTS ROLLS OUT *UBI* APP TO DRIVE EFFICIENCY THROUGH INTEGRATION.

The *ubi* app is part of Hutchison Ports' major initiative to integrate waterside, yard and landside operations through a new app powered by nGen, the group's powerful terminal management system.

A special taskforce called Digitalisation & Product Innovation team was put together to roll out the new app across the group. A soft launch at Hutchison Ports Thailand was conducted at the beginning of May before a phased introduction at the group's ports around the world; initially including Pakistan, Tanzania, Oman and the UK.

The exciting technology incorporates features that will enable carriers, service providers and yard operations to have greater visibility, improved efficiency, enhanced decision making and further automate the myriad processes involved in terminal, container storage and hinterland operations.

"Our focus has previously been on waterside and yard operations, but we now want to have more balance and ensure that we provide improved support on the landside particularly for our gateway ports," said S.T. Pak, General Manager, Group Operations Development at Hutchison Ports.

With 48 ports in the group's global network, nGen will cover approximately 75 per cent throughput of all Hutchison Ports (by 2020) and *ubi* is available for all nGen sites.

"*ubi* is part of a global strategy to improve each port's hinterland connection, allowing customers to have better insight and faster access to the landside terminal processes. We will also be able to provide customers with a complete view of our global network and in the future have the ability to track and trace containers across all of our *ubi* connected terminals," said Jan Waas, Chief Information Officer, Information Technology at Hutchison Ports.

"We know from our European operations that by automating processes you can improve the efficiency on the waterside, in the yard and on the landside. We see *ubi* as a strategic operational tool to leverage these efficiencies on the landside throughout the Hutchison Ports global network."

ubi will be able to process information enquiries for quayside operations, landside operations, gateway terminals for truckers, consignees and shippers. Truckers will know when the box is ready for collection and then they can pay using *ubi*. This will save time queuing up to physically pay on-site at the billing office.

The new app will also include a truck appointment system going forward aiming to streamline gate operations, reducing dwell time for drivers.

" FIT THE WHOLE PORT IN YOUR POCKET! "

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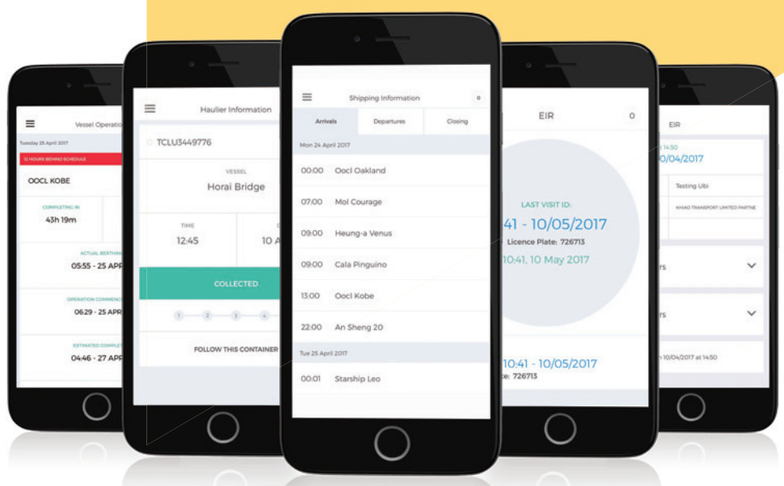
ubi™



"The drivers will be able to book their appointment in advance and we will have all of the necessary information about the truck and the container at the gate before they arrive. Next year we will be looking at installing an *ubi* console in the truck for more dynamic operations," said Kenny Chan, Senior Manager, Digitalisation & Product Innovation at Hutchison Ports overseeing the implementation process across the network of ports.

"Each driver will receive notifications sent to their mobile phone when the container is cleared and they will receive electronic instructions on arrival for the pickup or grounding location and at the end of the process an equipment exchange receipt," he added.

"Later in the product development pipeline, we will have functionalities to integrate all documents including invoice and receipts electronically through *ubi*, so the trucker will be able to enter the yard, manage all entry and payment processes and exit using the app. The aim is to get rid of all paper and make the whole landside process seamless through *ubi*."

In Thailand, where *ubi* has been tested by port users both internal and external, confidence is high that the roll out will be a success.

"Prior to the launch of *ubi*, we had tested with select users on UAT environment as well as in production. The feedback was very positive, especially with the notification function where users can keep track of any particular container or vessel of their interest, the app will immediately provide a notification message when there is a status update," said Binwu Zhu, Operations Manager, Hutchison Ports Thailand, project leader in the country.

The main benefit port users are enjoying from *ubi* is convenience as previously they would have to call the terminal or go to the website to make an enquiry.

"Now they have all of this information literally at their fingertips," added Zhu.

"It is a great honour to be chosen as the first terminal in the Hutchison Ports network to go live with *ubi*. There is certainly pressure to try to get everything ready, and there had been a lot of things going on at the same time, function testing, end-user testing, marketing promotion and customer communication. We want to make *ubi* a hit in the local market, because we are the first terminal to launch *ubi* in Laem Chabang Port."

Hutchison Ports Thailand is becoming one of the group's flagship terminals with the forthcoming Terminal D project, with significant investment made in infrastructure, equipment and technology. The next version of *ubi* will come with Truck Appointment System (TAS) and E-Payment features which will add further value for users.

Together with *ubi* and other projects, Hutchison Ports is beginning to change people's perception of conventional terminal operations and at the same time enhance the user experience.

"All of these developments will further strengthen ties with existing customers and attract new business opportunities," concluded Zhu.

The word '*ubi*' is extracted from a Latin word '*ubique*' that means 'everywhere' and the new app will eventually be available in all of the terminals throughout Hutchison Ports' global network.

About the port, shipping, vessels, containers and transport

MIDDLE EAST PORTS VITAL LINK IN HUTCHISON PORTS' STRATEGY FOR GROWTH.

The Middle East and Africa are crucial regions for China's New Maritime Silk Road under the One Belt, One Road initiative, as the region is rich in resources and has high growth potential.

"If you look at the Hutchison Ports network, 22 locations in 18 countries are sitting along the One Belt, One Road route, ports in the Middle East and African region are important in our growth strategy in play," said Andy Tsoi, Managing Director, Middle East and Africa region.

"We operate six container terminals in five countries in the Middle East, Africa, and South Asia. We are in Pakistan, Oman, Ajman in UAE, Saudi Arabia and Tanzania in East Africa. We manage 18 container berths and eight General Cargo, Ro-Ro berths with a total quay length of over 6.8 kilometres and 270 hectares of land."

Hutchison Ports is a leader in the container port business in Asia with its roots in Hong Kong. "The difference in doing business in the region versus doing business in Asia and Europe is something you don't learn in business school," said Tsoi. "We started in Asia about 50 years ago in Hong Kong and began overseas expansion in the 90s in China, Europe and the Americas. I have never seen any region that grows so rapidly – to some extent it even exceeds China in recent years. Everything in the region was completed at a high speed and on a large scale.

"In the Middle East, there seems to be no shortage of mega infrastructure projects and labour and land never seems to run out. We are continuing to look for opportunities to expand in the region," added Tsoi.

Hutchison Ports Pakistan is one of two terminals operated in Karachi and the other is Hutchison Ports KICT (Karachi International Container Terminal), located in the Port of Karachi.

"We have these two terminals that are strategically located in Karachi, the newest terminal is the closest port in Pakistan to the shipping lanes in the Arabian Sea. Hutchison Ports Pakistan is located in a natural deep water harbour and has advanced IT systems that optimise efficiency of labour, manage yard space and the deployment of equipment," said Tsoi.

He continued: "Another jewel in the Hutchison Ports' crown is Hutchison Ports Dammam, strategically located in Dammam, and this is the main gateway container terminal for Saudi Arabia. The investment dates back to 1997 with six quay cranes (QC) and straddle carriers in play to where we are today with 19 QCs, 54 rubber-tyred gantry cranes (RTGC) and 30 straddle carriers in operations providing top level productivity in Eastern Province of the Kingdom. The current facility has reached 1.9 million TEU throughput and is the top gateway port in the Upper Gulf area.

"We have handled 13,000 TEU class vessels for MSC and HMM in recent years and are planning for a major upgrade to redevelop part of our existing 2,400 metres quay wall. The two new 450 metres mega container berths will include the latest Remote-Control QCs and will have a maximum outreach capable of servicing vessels in the 20,000 TEU class or above with partial container handling automation in the connecting yard area as well. This expansion will become an integral part of the regional logistics hub development plan in the Kingdom's 2030 Vision," outlined Tsoi.

In Africa Hutchison Ports operates a facility in Tanzania, which is part of China's One Belt, One Road Initiative along with the neighboring countries in East Africa. Hutchison Ports Tanzania is the country's largest container terminal and is located at the Port of Dar es Salaam. The terminal handles more than 75 per cent of Tanzania's ocean trade and serves as a vital part of the supply chain to and from Tanzania and landlocked countries in Central Africa.

"Africa has seen significant growth in recent years and our terminal in Tanzania has been developed to strengthen the port as the country's maritime gateway. We have invested in modern I.T. systems and mobile equipment, while improving productivity levels, efficiency and customer service," said Tsoi.

Hutchison Ports Sohar in Oman is one of the newest members of the growing global network of container terminals operated by Hutchison Ports. The terminal is located in the Port of Sohar, outside the Straits of Hormuz in the Gulf of Oman, approximately 200 kilometres from Muscat and 160 kilometres from Dubai.

"Close to the booming economies of the Gulf states, Iran, Pakistan and India, Hutchison Ports Sohar enjoys the most strategic of locations of any port in the Gulf region," said Tsoi.

"The port lies at the heart of the Arabian Triangle of rapid economic growth – an area encompassing the regional powerhouses of Abu Dhabi, Dubai and Sohar," he added. Equally important to the port's proximity to the hinterland of the Arabian Triangle is its location in relation to the bustling Batinah region of northern Oman, where industrial and economic investment is currently at record highs. A network of modern highways ensures seamless connectivity with Muscat (200 kilometres), Dubai (160 kilometres) and Abu Dhabi (180 kilometres).

"With a deep-water draft and equipped to handle the ultra large container vessels, the terminal offers mainline carriers a safe, modern and efficient alternative to existing ports in the region for the handling of transshipment business," said Tsoi.

"Terminal C, with a 970 metres quay length and 68-hectare yard area, exclusively handles container services at the port," revealed Tsoi. The completion of Terminal C in June 2016 boosted the port's capacity to 1.5 million TEU.

New quayside cranes have arrived and Hutchison Ports has invested heavily in yard equipment such as RTGCs to further increase efficiency in the stack yards. Terminal C includes an Operations Control Centre that acts as the command centre of Hutchison Ports' entire set-up at Sohar, allowing the remote-control operation of the new quayside cranes that have sufficient reach to load and unload 20,000-plus TEU vessels.

"Terminal D, opposite Terminal C, whose construction is scheduled to start in 2019 depending on business growth, will have a 1,780 metres quay length and 98-hectare yard area, and will bring Hutchison Ports Sohar's total capacity to 6 million TEU," Tsoi disclosed.

In addition, the port has adopted the group's award winning Next Generation Terminal Management System (nGen) to ensure the highest level of efficiency. The nGen system allows the port to streamline operations and facilitate efficient data interchange with shipping lines and customs.

n · g e n

Hutchison Ports is also overseeing the development of a mammoth Freezone Sohar, an ambitious initiative that will accelerate socio-economic development through private sector investment and employment generation. "This network will connect the Sohar Special Economic Zone with existing and future economic hubs in the wider hinterland," said Tsoi.

"THE DIFFERENCE IN DOING BUSINESS IN THE REGION VERSUS DOING BUSINESS IN ASIA AND EUROPE IS SOMETHING YOU DON'T LEARN IN BUSINESS SCHOOL"

HUTCHISON PORTS REBRANDING... MORE THAN A CHANGE OF SIGN.

On 24 September 2016, a rebranding exercise was launched in the presence of Hutchison Ports executives from around the world witnessing the revelation of a new brand identity – Hutchison Ports, formerly known HPH, as the world's leading port network, with over 30,000 employees and operating 49 ports and in 26 countries.

"The rebranding, mainly driven as an internal exercise, aims to give a clear message across on the company on its corporate values best summarised in an acronym **UNITY** and includes a new logo to better reflect the company's position in a rapidly changing world of ports and logistics," said Eric Ip, Group Managing Director.

"The new brand will make us more recognisable everywhere as a group, and enhance our reputation for leadership globally.

It underlines the group's long-established commitment to operate as a truly global network and deliver the highest standards of service to its customers and partners."

1996 Hutchison Port Holdings › 2004 HPH › **2016** HUTCHISONPORTS

"UNITY MAKES HUTCHISON PORTS THE WORLD'S LEADING PORT NETWORK"

The logo shows the meeting point of sea and sky with an upward angle to signify growth, innovation and ambition – those things that keep Hutchison Ports at the forefront. The horizon is the meeting point – the coming together of people, partners, knowledge, experience and expertise in one world-class network.

The rebranding was also a chance for us to restate the values that have long underpinned how we operate," said Ip. The Hutchison Ports organisation uses the acronym '**UNITY**' to mark the five values that set it apart from its competitors.

UNITY stands for **U**nrivalled standards; **N**etwork strength; **I**nformed decisions; **T**rusted and honest; and **Y**our partners. **UNITY** makes Hutchison Ports the world's leading port network.

The rebranding did not dilute the already well-developed local brand. "In fact, to a certain extent, the rebranding brought an even more solid brand image to our network and strengthened the corporate brand globally. We now share the same symbol and it is well-recognised by our network, partners, clients and the industry," said Ip.

U — UNRIVALLED STANDARDS

N — NETWORK STRENGTH

I — INFORMED DECISIONS

T — TRUSTED AND HONEST

Y — YOUR PARTNERS

E-COMMERCE DRIVING SURGE IN TECHNOLOGY INNOVATION.

The rise of e-commerce has opened the door to many innovations in many industries and companies involved in supply chain logistics are looking at how technology can help them handle the volumes and time expectations of customers.

Maersk IT specialists started tracking containers of avocados and roses from Kenya to the Netherlands in 2014, they found that a labyrinth of paperwork and processes that needed to be navigated. The navigation of these paths is costly, with Maersk reporting that there are "more than 200 interactions involving more than 30 people" associated with each one-container shipment. The use of blockchain technology is expected to save the industry billions of dollars by improving efficiency," said Robbert van Trooijen, Chief Executive Officer, Asia Pacific Region, Maersk Line at the TOC Asia, Container Supply Chain Conference in Singapore.

Digital technologies continue to transform industries with shipping and logistics moving towards increased digitisation of many processes. Maersk, after their avocado-and-rose research, has partnered with IBM to provide more transparency in the supply chain using blockchain technology.

The tamper-proof chain of records would offer improved workflow efficiency, real-time tracking and visibility, and reduce fraud. However, for the system of links to work in this chain, each link must be on board – parties involved in the transactions must be able to access the network and willing to upload the information onto it.

Maersk and IBM plan to launch the system later this year. Companies like Wal-Mart are already testing the waters by piloting the system solution. Industry-wide adoption, however, is likely to take quite some time.

Another company using blockchain to improve supply chain management is Chained Finance, a new supply chain finance platform launched by FnConn, a subsidiary of Foxconn, and Dianrong, a Chinese lending marketplace. The platform makes out loans to manufacturers using blockchain technology.

"THE USE OF BLOCKCHAIN TECHNOLOGY IS EXPECTED TO SAVE THE INDUSTRY BILLIONS OF DOLLARS BY IMPROVING EFFICIENCY"

The loans are typically made out to small companies from the supply chain, allowing them funding to pay workers while waiting for invoice payments to come through preventing disruptions in the supply chain.

The new finance platform is exciting news for two reasons, according to Sergio Rodriguera Jr., Chief Strategy Officer of The Credit Junction*, "The first is large multinationals are increasingly seeing the importance of ensuring their suppliers, especially SME suppliers, have access to capital to fulfil orders and avoid supply chain disruptions. Second, non-bank lenders have stepped in to offer supply chain financing solutions where traditional sources have been unable to help SMEs again, due to the cost of onboarding or serving larger customers."

Rodriguera also added that it would take a few years for blockchain to prove itself in trade finance, "However, there are many who feel it could be beneficial in trade finance and supply chain. You are seeing this with the IBM and Maersk deal, as well as Project Manifest powered by Microsoft."

Project Manifest uses blockchain for product tracking that could one day help to ensure the origin of materials and labour used in the manufacturing of goods.

**Source: http://bit.ly/scdblockchain*

The last few years have seen an increase in the number of regulations from the International Maritime Organisation (IMO), addressing safety, security and the environment. Shipowners, already struggling because of overcapacity and falling rates, now have to invest in technology, training of seafarers and retrofitting of vessels, which will pinch their bottom line further.

"Generally, most legislative changes in shipping result in some extra costs for shipowners, one way or another, and in many cases these extra costs are difficult to pass on to shippers and customers," admitted Sabrina Chao, Chairman of Wah Kwong Shipping and the Hong Kong Shipowners Association. "But shipowners are well aware that to face these challenges, it is most important for the industry to be well prepared and well equipped," she said. "As part of the global community, it is also their social responsibility to comply with the laws on safety, security and pollution."

Regarding the higher costs for shipowners, Chao noted, while the recently introduced changes to the Maritime Labour Convention (MLC) and Standards of Training, Certification and Watchkeeping for Seafarers (STCW) will result in extra costs for some, many quality shipowners will not incur more costs as they are already compliant with the new standards. "Regrettably, there are some bad apples among the good, and it is the former that the new regulations are targeted at," said Chao.

The main increase in operating costs in recent years for shipowners has been changes to MARPOL, the international marine environmental conventions for the prevention of pollution from ships, according to Chao. Shipowners are required to comply with the new sulphur oxide emissions of 0.5% in IMO mandated Emission Control Areas (ECAs) and in Domestic Emission Control Areas (DECAs) in Hong Kong and China, so they must switch from Heavy Fuel Oil, which has a high sulphur content, to Gas Oil. "There is a 50-60% difference in the cost of the two oils so it could add US$10,000-$20,000 to ship fuel costs," Chao said.

The new Ballast Water Management System (BWMS) rule, which comes into force on 8 September 2017, will be another cost burden for shipowners. "While many newly-delivered ships have been built with BWMS, most existing ships still have to install them," said Chao. One consolation for shipowners is that they are allowed up to five years to retrofit the BWMS after renewing their first IOPP (International Oil Pollution Prevention) certificate.

The costs of retrofitting BWMS in ships varies significantly, depending upon ship size. "For a small feeder vessel, the cost could be as low as US$500,000, but for a 18,000 TEU ship, Capesize bulker or VLCC tanker the cost could be between $2 million and $3 million," said the HKSOA boss.

"The time from contracting to retrofitting is typically 9-12 months. The retrofitting itself doesn't take that long, and most of the work is carried out at sea rather than dockside, so schedule delays and port disruption by container ships will be minimal," said Chao. "However, it may be longer for bulkers and tankers," she added.

"During these hard times, there are at least three things that the shipowners can and should do," said Chao.

"First, shipowners must ensure that they remain at the forefront of debates on all rules that may impact shipping. Through the HKSOA and other regional and international shipowners' associations, they must make sure that their voice is heard when new regulations are being formulated, and make sure that their concerns are addressed when existing regulations are ill-conceived or badly implemented.

"Second, shipowners should continue urging the Hong Kong Government to support the industry and proactively create a business environment that is conducive to industry growth. For instance, more double-taxation agreements should be negotiated with trading partners; more resources should be devoted to strengthening the service function of the ship registry; and more effective measures should be taken to tackle the long-standing manpower problems.

"Lastly, individual shipowners need to think creatively and plan innovatively to enhance their business operations, such as taking advantage of the latest technologies. By using modern technology, shipowners can achieve cost reduction and increase productivity," concluded Chao.

SHIPOWNERS MUST BE PREPARED AND EQUIPPED FOR NEW CHALLENGES.

The world trading environment is entering a new phase of protectionism. In order to boost its own manufacturing sector, US President Donald Trump plans to roll back globalisation and put up barriers to trade. President Trump has threatened to impose a 45% punitive tariff on imports from China and accused China of being a currency manipulator and of stealing jobs from American workers.

Although this rhetoric has softened since Donald Trump met with China's Premier Xi Jinping, this neo-protectionism will affect the global shipping sector, but this is not a completely new phenomenon, Olaf Merk, Economist at International Transport Forum of the OECD, told **OPPORTUNITY** magazine. "We have seen an increase in protectionist measures since 2009." Regarding the latest threat by the Trump administration, he said, "We will have to see if certain statements will indeed be translated in trade barriers at the US border, negotiation of NAFTA (North American Free Trade Agreement) and less reliance on multinational trade agreements. At this moment, there is not much clarity yet on exactly where this is going."

Underlying this, Merk noted, is a more structural trend of decreasing trade intensity of GDP growth. "One per cent growth in global GDP no longer leads to 3% global trade growth like in the past. The relation is now more one to one. This translates into lower volumes to be shipped."

For the last five years, the global economy has been in a low growth trap, with growth disappointingly low and stuck at around 3% per year. In OECD's Economic Outlook, trade growth is projected to increase from a dismal ratio of global trade-to-GDP growth of around 0.8 to be about on par with global output growth -- much less than the multiple of two or three enjoyed over the last few decades.

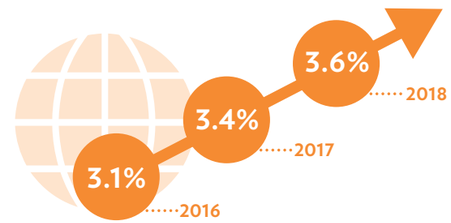
"WE HAVE SEEN AN INCREASE IN PROTECTIONIST MEASURES SINCE 2009"

LOW GROWTH TRAP MORE SERIOUS THAN PROTECTIONISM.

A NEW ERA OF TRADE BARRIERS?

Global GDP growth is projected to pick up modestly to around 3.6% in 2018, from just 3.1% in 2016, boosted by fiscal initiatives in the major economies, according to the IMF World Economic Outlook Update. Confidence is up, but consumption, investment, trade and productivity are far from strong, with growth slow by past norms and higher inequality.

GLOBAL ECONOMY



EMERGING MARKET AND DEVELOPING ECONOMIES

*IMF World Economic outlook update, Jan 2017

Asked if Chinese manufacturers would move production to the US, to avoid possible punitive tariffs levied on China, Merk said, "There is a trend of outsourcing of Chinese manufacturing to lower-income countries in the region, such as Vietnam and Indonesia, but punitive tariffs are not likely to bring manufacturing employment back to the US."

However, due to high costs of labour, resources, energy and transportation in China, some Chinese manufacturers are planning to relocate to the US. For example, China's "glass king", Cao Dewang, chairman of Fuyao Glass, recently said even though wages for a factory employee in the US were about eight times higher than for those in China, the US remained an attractive place to invest. Cao has decided to invest US$1 billion in the US, which includes taking over a former General Motors plant in Dayton, Ohio.

Several other Chinese companies such as garment manufacturer Tianyuan Garments, which makes clothes for brands such as Adidas, Reebok and Armani, and paper products manufacturer Sun Paper Industry have also decided to invest in the US. The moves are not because of the threat of punitive taxes, as rightly noted by Merk, but because of the high costs in China and the incentives offered by US states.

If Trump makes good his threat of punitive taxes, it would affect transpacific container shipping. "Container shipping has enabled global outsourcing. If outsourcing would be rolled back, shipping would obviously be affected," said Merk. "Developments like 3D-printing and automation of manufacturing in the developed world will likely reduce global containerised trade flows."

Following the US pull out from the Trans-Pacific Partnership (TPP) agreement, it is very likely that the Regional Comprehensive Economic Partnership (RCEP) agreement, led by China, will replace its rival TPP, said Merk.

The RCEP brings together the 10 members of the Southeast Asian grouping ASEAN plus China, India, Japan, South Korea, Australia and New Zealand, but notably excludes the US, while the TPP includes Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam.

If the RCEP develops into a major grouping, it will be a further boost for intra-Asia trades and it will have an impact on transpacific trades, Merk added.

SHIPPING INVESTORS TAKE A WAIT-AND-SEE APPROACH.

With the recent downturn and turbulence in the shipping industry, shipowners are finding that financing vessels is becoming more difficult. Banks and private equity investors are worried about the increased level of risk and are treading carefully.

The sector is showing signs of revival after years of losses and Paul Slater, Chairman of First International Communications, feels it is still an attractive proposition if investors take a long-term view instead of gambling on ship values increasing.

He told **OPPORTUNITY** magazine that traditional investors such as KG Funds have lost billions of US dollars, along with the German banks, and he doubts that they will be back again after having their fingers burnt. But there are other funds such as the US PE/Hedge Funds who have also suffered significant losses but are still taking bets on ship values, he noted.

According to Slater, banks and other finance companies are taking investment in the container shipping sector with a pinch of salt. He said that this is because of excess overcapacity and the move by major lines into new giant ships – which have reduced box rates to unprofitable levels. "The lack of backhaul cargo also continues to keep box rates down."

More bankruptcies amongst the larger operators will further damage this sector, he added.

Hanjin Shipping was finally declared bankrupt by a Korean court in February this year after 40 years of operations. The company's assets are being liquidated around the world. More recently Rickmers Holding AG has filed for insolvency in Singapore, following a failed attempt to refinance the company with HSH Nordbank.

Foreign investors are reluctant to invest in ships at this stage because of overcapacity, which is hurting the shipbuilders. But there is relief for some shipbuilders as China finance companies are increasing their investment in newbuildings.

But Slater clarified: "China's interest in financing is only directed at ships built in China and those chartered to Chinese shipping companies. Their objective is to keep freight rates down to benefit Chinese importers of raw materials and exporters of manufactured goods." It is unlikely China will come to the aid of shipbuilders in other countries.

China is supporting its own shipbuilders to protect jobs and sustain the industry during the current downturn. This despite analysts' reports stating that there are too many ships chasing too little cargo and that by adding more ships to fleets will exacerbate overcapacity.

“ FOREIGN INVESTORS ARE RELUCTANT TO INVEST IN SHIPS AT THIS STAGE BECAUSE OF OVERCAPACITY”

However, Nigel Anton, Managing Director and Head, Shipping Finance, Standard Chartered Bank, sees China’s leasing companies as having a broader global impact on shipping: “The largest impact seen in the shipping finance industry in the last three years has been the growth of Chinese leasing companies. Initially, there were a few large entities such as ICBC leasing, but more recently we have seen several new entrants into the market. These Chinese leasing companies are involved in all the shipping sectors and the impact is way beyond Hong Kong, as they are financing shipping companies across the globe.”

For new shipowners entering the industry, the chances of securing debt financing are remote, said Slater. He added that there is also weak demand for time charters.

Anton, however, sees a deeper long-term appetite for investment in shipping going beyond the current downturn. “The shipping industry is a cyclical one. For investors who have entered the market at the top of the cycle, they will have to wait out the trough until the market improves. So, until those investments can be recycled, appetite will be weaker, but shipping is a huge industry and investors with varying appetite for risk and return will be able to reap their desired returns.”

“In essence, how banks interact with the industry depends on how the different sector works and what are the business drivers are. For example, in dry bulk, weak commodity prices drove down charter rates and vessel values, whereas for containers, the situation is driven more by macro events,” he concluded.

“THE LARGEST IMPACT SEEN IN THE SHIPPING FINANCE INDUSTRY IN THE LAST THREE YEARS HAS BEEN THE GROWTH OF CHINESE LEASING COMPANIES”

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