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Why the Adrian Darya 1 saga is an issue for the whole industry

WHEN GIBRALTAR RELEASED the oil tanker *Grace 1* last month, it did so with the explicit written assurance from Iran that its cargo of 2.1m barrels of Iranian crude would not end up in Syria.

Fabian Picardo, Gibraltar's chief minister, even went so far as to hail the detention and subsequent release "a success" on the basis that Gibraltar's actions had "deprived the Assad regime of circa $140m".

The fact that *Adrian Darya 1*, as it is now renamed, is currently skirting the Syrian coast awaiting what the US intelligence services expect to be an imminent ship-to-ship transfer, which will ultimately see its cargo end up in Syria, is politically embarrassing for almost everyone except Iran.

It is not, however, an anomalous trade limited to Iranian crude seeking a buyer amid tightened US sanctions. Nor is it an episode that can be written off by the wider shipping industry as an issue for the intelligence services to worry about.

When US Secretary of State Mike Pompeo made clear on Friday that the US authorities were tracking *Adrian Darya 1*'s intention to deliver crude to Syria, the US Treasury simultaneously reiterated a warning to the wider shipping industry that any companies found to be assisting the ship, knowingly or otherwise, would find themselves targeted by US sanctions.

While few legitimate shipping businesses would knowingly test such cautions, the reality is that very few companies have the resources to perform due diligence robustly enough to unravel the highly complex networks of operations that support such trades.

Such is the concern from shipping companies wishing to avoid inadvertently falling foul of US scrutiny via unverified third-party providers, that several security companies approached by Lloyd's List have confirmed that clients are now regularly asking for satellite verification of potential charterers and suppliers to verify trade details and voyage history before contracts are signed.

Such costly due diligence that often requires funding satellite time and geospatial analysis may not yet be commonplace, but it is growing and it is indicative of the risk mitigation priorities now being employed by companies that would be crippled by the consequences of US sanctions should they be caught off-guard.

While the *Grace 1/Adrian Darya 1* saga is currently the highest-profile case of opaque shipping practices, it is only one example of what the US Treasury has described as "deceptive practices by shipping companies obfuscating the destination and recipient of oil shipments".

As of Monday evening, *Adrian Darya 1* was heading north up the Syrian coast, awaiting what analysts predict will be a ship-to-ship transfer via one of a handful of Iranian-linked tankers thought to be in the region currently with no Automatic Identification System signals active. *Silvia 1*, a 159,711dwt, Iran-flagged tanker, disappeared from AIS view on August 29 having entered the Mediterranean via the Suez Canal, expected to deliver its cargo to Syria's Banyas refinery. *Stark I*, a 159,681 dwt, Iran-flagged crude tanker, took a similar route, also dropping off AIS late on August 30. Another Iranian tanker, the 159,981 dwt *Sarak*, exited the Suez on Monday and if the pattern repeats, it will shortly 'go dark'.

Meanwhile, the Comoros-flagged suezmax *Savior* looks like it may be currently discharging Iranian crude to Banyas. Its AIS was switched off on August 28 as it approached Banyas after a period of active storage off Turkey, having originally loaded at Khor al Zubair via a ship-to-ship transfer.

Any one of these tankers may ultimately offer the route to Syria and the pattern of behaviour is becoming increasingly familiar to analysts now tracking the gap between stated AIS voyages and the clandestine network of trades that supports sanctioned oil delivery.

The US Treasury's Office of Foreign Assets Control has issued repeated advisory notes to shipping companies flagging behaviour to be aware of. In addition to the ship-to-ship transfers, vessel name changes and deliberate disabling of AIS systems, they have tracked numerous examples of falsified cargo and vessel documents.

And this is not a pattern limited to the Iran-Syria trade route. As all eyes were on *Adrian Darya 1* on Friday, the US Treasury issued another advisory, this time focused on North Korea.

The Treasury Department said in a statement on Friday that North Korea has continued to use ship-to-ship transfers at sea to evade UN restrictions on its oil imports. The Treasury also alleged that North Korea has received deliveries of refined petroleum directly from ships flagged under other countries, and said those countries had not reported the deliveries to the UN.

In January two Tanzanian-flagged liquefied petroleum gas carriers caught fire in the Kerch Strait during a ship-to-ship transfer operation, but the subsequent investigation revealed those vessels to be part of regular trades that mysteriously disappeared off AIS having passed Northern Cyprus headed towards the Syrian coast.

The list of such examples goes on and on.

It is now clear that scrutiny from multiple government agencies globally is increasing, but anecdotal evidence from security analysts and industry experts suggests that risk mitigation measures from shipping companies is not keeping pace with the enhanced scrutiny and technological advances that allow contraventions to be exposed.

For the legitimate end of shipping looking on as the *Adrian Darya 1* saga plays out, the question is clear. How robust does a company have to be in its due diligence to categorically prove no links to third parties in risk of breaching sanctions?

Lloyd's List is hosting a transparency forum on September 9 in London with speakers from the legal, insurance, technology and supply chain side where we will answer such questions and many more besides. You can sign up to attend to the Lloyd's List Transparency in Shipping Forum here: https://lloydslist.maritimeintelligence.informa.com/LL1128790/Transparency-in-Shipping-Forum

WHAT TO WATCH

Miami on highest alert as Hurricane Dorian bypasses FCP

HURRICANE Dorian has led the US Coast Guard to declare Port Condition Zulu at the Port of Miami and a number of nearby smaller ports, with all vessel movements and ship-to-shore operations banned unless explicitly authorised for safety purposes.

The status is the highest in a series of states of emergency under US regulations, which ascend from Port Condition Whiskey through X-Ray and Yankee until hitting Zulu.

Best known as a jumping off point for the cruise sector, Miami is served by all of the big three boxship alliances and is a vital US mainland supply chain hub for many Caribbean nations.

Port Condition Zulu came into effect at 1800 hours last night. The port remains closed today, although September 2 is in any case Labor Day public holiday in the US.

Cruiseships scheduled for arrival yesterday and today Port of Everglades have been delayed until September 4.

Jaxport's terminals in Jacksonville were closed to incoming vessels at 0800 today. All outgoing vessels were required to exit the port prior to the setting of Condition Zulu.

"The safety of the public and our stakeholders is our number one priority as we continue to closely monitor Dorian and prepare for any potential impacts," said Jaxport chief executive Eric Green. "I encourage everyone to follow the direction of the US Coast Guard and emergency management officials as we all work together to keep our port community safe."

Further north, the Georgia Port Authority is monitoring the situation in Savannah and Brunswick. Its latest update on Friday said it expected normal vessel operations through to Sunday night, ahead of the Memorial Day holiday.

"Tuesday operations are expected to be business as usual following the Monday no-work holiday," it said.

Meanwhile, it looks like second time lucky for the key Caribbean transhipment hub of Freeport Container Port, which took two years to recover in the aftermath of Hurricane Matthew in 2016.

Hutchison-owned FCP featured at the lower end of the annual Lloyd's List round-up of the world's largest container ports until three years ago, when Matthew caused the loss of most of its gantry cranes, severely hindering operations.

Full capacity was only restored in 2018, with the installation of three super post-panamax quay cranes from China.

Although disruption to communications made it impossible to obtain direct contact with Bahamian shipping sources today, media coverage indicates that while Grand Bahama island took a severe pounding, the eye of Dorian remained 40 miles away.

Roofs have been ripped off homes, cars overturned and power lines have been bought down, and there is in an unconfirmed report of the death of a seven-year-old boy.

Automatic Identification System data from Lloyd's List Intelligence show only a small number of tugs and support vessels at FCP with all other vessels have routed away from the hurricane.

Insurance industry sources are geared up for a possible $25bn hit, and analysts at UBS fear that the bill could finally come in as high as $40bn.

Most of that will rest with property casualty books, although there is potential for hull & machinery claims in the event of vessel damage. Past experience also point to the risk to cargo, including boxes still within port boundaries.

Hurricane Dorian also has implications for marine fuel activity in Florida. S&P Global Platts predicted spot IFO 380 in Savannah to rise by $1 to $394 per tonne on an ex-wharf basis, and Savannah MGO to rise by $1 to $615 per tonne ex-wharf.

Meanwhile, The American Club has issued an advisory circular for members, highlighting some of the dangers that hurricanes create for shipping.

These include changes in currents and tides, occurring more rapidly and unpredictably than

normal; increased loads on mooring lines; increased risk of contact with craft, debris and objects which may have broken loose from moorings; increased risk of damage caused by storm surges; and increased silting of berths creating reduced under-keel clearance.

ANALYSIS

Tanker market faces uncertain future in a no-deal Brexit

UK REFINERIES would likely be affected in the event of a Brexit on World Trade Organisation terms, but the implications for the tanker market are less clear, according to Gibson Shipbroker.

"Tanker trade will be impacted. However, while it may be significant for smaller vessels trading regionally across North West Europe, the impact for the global tanker market will likely be muted," Gibson reported.

While the UK government has committed to departing the European Union on October 31, the two sides have yet to reach an agreement about their post-Brexit trade relationship and the UK has signalled it is willing to exit the union without a deal.

Aside from some of the concerns this prospect has raised among the ports and logistics sector, which has long called for a deal that would prevent trade disruptions, the fuels market may also face some disruption as trade patterns in the region could change.

Gibson notes that thus far in 2019 57% of UK clean petroleum product exports have gone to the EU.

WTO terms would likely see the EU impose a 4.7% tariff, which applies to fuel imports from non-EU countries. The UK will likely have to set a 0% tariff for EU imports in compliance with rules from the WTO, which require equal tariffs on the same products from different origins.

This predicament could, on the one hand, undermine British refineries, whose products will become less attractive in the EU market. On the other hand, Gibson suggests it may be more profitable to push those products on to other regions, like the US or West Africa, depending on the bilateral deals that emerge after Brexit.

"In effect, these inefficiencies of supply could create increased tanker demand," Gibson said.

But in the alternative scenario the UK would cut back on imports and exports altogether as its refineries become less competitive and production becomes more geared towards domestic consumption.

"Analyst views are mixed; however, reduced trading flexibility would almost certainly impact margins, and potentially force refining runs lower," Gibson reported.

Leaked government documents August forecast that two of the UK's refineries would face closure from a WTO Brexit.

Shippers prepare for sharp fuel price rises

MANY cargo owners remain unclear about the impact on their freight costs of the incoming low-suphur shipping fuel rules, although better information is now becoming available, says Drewry.

The container shipping analyst and data expert — which is launching a 'low-sulphur bunker price tracker' — says that for several years, "one of the biggest and hardest questions to answer in international shipping has been: what will the new low-sulphur fuel cost from 2020?".

But it says shippers, forwarders and carriers are getting a better idea of costs and data sources for the rules, which have been drawn up by the International Maritime Organization and which come into effect on January 1.

"Everybody — or nearly everybody — agreed that there will be a large, extra cost for the industry and its users," Drewry notes. It says a survey of shippers found that "data is patchy and confusing" and a high proportion of shippers replied that they were very

uncertain about the impact of IMO 2020 on their freight costs.

Largely as result of this, Drewry has developed an IMO Cost Impact Calculator, but said "this required us making our own forecast of the 2020 cost of low-sulphur fuel, because there is no established price in the market for the new fuel. This is changing".

According to the analyst, recent indications of prices for low-sulphur fuel oil compliant with the IMO 2020 rule showed it costs about 30% more than the current, high-sulphur IFO380 fuel at Asian ports which have started selling it.

This price is based on actual bunkering transactions for ships which trade with Chinese ports, where the 0.5% sulphur requirement is already implemented. The 0.5% sulphur fuel price in the major port of Singapore is about $560 per tonne.

However, Drewry says it is asking customers "to be careful when using these early price indications, because the demand for low-sulphur fuel will increase considerably by November/December and market conditions will be very different then".

To assist shippers, forwarders and carriers who need to revise their bunker charges before and after the switch to low-sulphur fuel, Drewry has started a publicly-available Low-sulphur Bunker Price Tracker, which will be updated every quarter and also in December, when many contracts will require data on the new fuel cost.

"Contractually, the ability of shippers and providers to adjust their Bunker Adjustment Factors at an appropriate time towards the end of 2019 — various switching dates can be negotiated — and at a fair cost is a top priority for the next few months," says Drewry.

"Shippers who have redefined their BAFs and their bunker indexing mechanism to take into account the IMO 2020 change have nearly always agreed that carriers need to be compensated for the price differential between low-sulphur and high-sulphur fuel — even though some 5% of total capacity is equipped with scrubbers.

"We believe that the chances are that low-sulphur bunker prices will, after increasing in 2020, fall in 2021 and 2022, as the initial price premium decreases."

But Drewry says there will be several major indirect repercussions from the switch to low-sulphur fuel regulations:

• Shippers will pay a lot more attention and scrutiny to the Bunker Adjustment Factors than in the past.

• Smaller ships — which tend not to be equipped with scrubbers or with efficient engines — will be shunned by carriers even more than in the past.

• Some aggregate ship capacity will be cut (scrapped) and shipowners will incur capital losses on some of their now-obsolete vessels, built at a time when pollution regulations were lenient.

• Paradoxically, shipping lines with a high use of scrubbers (avoiding the extra cost of low-sulphur fuel) will be able to continue to buy a lot of high-sulphur fuel and will become more cost competitive and better insulated from low-sulphur price volatility than other shipping lines.

"The one remaining area of uncertainty is whether carriers will resort to more slow-steaming in the era of more expensive bunkers; watch this space," Drewry notes.

It says bunker adjustment factors will "soar" between the fourth quarter this year and the first quarter of 2020 "and will be very volatile in the first half of 2020".

MARKETS

US issues sanctions in crackdown on North Korea oil imports

THE US government continues its efforts to end supplies of refined petroleum products reaching the Democratic People's Republic of Korea in excess of United Nations mandates, especially through ship-to-ship transfers.

The US Treasury Department on August 30 announced sanctions on several companies based in Taiwan and Hong Kong, saying the firms helped North Korea evade international restrictions on its petroleum trade by using the illicit transfers.

The Treasury Department also alleged that North Korea has received deliveries of refined petroleum directly from ships flagged under other countries, and said those countries had not reported the deliveries to the UN. It did not name the countries.

"Treasury will implement and enforce existing US and UN sanctions on individuals, entities, and vessels involved in illicit ship-to-ship transfers with North Korean flagged vessels," treasury under-secretary Sigal Mandelker said on August 30.

"Shipping companies trading with North Korea are exposing themselves to significant sanctions risk, despite the deceptive practices they try to employ," she said.

The US designated Taiwan-based individuals Huang Wang Ken and Chen Mei Hsiang and the Taiwan-based entities Jui Pang Shipping Co Ltd and Jui Zong Ship Management Co Ltd.

It also designated Hong Kong-based entity Jui Cheng Shipping Company Limited for having engaged in at least one significant importation from or exportation to North Korea of any goods, services, or technology.

Treasury further identified the 6,031 dwt, Panama-flagged product tanker *Shang Yuan Bao* as blocked property in which Huang Wang Ken, Chen Mei Hsiang, Jui Pang, Jui Cheng, and Jui Zong all have an interest.

In October 2018, the UN Security Council included the *Shang Yuan Bao* in a port entry ban and designated it for deflagging in response to its involvement in illicit ship-to-ship transfers with North Korean-flagged vessels.

In addition to STS transfers, the US said North Korea is obtaining refined petroleum through deliveries that are made directly into North Korea from tankers that are not flagged by the Democratic People's Republic of Korea. It said these deliveries also are not reported to the UN 1718 Committee by any member state.

"The cumulative effect of these deliveries is that the UN 1718 Committee's official accounting of the DPRK's imports vastly underrepresents the volume of refined petroleum products that actually enter the DPRK via its fleet of oil tankers and other associated vessels," the Treasury Department said.

In June this year, the US and several of its allies accused North Korea of importing more petroleum than allowed under UN sanctions, according to a report to a Security Council committee.

While the North Korean regime is allowed to import up to 500,000 barrels of oil a year, the US said in June Pyongyang had exceeded that amount through illicit ship-to-ship transfers.

The letter, also signed by Australia, France, Japan and Germany, was submitted to the UNSC along with a detailed report documenting the suspected illegal oil transfers.

At the time, Japan's ministry of foreign affairs published photos of a North Korean-flagged tanker that "was lying alongside two small vessels of unknown nationality six times in total on the high seas (around 400km south offshore of Shanghai) in the East China Sea."

It said: "Judging from the fact that these vessels lay alongside each other and connected hoses, these vessels could have been engaged in some type of activity. Following a comprehensive assessment, the Government of Japan strongly suspects that they conducted ship-to-ship transfers banned by United Nations Security Council Resolution."

Earlier, in March 2019, a panel of experts reported to the UNSC that "the nuclear and ballistic missile programmes of the Democratic People's Republic of Korea remain intact and the country continues to defy Security Council resolutions through a massive increase in illegal ship-to-ship transfers of petroleum products and coal."

The UN's panel of experts also reported that "global banks and insurance companies continue to unwittingly facilitate payments and provide coverage for vessels involved in ever-larger, multi-million-dollar, illegal ship-to-ship transfers of petroleum products, as well as an increasing number of ship-to-ship coal transfers and attempted transhipments."

The underlaying UN mandate for US action says that all member states "are required to prohibit the supply, sale or transfer to the DPRK, through their territories or by their nationals, or using their flag vessels or aircraft, and whether or not originating in their territories, of all refined petroleum products in excess of the aggregate amount of 500,000 barrels during periods of 12 months beginning on January 1, 2018".

IN OTHER NEWS

Oldendorff to fit electric propulsion on two newbuild bulkers

OLDENDORFF, the German dry bulk owner, is to install electric propulsion on two of its dry bulk carriers to curb emissions.

Equipment supplied by ABB will be installed on the two 21,500 dwt vessels under construction at Chengxi Shipyard, a subsidiary of China State Shipbuilding Corporation, and set for delivery in 2021.

It is the first time ABB's Azipod electric propulsion system will be installed on a bulker.

MOL in logistics tie-up with Turkish steelmaker

MITSUI OSK Lines has signed a cooperation agreement with Turkish steelmaker Tosyalı Holding and will work on transportation services for the latter, as well as building a port in southeastern Turkey and other unspecifed business ventures.

The strategic partnership with the major Turkish steel company is part of MOL's Rolling Plan 2019, which seeks to boost customer service, among other goals.

Tosyalı, with output of over 10m tons in 2018, has global interests and produces a wide variety of steel products. The company has also recently started operation of the world's largest direct reduced iron plant in Algeria.

Cosco Shipping turns around liner business

COSCO Shipping Holdings has reported a big turnaround in the first half of this year, backed by the acquisition of Orient Overseas International Ltd and an improved vessel supply picture.

The Shanghai-and Hong Kong-listed company, the box liner and ports arm of China Cosco Shipping Corp, saw net profits in the six months surge almost 30 times year-on-year to Yuan1.2bn ($172.8m).

Excluding one-off items, the surplus stood at Yuan1.1bn, reversing the net losses of Yuan112.9m racked up during the same period of the previous year.

PSA International completes deal for Penn Terminals

SINGAPORE's PSA International is continuing to boost its North American footprint and made its first inroad into the US with the completion of its acquisition of Penn Terminals as part of a deal with Macquarie Infrastructure and Real Assets fund Macquarie Infrastructure Partners that also included Canada's Halterm Container Terminal, Halifax.

Penn Terminals, located on the Delaware River, is one of the best equipped, privately-owned multipurpose marine terminals on the US east coast. The facility comprises warehousing and stevedoring services and can handle container, perishable, project, super sack, steel, pipes, forest products and other break-bulk cargoes.

"This acquisition represents PSA's very first foray into the US (and) we are delighted to embrace Penn as the newest member of the global PSA family and to be able to participate in its continued growth and expansion," said PSA International group chief executive officer Tan Chong Meng.

HFW hires dry shipping specialist from Clyde & Co

HFW is boosting its Singapore shipping practice with the hire of partner Christopher Metcalf, who is joining from Clyde & Co in September, subject to regulatory approvals.

Mr Metcalf is a dry shipping expert and is ranked by The Legal 500 and Chambers as one of Singapore's top shipping lawyers. This continues HFW's significant strengthening of its Singapore shipping practice, after the hiring of ex-Baltic Exchange Asia head Christopher Jones in August.

HFW claims to be the world's top maritime law firm and has recently been boosting its Asian presence, relocating admiralty and crisis management partner Toby Stephens and ship finance partner John Forrester from London to Singapore in 2017, the former being appointed as head of shipping in the Singapore office.

Gas and tanker conversions bring in $288m to SembMarine's orderbook

SEMBCORP Marine has leveraged on its traditional strengths in repair and conversion work to win some S$400m ($287.8m) in new projects in areas ranging from offshore gas and wind farm developments to cruise ship upgrades.

Apart from floating production conversion contracts for its various units with various repeat and new customers, SembMarine's offshore platforms unit has also succeeded in breaking into the highly competitive offshore wind sector in Taiwan.

A floating and production storage and offloading conversion project with Shapoorji Pallonji and Bumi Armada will convert very large crude carrier Ariake for deployment on the east coast of India. The vessel will produce up to 90,000 barrels of oil per day and have a 1.3m barrel storage facility.

Hyundai Heavy wins $188m LNG carrier order

HYUNDAI Heavy Industries has won another in a steady stream of liquefied natural gas carrier orders, with a $188m contract from an unidentified Oceania shipowner to build a 174,000 cu m vessel with delivery due by January 2022, according to Yonhap.

Rival Samsung Heavy Industries in May won a $190m order to build an LNG carrier also from an un-named Oceania owner. This is due for delivery in March 2022.

HHI's most recent previous LNGC contracts were in August when Capital Gas exercised an option for one vessel, bringing its total orders to seven.

Cosco Shipping secures 80% of LSFO for boxship fleet

CHINA Cosco Shipping Corp has locked up some 80% of the low-sulphur fuel oil expected to be consumed by its containership fleet as the 2020 sulphur cap looms.

The supply has been secured for the period between the fourth quarter of this year, when its vessels will start to burn the compliant fuel, and the first quarter of 2020, according to Orient Overseas Container Line co-chief executive Andy Tung.

Mr Tung was referring to the combined volume for OOCL and Cosco Shipping Lines, the Chinese conglomerate's home-grown liner brand, when speaking at a results press conference held by Cosco Shipping Holdings on Monday.

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At the centre of Lloyd's List Intelligence is our online vessel tracking system, Seasearcher. This gives you access to the transactional and analytical data required to make a measured difference to your business, whether you are trying to increase operational efficiencies, manage risk, or develop new business opportunities.

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