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Shipping's future lies beyond Brexit and beyond shipping

AS A DOMESTIC flag-waving exercise London International Shipping Week can be considered a resounding success, *writes Richard Meade.*

While much of the overtly upbeat UK rhetoric could be written off as a case of preaching to the converted, the sight of a government finally committed to shipping and working in partnership with the industry had the feeling of substance and conviction.

The headline figures that revealed the UK's maritime sector contributes more than £46bn ($56.9bn) to the economy was sufficiently enticing to draw Prime Minister Boris Johnson into an opportunistic bluster of TV ready soundbites, such was the positive nature of this pro-UK story.

And while the omnipresent shipping minister Nusrat Ghani was left to do the heavy lifting of preaching the good news of shipping's status as "the lifeblood of our island economy", the political engagement in this year's event was there for all to see.

Yes, Brexit inevitably cast a long shadow over many discussions, but even the hardened Remainers and bemused European guests got the sense that, for the first time in living memory, and perhaps ever, the UK government is now working closely with the shipping and maritime industries.

The upside to Brexit is a high-level realisation that without a strong shipping and maritime industry, an island nation such as the UK faces some grave economic and security issues, and for that the industry can be thankful.

But it wasn't Brexit or the UK at all that dominated proceedings, despite the best efforts of Ms Ghani's drive-by speech agenda at almost every event.

Compared to the existential threat that decarbonisation, digitalisation and a wholesale rewrite of macro trade trends presents to the global sector right now, Brexit and the prorogation of parliament rather pales into insignificance and the 'international' part of LISW's mandate thankfully dominated debate.

The myriad issues on the agenda this week made clear the complexities facing the shipping industry over the next generation, and if there was a single unifying thread to the week it was that there is no silver bullet available for any of it.

For the optimists, the option of silver buckshot was enough to keep them going, with many of the discussions starting to focus on the pragmatic prioritisation of how to innovate and finance their way out of the zero-carbon world trade dilemma.

A series of stark warnings from climate science experts and policy leaders during the week, notably headlined by the message that the decarbonisation of shipping would likely involve a doubling of freight rates to fund the shift to more expensive zero-emission fuels, divided opinion but certainly focused minds.

Nobody attending events in London could have left without being aware that change is afoot.

While the short-term tensions over trade, geopolitics and immediate demands of environmental regulations such as the sulphur cap and even ballast water had already captured the attention of the shipping industry, much of the discussion to this point has been masking a more structural shift that is taking place in the shadows.

The agenda in London made clear that the generational shift required to survive the disruptive headwinds blowing in would be less an adjustment, more a wholesale reinvention of business models.

It also made clear that most of the solutions lay outside of shipping, from the zero-carbon energy infrastructure to the collaborative global approach required from cargo interests and the digital transformation and integration of shipping into a global supply chain that will test core business assumptions.

As an industry we need to think critically about potential new sources of value, shifting competitive dynamics, and regulatory policies that affect both the revenue and expense sides of the business.

We need to consider the traditional guiding principles of value creation that are being corroded by the introduction of new technologies and more interconnected global supply chains.

We need to plan how we navigate the short-term agenda of trade and geopolitical tensions while planning to invest in a generation shift towards zero-carbon technologies that don't yet exist and require a financing commitment that in most cases is fundamentally opposed to the industry's core business of transporting energy.

We need to adapt to the new technologies and third-party algorithms that are redefining shipowners' licence to operate and sustain a routinely unprofitable operational model without which the global economy would collapse.

Against that to do list, the immediate vagaries of the UK's Brexit-induced challenges are certainly less worrying.

By all means let's celebrate the positive sentiment and direction that LISW offered us, but let's also focus our collective attention on the issues that really matter most to shipping right now and reach for a collective approach beyond shipping's traditional borders.

ANALYSIS

Maersk customers absorb IMO 2020 bunker surcharges

MAERSK says it has seen a "high acceptance" by its customers of its bunker surcharge mechanisms in 80%-90% of its contracts, as it prepares shippers for a significant rise in fuel costs due to new global low-sulphur fuel rules that come into force next year.

The company's senior management team has told analysts that slow steaming was more likely than accelerated scrapping to improve fuel efficiency.

Maersk has previously estimated a $2bn rise in its annual fuel costs due to the International Maritime Organization's 2020 low-sulphur fuel cap of 0.5% that enters force in January.

At the beginning of 2019, it introduced a new bunker adjustment factor surcharge to help defray the associated costs of meeting the low-sulphur fuel cap, with the total industry-wide bill for preparations put at $15bn.

Maersk's chief executive and chief financial officer indicated that they are encouraged by recent container market discipline and talk about potential bunker surcharges in the spot market.

Maersk's management "is encouraged by high acceptance of bunker surcharges in contracts and recent market discipline and talk about mitigating higher fuel costs under IMO 2020 in the spot market", according to David Kerstens, equity analyst at logistics investment consultancy Jefferies.

"Slow steaming is seen as more likely than accelerated scrapping to improve fuel efficiency. Ongoing unit cost reductions of 1%-2% are targeted, while there is limited room for M&A and cash returns for now."

The company has seen acceptance of its bunker surcharge mechanisms in 80%-90% of its contracts, accounting for around half of the Danish shipping giant's volumes.

Mr Kerstens said: "We estimated earlier bunker costs could increase by 15%-20% under IMO 2020. However, these prices are set to change, as demand for high-sulphur fuel oil is expected to fall by 65%, while demand for low-sulphur fuel oil could increase fivefold.

"Scrubbers cover around 30% of fuel consumption, while management expressed limited interest in [liquefied natural gas]; instead it would be looking at alternatives to further reduce carbon footprint longer-term."

The high acceptance level among customers for the adjusted surcharge comes after a rough reception from one customer lobby group when Maersk made the announcement in September last year. The Global Shippers Forum reacted with "suspicion" at the time, arguing that the surcharge "lacks transparency; no data is available to let customers work out how the charge has been calculated".

Meanwhile, Maersk has invested to reduce the impact of higher fuel bills by signing an agreement to produce IMO 2020-compliant bunker fuel. The venture, between Maersk Oil Trading and Koole Terminals in Rotterdam, will see an annual production expected to cover 5%-10% of Maersk's annual fuel demand.

MARKETS

D'Amico says tanker demand hit by Middle East tensions

THE Italian product tankers owner d'Amico International Shipping says the tensions in the Middle East have knocked demand.

"The recent incidents and seizures of ships in the Middle East are having a major effect on the market in that region, with inquiries and demand severely reduced," the company said in a statement.

But product tanker demand is expected to accelerate in the second half of 2019, d'Amico says, driven by a surge in refining volumes and bunker inventory building ahead of the International Maritime Organization's low-sulphur rules.

Asian product imports are expected to exceed 9m barrels per day this year, according to d'Amico, with Southeast Asian countries such as Thailand and Malaysia especially seeing imports grow. Singapore too is experiencing higher imports as it is a key hub for processing and trading, says d'Amico.

The strength should continue into 2020, when demand growth for product tankers is expected to accelerate further, in part due to IMO 2020, but also as a result of an expansion in US shipments to Asia and Latin America, according to d'Amico.

Period rates and asset values have been rising "gradually", the company statement adds.

D'Amico reported a net loss of $18.8m in the second quarter versus a loss of $16.6m in the year-earlier period.

Malaysia's LNG bunkering facilities ready by first quarter of 2020

MALAYSIA'S Petronas will be ready to provide commercial liquefied natural gas bunkering services in Malaysia by January 1, 2020 and will set up facilities at Pengerang in Johor on the southeast over the border with Singapore and Sungai Udang in Melaka, which adjoins the key Malacca Strait.

The national oil company is pushing the use of LNG as a bunkering fuel in support of Malaysia's ambition to become a bunkering hub and will capitalise on its position as one of the world's top suppliers of the super-chilled gas, according to local media.

"In capitalising this advantage, we have embarked on an initiative to propel Malaysia as an LNG bunkering hub focusing among others, setting up the necessary infrastructures in Pengerang, Johor and Sungai Udang, Melaka," said vice-president for LNG marketing and trading Ahmad Adly Alias.

Mr Ahmad Adly said Petronas is in the midst of upgrading its regasification terminal in Sungai Udang to enable the facility to perform LNG reloads by the first quarter of 2020, thus establishing its second LNG bunkering hub.

The first LNG reloading operation for bunkering purposes in Malaysia at Pengerang was completed in 2018.

IN OTHER NEWS

UK maritime sector pledges 2050 carbon neutrality

THE UK maritime sector has thrown its support behind the government's plan to achieve net zero emissions by 2050 and called for greater investment in decarbonisation technologies.

In a letter to the UK government, the country's largest maritime bodies, including the promotional body for the UK maritime sector Maritime UK, International Chamber of Shipping and Nautilus International, and companies such as Carnival UK applaud the government for its initiative to rid the country of greenhouse gas emissions.

Written by Maritime UK chairman Harry Theochari on behalf of the signatories, the parties say they are committed to tackling the impact of climate change, pollution and other harmful activities on oceans and to delivering sustainable economic value to the communities they serve to improve society.

Abandoned seafarers to get unpaid wages after three-year ordeal

THE last of the four seafarers of an abandoned vessel are expecting repayment of most of their outstanding wages.

The 10,500 dwt, United Aran Emirates-flagged *Tamim Aldar* barge was abandoned by its then owner, UAE-based Elite Way Marine Services, in 2016.

The four seafarers, two from India and two Eritrea, left the vessel and were able to come to Dubai in early August after arrangements between authorities and the owner, but have not been paid for the past 29 months.

UK naval presence is making Gulf safe for shipping, says commander

BRITAIN'S deployment of military assets to the Strait of Hormuz was expressly designed to stabilise merchant shipping in the region, according to a senior Royal Navy officer.

The comments from Vice-Admiral Jerry Kyd come after UK-flagged tanker *Stena Impero* was detained by Iran in July, two weeks after British Royal Marines abseiled on to the deck an Iranian tanker off Gibraltar.

The Royal Navy has said around 90 British merchant ships, carrying more than 6m tonnes of cargo, have had been escorted through the Strait over the past two months.

Australia cracks down on shipping's 'slave labour' issue

AUSTRALIA has banned two Chinese-owned bulkers in connection with Maritime Labour Convention breaches.

Moving quickly after a spate of cases in recent days, the Australian Maritime Safety Authority banned the Panama-flagged *Fortune Genius* and Hong Kong-flagged *Xing Jing Hai* for a period of 12 months and 18 months, respectively, for failing to pay crew their wages in full and on time.

"Failure to pay crew their wages in full and on time is a reprehensible breach of the MLC and one that AMSA will not tolerate," AMSA general manager of operations Allan Schwartz said.

Port of Brunswick reopens after cargo carrier incident

THE port of Brunswick in the state of Georgia has reopened to vessel traffic after the successful experimental transit of two ships yesterday, enabling investigators to see the effect their passage might have on the car carrier *Golden Ray* which capsized near the main shipping channel on Sunday.

Georgia governor Brian Kemp took the opportunity to proclaim the reopening of the port during his annual "State of the Port" address before several thousand listeners at the Convention Center in Savannah, Georgia, on Friday afternoon.

"We're back open for business," Mr Kemp told the audience after thanking the US Coast Guard, Georgia Department of Natural Resources and the Georgia Ports Authority for their assistance and resources following the accident.

CMA CGM appoints Olivier Casanova as deputy financial chief

CMA CGM has named Olivier Casanova as its new deputy chief financial officer, having slid into the red in the second quarter, dragged down by the integration of its logistics business.

Mr Casanova, whose career spans across almost 30 years as an investment banker and senior financial executive for various businesses, was at the same time also appointed as the chief financial officer for CEVA, the logistics company that the French line acquired earlier this year for about $1.6bn.

He will be serving with CEVA's chief executive officer Nicolas Sartini who moved over from APL in April 2019 as part of a management reshuffle at the Swiss logistics provider.

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