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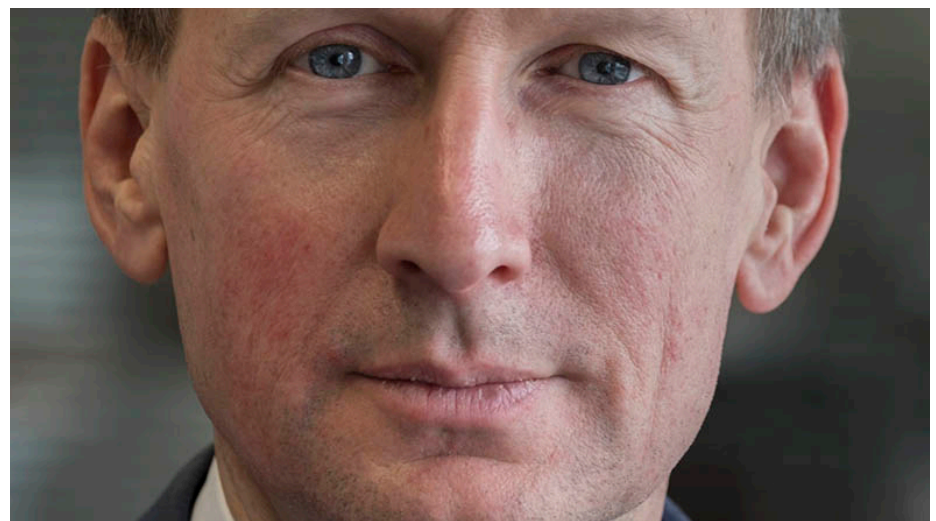
New European Commission must enable decarbonisation, but sustain shipping's competitiveness



THE INCOMING EUROPEAN Commission is expected to offer robust support to shipping's decarbonisation agenda, but of equal importance will be the need to sustain the competitiveness of the European maritime sector against strong international competition.

Speaking to Lloyd's List in advance of the new commission which takes office on November 1 for a five-year term, European Community Shipowners' Associations secretary-general Martin Dorsman said that while the well-trailed environmental priorities of the new commission are to be welcomed and likely necessary, Ecsa's overarching goal remains unchanged — keep European shipping competitive.

"Competition from outside Europe is a huge challenge. Our issue is how to make sure that in 10 years' time that European shipping is still strong," he said.

Ship finance is a key part of the equation for Mr Dorsman. China's ascent in this area, just as European lenders seek to diminish their exposure to the sector, and the potential of new banking regulations in Europe are stoking Ecsa's concerns about the trajectory of European shipping.

"We are very much afraid that if ship finance moves out of Europe then the shipping cluster will move out altogether," he said.

But Europe also has to do better in developing its seafaring credentials, a chronic sore point. Making the profession more attractive will have

to be an important item for the new commission, said Mr Dorsman.

Ecsa hopes to publish a maritime growth plan during the next few days that contains many potential ways to increase the attractiveness of European seafarers and attract more youth and women to the shipping industry.

While the overall competitiveness of the sector remains foremost in Ecsa's agenda, the forthcoming commission's environmental priorities are widely anticipated to be positive for European shipping as it seeks financial and regulatory support to innovate in alternative fuels and zero carbon shipping technology.

When Rovana Plumb, the European commissioner-designate for transport, was given her brief by commission president Ursula Von der Leyen, she gave her a clear instruction to "focus on increasing the uptake of sustainable and alternative transport fuels for road, maritime and air transport".

Mr Dorsman is optimistic this can be taken as a strong indication of coming regulatory support to help decarbonising shipping, and Ecsa will be exploring how the new commission could offer financial assistance for research & development and support stakeholders to experiment with new kinds of vessels.

Energy taxation rules under the microscope

The new commission also comes in as the Energy Taxation Directive faces scrutiny and criticism of being outdated. A 2003 directive, the ETD, lays out rules for members state taxing fuels for transport, electricity and heating.

The commission recently published an evaluation laying out how the ETD in its current form is undermining the EU's energy and climate goals. The evaluation does not make policy recommendations but could effectively act as a springboard for the revision of the ETD.

Ecsa welcomed the report arguing that it is due time for a revision, warning that taxation should be used to enable transport's decarbonisation through the uptake of alternative fuels and to remove disparities in energy taxation.

"Taxation has a major impact on the price competitiveness of alternative fuels and therefore a technology neutral approach should be adopted to create a level playing field. Disparities in energy taxation for shoreside supply for ships and energy used to generate alternative fuels should be addressed," Mr Dorsman said in a statement.

The Ecsa chief told Lloyd's List that today it is very expensive to supply huge amounts of electricity to vessels in Europe and shipowners are effectively being taxed when using onshore power supply.

Ecsa made a special point to call for the retention of the tax-free bunkers and luboils, under the current ETD, reflecting the global status quo.

The commission's report echoed that plea.

"Any taxation regime for marine fuels, if not established at the international level, would likely be circumvented by a shift of bunkering operations to countries with no or lower fuel taxes," the report noted.

But with a new greener commission whose mandate is global leadership in climate policy, it remains to be seen if future policies will toe the line or if bunkers will be hit a tax.

The IMO has to agree to a short-term greenhouse gas measure in 2019

Another point of contention that is poised to re-emerge in Europe and extend beyond the continent during the next few years is the emissions trading system. The European Parliament agreed in December 2017 to temporarily exclude shipping from the system but to reconsider it in 2023.

A new parliament and now a new commission could usher in rapid changes. Ms Von der Leyen has signalled that shipping does indeed have a place in the EU ETS.

"You will lead work on extending the Emissions Trading System to the maritime sector and reducing free allowances for airlines," Ms Von der Leyen wrote to Ms Plumb.

Ecsa and other industry bodies had been vocally opposed to the inclusion of shipping in the EU ETS maintaining that regulation of such implications should fall solely within the purview of the International Maritime Organization.

Mr Dorsman did stress once again that the IMO is maritime's global regulator and should remain that way.

He acknowledged, however, that for it to remain that way decisions need to come quick. Despite agreeing

on an historic greenhouse gas emissions reduction strategy, the IMO has yet to agree on even a short-term measure to help curb emissions.

The IMO intersessional group on GHG emissions, a preparatory body whose conclusions are not firm decisions but rather agreements that have to be officialised by separate committees, is meeting in mid-November in London.

Mr Dorsman was unequivocal that this upcoming IMO intersessional meeting must agree on a short-term GHG-slashing measure.

As the IMO searches for short term solutions, however, the Ecsa chief urged holistic thinking from global regulators that does not lose scope of the longer-term impact; avoiding measures that have adverse effects later on.

One prominent and controversial proposal to the IMO is the introduction of speed limits. Mr Dorsman was clear that Ecsa does not support mandatory speed limits, questioning how it could be enforced.

It is up to shipowners to decide how they will attain efficiency targets and one of those could be through speed reduction, he argued. But that should be a choice, not mandatory.

"If the shipowners are already invested in more efficient ships should they still be bound by speed restrictions?" he questioned.

Opponents of mandatory speed restrictions have argued that it will stifle innovation by encouraging older inefficient tonnage to keep trading.

Looking further ahead, many in the industry believe a tax on the use of carbon-based bunkers will be unavoidable if ships are to use the more expensive alternative fuels.

Mr Dorsman said that Ecsa does not have an official position on carbon pricing yet, noting that the focus is still on short-term measures.

"If there needs to be a market-based measure to speed up developments, then we have to discuss what is the best measure," he said.

But that decision would also depend on the emissions data, provided by the IMO's data collection system that is currently amassing information from the global fleet.

WHAT TO WATCH

Maritime subsidies failing to achieve goals

MARITIME subsidies are costing more than $3bn a year and often not achieving their desired results, according to a new report from the International Transport Federation.

"At least €3bn ($3.3bn) per year is spent on just three maritime subsidies in Organisation of Economic Co-operation and Development countries: tonnage taxes, tax exemptions for fuels for domestic shipping, and fiscal measures to reduce wage costs of seafarers," the report says.

Tonnage tax is one of the main maritime subsidies and is considered as such since the shipping-specific tax, based on the tonnage of a vessel, replaces regular corporate income tax, resulting in a more favourable tax treatment.

The average spending on tonnage taxes in OECD countries has been an estimated €1bn per year since 2000.

"The scope of these maritime subsidies has been extended in recent decades," the report says. "Subsidy conditions have become more generous and the range of activities covered has been enlarged."

Exemption from taxation of ship fuels is a second important maritime subsidy, representing around €1bn in 2016 for domestic shipping alone in OECD countries.

But the report warns that the nature of subsidies has been defensive, rather than strategic.

"They have grown in reaction to two developments: open shipping registries in developing countries and subsidies in other developed countries," the report says. "Thus, maritime subsidy schemes often include the notion of tonnage taxes as a way to level the playing field for the shipping industry of developed countries in competition with flags of convenience."

But impact studies have found little evidence that subsidies have been effective in achieving their stated aims.

"Local flags and seafarer employment within the EU have in fact declined," the report says. "Shortsea shipping connections in the EU are still fairly limited. However, maritime subsidies might have increased the liquidity of shipping companies, allowing some of them to renew or expand their fleets. This has contributed to increased overcapacity, and ships have been predominantly ordered in Asian shipyards."

The resulting cargo peaks, increased ship sizes and subsequent consolidation of container shipping lines have had mixed impacts on ports and shore-based employment, the report says.

Moreover, the evidence suggests there is little benefit for the broader economy in retaining nationally flagged vessels.

But the report argues that subsidies could be redesigned to aligned them more efficiently with wider public policy goals, including the decarbonisation of transport and the reduction of congestion.

"More focus is required on reaching wider international agreement on common rules to wind back harmful tax and subsidy competition," the report says. "It also requires shifting the focus to subsidies that are explicitly tied to the achievement of more tangible policy goals and subjected to rigorous verification."

The report recommends clarifying the objectives of maritime subsidies so they target "clear and precise goals".

"Certain strategic goals could be achieved more efficiently with more targeted instruments, rather than generic instruments such as a tonnage tax," the report says.

It points out that in many cases subsidies contradict other policy goals. For example, the EU Energy Tax Directive states that maritime fuels are exempted from taxation.

"This does not align well with EU policy on decarbonising transport and should be reconsidered," it says.

The report also calls for more conditions to be applied to subsidies. The UK's tonnage tax scheme has a training requirement, for example, and Norway and Portugal favour cleaner ships.

"If they are retained, general maritime subsidies like tonnage taxes should be linked clearly to the achievement of identified policy goals," the report says. "This could take the form of a stricter link between the subsidies and flying a EU/European Economic Area flag and using local seafarers, particularly when the ship is operating mainly in European waters.

IUMI looks for 'more positivity' as marine premiums grow 1%

MARINE underwriting premiums grew about 1% to $28.9bn in 2018, representing a single percentage point rise compared with the previous year, but probably not enough to offset increased technical losses, the International Union of Marine Insurance conference in Toronto heard on Monday.

Even with the 2% growth for 2017 factored in, the direction of travel has yet to make up for the 9% drop in 2016 and the 10.5% fall in 2015, leaving the headline tally far below the $33.4bn recorded five years ago.

Continuing growth in world trade drove cargo premiums up by 2.5%, although a fluctuating oil price ramped up the pressure on premiums in the offshore energy niche, which fell by 3% during the year.

IUMI officially described any overall improvement as modest considering the significant challenges facing the market, adding that it is still too early to herald an upturn in the sector.

However, anecdotal and even some research evidence suggests a hardening in key classes, such as hull and cargo in the first half of 2019, a trend which — if confirmed — would be too recent to be reflected in the 2018 statistics.

Philip Graham, chair of IUMI's facts and figures committee, said: "Since the 2018 IUMI conference, we have seen around 20 entities cease or severely restrict their hull or cargo underwriting activities.

"While the modest growth in 2018 global marine underwriting premiums recorded this year is, of

course, welcome, it does not demonstrate any significant uplift to the current market and is more likely to have been driven by economic factors.

"That said, I am hopeful that 2019 will bring greater positivity. The hull and cargo markets appear to have bottomed out and we are beginning to see a modest uplift, albeit from a low base."

The trends were unveiled in a presentation by facts and figures committee vice-chair Astrid Seltmann.

High levels of technical losses continue to blight all sectors, particularly hull and cargo, and a normalisation of major losses after several relatively benign years is likely to offset the headline premium increase, said Ms Seltmann.

"Premiums had already plummeted to truly unsustainable levels in 2017 and so any increase begins from a very low base. Only when the 2019 statistics become available will we understand to what degree marine underwriting may have returned to profitability."

A particular concern is the increase in frequency of fires on containerships, with *Maersk Honam* likely to prove the most expensive general average incident in history.

The $28.9bn global income was split between these geographic regions: Europe 46.4%, Asia/Pacific 30.7%, Latin America 10.4%, North America 6.2% and other 6.3%.

In 2018, Europe's global share of premium income reduced from 49.2% the previous year to 46.4%, while Asia's share increase from 29.2% to 30.7%.

For global marine premium by line of business, cargo continued to represent the largest share with 57.4% in 2018, hull 24.4%, offshore energy 11.4% and marine liability excluding International Group P&I clubs 6.7%.

Premium income for marine cargo insurance was reported at $16.6bn for 2018, a 2.5% increase year on year. Exchange rate fluctuations — which tend to affect cargo premiums more strongly than other sectors — proved a positive.

Covered risks increasingly represent stock rather than transit exposure, while accumulation risks continue to grow.

The risk of large event losses, both natural catastrophe and man-made, is substantially increasing, both on single sites and single assets.

Technical loss ratios are relatively stable at around 70% in Europe. Asia is still a developing account and loss ratios are beginning to rise in that region, now approaching 60%.

Global underwriting premiums for the hull sector again came in at $7bn, which is no change from 2017. Zero premium growth is seen as a concern in the context of a growing global fleet and the higher single risk exposure resulting from the trend towards larger vessels.

More positively, claims frequency and cost per vessel is stable at a moderate level, and the long-term trend for total losses has also stabilised, with fluctuation below 0.1%.

However, the incidence of major losses appears to have come to the forefront again in 2019 after unusually low numbers during 2016-2018. This is likely to impact on the 2018 and 2019 underwriting years.

Attritional losses are accounting for an increasing share of the total claims' costs, leaving no buffer to cover the major losses.

Global premiums for the offshore energy sector were reported at $3.4bn in 2018, some 3% down from 2017. The 2017 figure was itself a 5% reduction from 2016, and the 2016 number was a 21% reduction from 2015.

Most of the business in this sector is transacted in US dollars and so exchange rate fluctuations have little impact.

The drop in premium income has followed the slide in the price of oil, which currently appears to be flattening out.

There is optimism that the prolonged downturn in activity has begun to reverse, albeit slowly, as the sector rebalances itself to operate within a lower oil price environment.

Historically, there is an 18-month lag between improved oil prices and authorisation for downstream expenditure, so any reactivation is likely to mean more claims.

World trade growth will support rate rises in hull and cargo, IUMI is told

WORLD trade will continue to grow in 2019, which should support tentative rate rises in both hull and cargo sectors, the International Union of Marine Insurance conference has been told.

Philip Graham, head of marine at Chaucer, offered his analysis while introducing the facts and figures committee workshop on Monday.

Hardening has been assisted by some 31 entities leaving marine classes in whole or substantial part since 2017, and 21 departures since IUMI last met in Cape Town a year ago.

“Rates have gone up, not everywhere in the world, but they have. Particularly in cargo, particularly in hull,” he confirmed.

As a result, marine premiums worldwide rose by 1% last year.

Even so, the outlook for world trade remains volatile, he went on.

“A three-line tweet now can change all of the business plans you have put in place for five or ten years,” he said.

The strikes on Saudi oil infrastructure during the weekend will continue to make markets nervous, with political risk premiums clearly returning to the oil insurance market.

But despite speaking on a day on which oil prices saw their biggest-ever intra-day jump, hitting $71/barrel, his expectation is for stability, on account of continued weakness on the demand side.

Meanwhile, government 10-year bond yields are at a three-decade low, which is bad news for insurance more broadly.

World trade grew by 3.2% last year and is predicted to grow by 2.7% in 2019. Trade in the US grew 2.3% and in the eurozone by 1%.

Meanwhile, the average age of the world fleet is 21.2 years, which means it is getting older.

It also grew by 2% last year, which represents a deceleration in the growth rate. The order book as of August 1 stood at 3,987 vessels by number and 78.8m aggregate gross tonnage.

Chinese yards remain dominant if the tally is judged on vessel numbers, South Korean shipbuilders if judged on aggregate gross tonnage and Europe leads based on value, thanks to its expertise in building cruiseships.

However, China is making big strides in cruiseship construction and may be eating into Europe’s market share before too long.

OPINION

FONAR: The expensive tool shipowners should avoid

“THERE is a reason why at least half of the first page in the FONAR template is dedicated to explaining that this is not a get out of jail free card,” *says maritime technology & regulation manager at BIMCO Christian Bækmark Schiolborg.*

“The FONAR should be looked at as the last resort if you are in a bad situation. My advice to shipowners is do not plan on using it,” he says.

If a ship, against all efforts, ends up in a situation where the only solution is to bunker non-compliant fuel, the ship is as the outset non-compliant in accordance with regulation 18.2 of Marpol Annex VI.

In this situation, the FONAR is a record of actions that ought to be taken by the ship in the attempt to bunker compliant fuel oil and to provide evidence of attempts to purchase compliant fuel oil in accordance with the vessel’s voyage plan. It therefore serves to provide mitigating circumstances when the port state authority decides on appropriate control actions.

A ship could be non-compliant — burning fuel with a sulphur content above 0.5% (and from 1 March 2020, even carrying it without a scrubber) — if it found that only high-sulphur fuel was available at the port of departure.

Having filled out the FONAR, there is no guarantee that the authorities at the port of arrival will be lenient towards a non-compliant ship. According to regulation 18.10.2 of Marpol Annex VI, they are required to ensure that appropriate actions are taken to bring the non-compliant fuel into compliance.

"There is no certainty when it comes to the FONAR. It is just a template, giving you an indication of what you need to fill out and what information you need to pass on to authorities, showing that you did all you could to be compliant, but in vain," says Mr Schiolborg.

The FONAR should be sent in advance to the authorities of the port state at which the ship will arrive, with the ship's flag state authority copied in, as well as the P&I club and classification society, so that all parties are informed of the situation in advance.

"But the FONAR will not get you out of the situation. It is not enough just to fill it out. You actually need to be able to provide evidence that you have tried to reach out to other bunker suppliers in the port of departure, and that you also looked at the possibility of taking on board a different type of fuel than that you had planned, exploring alternatives that may not be ideal, just to be in compliance," says Mr Schiolborg.

The high cost of debunkering

Mr Schiolborg warns that even when a ship has completed the FONAR paperwork, gathered all the evidence to show it has done what it could to be compliant, and notified all parties well in advance the ship will arrive non-compliant at a port because of circumstances beyond its control, the bill could be massive. Especially for smaller players.

In the end, it is up to the port state, the flag state and the shipowner to work together to find a solution at arrival, and when the FONAR is used it will be resolved on a case-by-case basis. It will be a question of whether the shipowner has really done everything in their power to try to obtain compliant fuel. And whether they can prove it.

The reason that the bill could still be huge — and in some cases exceed any possible fine that will be the result of arriving non-compliant — is that the ship will likely have tonnes of non-compliant fuel oil on board and may be required to get rid of it before departure.

"The cost of debunkering may be very high and could be a lot higher than a fine. Being detained and asked to debunker the non-compliant fuel could have a severe impact," says Mr Schiolborg.

He adds: "Sulphur is also in the sediments and therefore the fuel tanks could need to be cleaned. It is a huge operation that could take days. If you are off hire, you are not earning money. In addition, the fuel that you debunk may suddenly not be regarded as fuel, and you may not get market value for it. It may be debunkered as waste oil and need to go to a shoreside reception facility. We are talking tonnes here, and that means very large sums of money to absorb."

There have been a few cases where the size of fines issued by authorities in cases of non-compliance are publicly known. The highest such recorded fines were in Europe, in Emission Control Areas, and have been in the range of €50,000 to €100,000.

According to Mr Schiolborg, any shipowner can find him or herself in the unwanted situation of not being compliant, despite all good intentions. In that case, the advice is clear.

"Get statements, get proof and submit it to all entities: the port state; the flag state; classification society; and P&I club. And do it in a timely manner, even before you leave the port. That will likely put you in a better position and it allows the authorities time to discuss the situation and not take rushed decisions," he says.

"If you are not prepared in advance, and using a FONAR without evidence, you will find yourself in a very bad situation."

ANALYSIS

Driving digital change

SHIPPING's interest in digitalisation often focuses on the technology, the hardware and software, that is behind transformation, rather than the transformation of the business itself.

But in doing so, it misses the real benefit of digitalisation, which is making permanent changes to the way business is done, according to Hapag-Lloyd managing director for digital business Ralf Belusa.

It is soft skills, rather than software that is more important, he says.

"Trust is very important in digital transformation," Dr Belusa said at a recent conference in Hamburg. "It is also important to be listening and learning."

Digital transformation takes place in the corners of an organisation, he said.

"It is not the centre of the universe and it is not just IT; it has to involve sales, marketing, IT and customer service. It is not a separate product."

Digitalisation can often be seen as the innovators doing something new while the rest of the staff have to focus on the "boring" shipping business, and there is often a perception that those doing the innovation are having all the fun, while everyone else does the hard work.

"That makes it harder to do the integration of new services into the core business," said Dr Belusa. "The perception is that the changes do not take into account the fundamental processes of the business."

That is why starting at the core business of the organisation and building the transformation from there is important.

"The first pillar of innovation is to innovate the core business," said Dr Belusa. "A lot of businesses have jumped into joining with start-ups and bringing in disruptive technologies, but have they made any changes to their core business?"

These innovations to the core business need to be incremental, however.

"You need to have three elements in changing a business," he said. "You have to do the digital ledger technologies, like blockchain and so on. You must do the incremental uplift of your business. And you have to improve your core processes to make them more adaptable and more scalable."

That means having to care about the old as well as the new.

But data, combined with a "build, measure, learn" development model, can drive the business forward.

"When I started two years ago, one of my first questions was: do you know how long a customer will take to place a booking? The answer was: not really," he said.

"But if you go into the data, you see, for example, that one kind of customer takes seven minutes and another customer takes 40 minutes. Do you know why this customer takes 40 minutes?

"If 1,000 people are registering interest in your business but only 700 go on to do business with you, what is happening to that other 30%? Do you work on that? This can be an exponential growth machine so that is why it is so important to have the data always in place to push to the next level."

Having the right teams in place is also critical to successful development.

"When building a team, 80% should come from shipping and logistics and only 20% from external sources, from start-ups or from data scientists," said Dr Belusa.

"Some companies start to hire external software developers that do the work. And then you have hundreds of digital experts, but they have no experience of shipping or logistics."

At Hapag-Lloyd, having 30% of the team coming from external sources means that projects are part of the organisation from the start.

"As we are now growing from 100 employees in the digital space to thousands, it feels like everybody is Hapag-Lloyd and we drive the business forward as Hapag-Lloyd," he added.

Hapag-Lloyd puts customer service at the centre of the Strategy 2023 programme that it launched last year, and this has been applied also to its digital transformation.

"That is why I started out listening to our customers," said Dr Belusa. "Have we heard what they want and what they need?"

Collaboration with other departments across the organisation is another vital feature.

"You should leverage the organisation, which is why we have our growth clusters, which have lifted up the organisation very fast," he said.

"We have to ask how we prepare people for jobs that currently do not even exist, for the use of technologies that are yet to be developed, to solve problems and grow business of which we cannot possibly have any knowledge today."

MARKETS

Tanker boost from IMO 2020 undone by fleet growth, says BIMCO

THE expected boost to tanker demand from the International Maritime Organization's low-sulphur rules may be mitigated by strong fleet growth this year, according to shipping association BIMCO.

Chief shipping analyst Peter Sand said that fleet growth was particularly high in the crude tanker segment, with full-year estimates at 5.3%, the highest in two years. That is because of increased deliveries and lower than expected demolitions.

So far this year, only 2.1m dwt of crude tankers have been removed from the fleet, leading BIMCO to revise down its full-year demolitions figure to 4m dwt from a previous estimate of 9m dwt.

New contracting has also picked up, with orders totalling about 13.1m dwt, comprising at least six very large crude carriers and 30 aframaxes.

"The already oversupplied market has no need for extra ships, and further ordering will only worsen future market conditions," said Mr Sand.

In the product tanker segment, demolitions slowed as owners preferred to hold on to tonnage to benefit from higher demand ahead of IMO 2020, he said, adding that fleet growth is expected to be 4.4% this year.

"Even with a demand boost to the oil product tanker shipping sector expected to come, this high fleet growth will put pressure on earnings," said Mr Sand.

So far this year, deliveries amounted to 6.4m dwt versus demolitions of just 600,000 dwt.

Contracting in this segment has however slowed, with the orderbook at 11.9m dwt, or 16% lower than in August 2018, Mr Sand said, and added that this was a positive trend that should continue to enable a return to a more balanced market. Most recent orders included nine medium-range tankers.

Separately, the recent attacks on Saudi Arabian oil-processing facilities is expected to boost tanker demand, as refiners in Asia seek alternative crude sources from the Atlantic basin, according to a note from Braemar ACM, which added that gasoil exports from the Far East to Europe will likely increase to replace volumes normally seen from the Middle East.

Saudi Arabia had narrowly overtaken Russia as the largest supplier of crude oil to China in the first six months of the year, with 37.8m tonnes, which was seen as good news for the seaborne market as most of the volume from Russia was sent by pipeline, according to BIMCO.

A resolution in trade disputes with the US would be even better for shipping because of higher tonne-mile demand, it said.

Simpson Spence Young noted that the US was increasing its oil exports, likely rising to 4m barrels per day from an average of 2.5m bpd in January, to the benefit of aframaxes and suezmaxes for Europe-bound shipments.

Asian demand for North Sea and Baltic Urals crude was also rising, while Brazil's output was also expected to grow, it said, putting pressure on tonnage availability at times, and injecting volatility into the markets, the brokerage said in a monthly report.

Tanker markets await word about time for repairs to Abqaiq

TANKER markets remain highly uncertain while awaiting word from Saudi Arabia about the extent of damage to its key oil facility at Abqaiq and, most importantly, the amount of time that will be needed to repair the damage.

"The oil tanker industry was just thrown a major curveball — which should see an initial loss of demand for roughly 2.5 very large crude carriers per day," Greg Lewis, managing director of shipping and energy at investment bank BTIG, said in a note on Monday.

"The partial loss of Saudi production should drive major disruptions throughout the tanker industry," said Mr Lewis.

While tanker owners ponder the time frame needed to repair the Saudi facility, they will also want to consider just where additional supplies of oil may come from in the event of a prolonged Saudi outage and who among them has the vessels available to meet the need.

Abqaiq is not an ordinary facility. To the contrary, it is one of the most extraordinary facilities in the entire energy system of Saudi Arabia. It serves, essentially, as a central pumping station for some 6m barrels per day of Saudi Arabia's 10m barrel per day output.

Of all the damage inflicted on the facility, Abqaiq's stabilisation towers, which separate gaseous compounds from crude oil, could take the longest to repair, according to Phillip Cornell, a former senior corporate planning adviser to Aramco.

"They can take weeks or months to get specialised parts," he said at an event hosted by the Atlantic Council in Washington DC.

Pundits advise that Saudi Arabia has plenty of oil in reserve, some 26m barrels, enabling it to make up for any shortfall in production.

Attention is drawn to storage facilities at Ras Tanura, the country's main export terminal, as well as others in Egypt, Rotterdam and Okinawa.
While such facilities may ease a short-term supply gap, they are not geared for any long-term shortfalls — certainly not the 5m barrels per day or more that could be lost during the time that it takes to determine and repair the damage to Abqaiq.

As the reserves in those far-flung storage facilities draw down, they will need to be replenished. But if Abqaiq is offline, then that replenishment will not take place — at least not from Saudi supplies. After all, it is pipelines running east and west from Abqaiq that feed the country's export terminals at Yanbu on the Red Sea and Ras Tanura on the Middle East Gulf.

ING put it well: "The Saudis have said that they will use inventories to meet exports. If we see a disruption of only several days, then the market should be able to absorb these losses fairly easily. However, if outages start to run into weeks, this would leave the market increasingly tight."

Tight is putting it mildly.
ING observed that between Russia, UAE, Kuwait and Iraq, somewhere in the region of 800m-900m bpd of production could come online, which is significantly less than the outage in Saudi. That represents a shortfall of more than 4m barrels per day.

"The world is not even close to being able to replace more than 5m bpd of Saudi Arabian exports. The market's reaction to Saudi Arabia's importance, in the new era of US shale, will now be put to the test," according to Bjornar Tonhaugen, head of oil market research at Rystad Energy.

Indeed, the longer the processing facility remains disrupted, the larger the potential impact on actual crude flows will be and the greater the test.

"In a scenario where the damages result in a longer duration of the 5.7m bpd production shut-in, say for 10 days or more, the situation for Saudi Arabian crude flows to the market will be critical, in our view, as there are limits globally to the volume of export replacement barrels," said Mr Tonhaugen.

Meanwhile, as the world awaits word from Saudi Arabia on the repairs needed at Abqaiq, Lloyd's List Intelligence shows that more than 20 oil tankers are in the vicinity and stand ready to load crude from the country's main export terminal at Ras Tanura.

They may have a long wait.

Low LNG prices to stay until 2021, says study

WEAK liquefied natural gas prices are here to stay for at least the next 18 months as growth in supply continues to outstrip demand.

The Oxford Institute for Energy Studies flagged this prospect in its September report, citing continuing expansion in export capacity until the end of 2020 and into 2021.

The report noted that spot prices in northeast Asia have more than halved from last October to this May, wiping out any price premium the Far East region has long held over Europe.

Asian spot prices, however, have inched up from "mid-$4 in July". On Monday, Platts assessed the JKM contract for front-month loading in November at $6.183 per million British thermal unit, up from $5.925 per mmBtu, a sign of heightening tension from attacks on Saudi Arabia's key crude processing plants spilling over to the LNG market.

Still, LNG price weakness is expected to persist in the next 18 months in the absence of any demand-side shocks, OIE pointed out in the report released just after news of the attacks in Saudi Arabia broke.

Mike Fulwood, one author of the OIE report, noted that from this July to next December, some 58m tonnes per annum of LNG export capacity will be coming onstream in the US, Russia, Malaysia and Indonesia.

Additionally, existing plants including Shell's Prelude floating liquefied natural gas plant, Argentina's first FLNG and Novatek's Vysotsk LNG in Russia, are expected to ramp up production.

On the other hand, import growth in Asia — the key LNG importing region — has stalled or even declined in some countries.

China's LNG imports grew just under 20% year on year between last October and this March, down from almost 50% seen in the first nine months of 2018.

India's imports contracted between last October and this March after posting strong growth during the first three quarters of 2018.

Japan, South Korea and Taiwan have also cut back imports during the October 2018 to March 2019 period.

The LNG market is however, expected to start rebalancing from 2022, with not much supply coming online until 2024.

Mr Fulwood suggested that LNG prices may firm during 2022-24, also supported by demand expansion in Asia. Southeast Asian countries including the Philippines, Vietnam, Indonesia, Malaysia, Singapore and Thailand, will lead the wave, accounting for 30bn cu m of the projected increase of 100bn cu m in demand for 2022-26.

Backed by especially strong demand in Pakistan, the Indian subcontinent will boost its imports by 23b cu m.

China's demand growth is likely to slow to only 23bn cu m.

But Mr Fulwood warned of another supply glut surfacing in the LNG market from 2025.

Four new export projects with 63m tonnes per annum of capacity have already been sanctioned, with many more lining up to take final investment decisions in the next 12 to 18 months.

Another supply glut may be in the offing, with a surge in LNG export capacity potentially exceeding demand growth during 2025-26, he added.

IN OTHER NEWS

MPC Capital and Zeaborn combine boxship chartering outfits

GERMANY-based shipowners MPC Capital and Zeaborn have agreed to merge their shipbroking outfits to create a consolidated commercial manager that starts off with a containership fleet of more than 160 vessels.

The merged operation will remain in Hamburg under the name of Harper Petersen, the long-established shipbroker that was last year sold by the E.R. Group to Bremen-based Zeaborn. MPC Capital is adding the business of Contchart, its commercial chartering manager.

The platform will be one of the world's largest for containership chartering, with a fleet of about

500,000 teu comprising vessels ranging from 700 teu to 8,500 teu.

According to an announcement by the two companies, the fleet will include more than 20 boxships that are being equipped with exhaust gas cleaning systems.

Singapore bunker prices spike over Saudi supply jitters

SINGAPORE'S bunker prices and futures spiked sharply on concerns about supply disruptions spilling over from outages at Saudi Arabia's two key crude processing facilities.

Citing broker sources, pricing agency, Platts noted that the October/November 380 cSt 3.5% sulphur fuel oil swap spread was trading at around $71 per tonne by mid-morning on Monday, up from $60 per tonne at 4.30pm or trading close in Asia on Friday.

Argus assessment for 380 cSt high-sulphur fuel oil also rose 12% or $56.30 to settle at $520 per tonne for trades completed on Friday, the highest since this January.

Brent futures soared almost 20% when trading first opened after news broke about the supply outage at Saudi Arabia's main Abqaiq crude processing facility and the kingdom's second biggest oilfield, Khurais.

All in, some 5.7m barrels per day of output were lost because of the outage resulting from drone attacks on the two key crude assets pumping out the flagship Arab Light and Arab extra-light grades in Saudi Arabia.

Shanghai tops liner connectivity index

SHANGHAI and Singapore remain the best connected container ports in the world, despite a fall in the number of carriers providing services through Singapore.

The newly developed Port Liner Shipping Connectivity Index, developed by MDS Transmodal and UNCTAD, describes the relative container shipping connectivity of ports, using a baseline of Hong Kong in the third quarter of 2006, when Hong Kong was the world's best connected port.

Shanghai, with an index of 132 in third quarter of this year, has improved its connectivity in the past year. Meanwhile Singapore's has fallen slightly to 123 because of a decline in the number of services and lines serving the port, and despite an increase in the total deployed capacity and an increase in the vessel size.

Ningbo in China comes in a distant third behind Shanghai and Singapore, while Hong Kong now ranks only fifth in the index.

Hamburg Süd launches airline-style 'smart' box booking capability

CONTAINER line Hamburg Süd has launched a 'smart' application for booking containers online allowing users to view prices and book cargo within seconds, with lower, fixed prices the earlier the booking is made, up to four weeks prior to shipment.

The line said the 'Instant' digital application "makes booking containers much easier and faster. Customers will benefit from enhanced certainty in their planning, transparency and efficiency".

It added: "Within just a few seconds, 'Instant' users will be able to view fixed prices and book their cargo directly — all of it online. Bookings can be made up to four weeks prior to the planned shipment. The earlier the booking is made, the lower the total price for the customer — and subsequent price changes or additional fees will no longer apply.

"At the same time, Hamburg Süd will guarantee to customers booking cargo via 'Instant' that there will be sufficient space for it on the selected connection, thereby enhancing the predictability of their transportation chain."

Vessel operating costs shrink for seventh year in a row

SHIP operating costs have declined for a seventh year, according to global shipping accountant and consultant BDO.

Annual costs across the bulker, tanker and container sectors dropped by an average of 1.8% in 2018 compared with a fall of 1.3% in the previous year, according to the latest annual OpCost report.

Nearly all categories saw a drop in expenditure, apart from repairs and maintenance, which saw an overall increase, most notably in the chemical tankers and containers space, according to the report.

The annual OpCost report was formerly compiled by Moore Stephens before it merged with BDO late last year.

The largest overall decline, of 7.1%, was recorded for insurance, with ro-ros the only vessel category to see an increase, followed by stores, which fell 4.9%, mainly driven by a fall in lube oil prices, and crew costs, which declined by an overall 1.1%, led by aframax tankers.

Anglo-Eastern joins with Exmar in LNG shipmanagement venture

HONG KONG-based

Anglo-Eastern Univan Group and Exmar Ship Management have formed a liquefied natural gas shipmanagement joint venture, which will be based in Singapore.

AEX LNG Management brings together two of the leading names in shipmanagement and LNG shipmanagement, with more than 80 years of combined industry experience and will focus on the newbuilding supervision and vessel management of LNG carriers for third-party owners.

The joint venture will draw on Exmar's niche expertise in the LNG sector, while leveraging the systems, resources and global reach of Anglo-Eastern to provide specialist services for the growing LNG carrier market.

Services will include newbuilding planning and supervision, shipmanagement, crewing and training via Anglo-Eastern's network of strategically located maritime training centres and state-of-the-art simulators.

MPCC charters out two more scrubber-fitted feeders

OSLO-listed feedership owner MPC Containers has agreed to charter out two more of its scrubber-fitted vessels, lifting the total number of scrubber-linked charters to eight.

The company that controls 68 feederships has now chartered out all but two of its 10 vessels it will equip with scrubbers to comply with the 2020 sulphur cap by burning high-sulphur fuel oil.

It had announced in 2018 that it had already secured charters for its first six scrubber-fitted vessels.

The charters run for two to three years and include a saving sharing mechanism.

Falling Rhine water levels trigger freight surcharges

FALLING water levels are becoming an issue again on the Rhine, a major freight corridor linking Germany, Switzerland and France with Europe's premier container port of Rotterdam.

In its latest service update, Rhenus Logistics-owned barge specialist Contargo noted that water levels on the river are currently falling at three key gauges for traffic: Kaub, for terminals south of Koblenz, including Frankfurt; Duisburg-Ruhrort; and Emmerich. The forecast is for levels to fall further in the coming days.

Contargo today introduced a second-tier surcharge of between €45 ($49.60) and €60 ($66.16) per 20 ft container and 40 ft container transported to and from Rotterdam or Antwerp, as the Kaub gauge has fallen below the 131 cms mark at 126 cms. The water level is expected to continue to decline over the next couple of days, reaching 110 cms on September 20, which would trigger a third-tier surcharge of between €60 and €75.

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The Transport and Works Act 1992

The Transport and Works (Applications and Objections Procedure) (England and Wales) Rules 2006

The Morlais Demonstration Zone Order

NOTICE OF APPLICATION FOR AN ORDER

Menter Mon Cyf of Llangefni Town Hall, Llangefni, Anglesey, LL77 7LR is applying to the Welsh Government under section 6 of the Transport and Works Act 1992 for the above-mentioned Order under sections 3 and 5 of that Act.

The Order would authorise the construction and operation of tidal energy devices and associated infrastructure within an offshore demonstration zone known as the Morlais Demonstration Zone ("MDZ") which covers an area of 35 square kilometres of the Irish Sea to the west of Holy Island, Anglesey. The Order would also authorise export cables on the seabed within an export cable corridor covering an area of 4.75 square kilometres between the MDZ and a landfall site on the western coast of Holy Island known as Abraham's Bosom.
In addition to the offshore works, the Order would also authorise onshore works to provide a grid connection with the existing electricity network infrastructure between the cable landfall site and a site to the east of Holyhead adjacent to the A55 including a proposed electricity substation at Ty-Mawr, a switchgear building at Parc Cybi, a grid connection substation at the Orthios Eco-Park and underground export cables located between those facilities generally following the minor road network along South Stack Road, Porthdafarch Road and Mill Road and then parallel to the A55 and crossing under the A55 and the Bangor to Holyhead railway line to the substation at Orthios.

In connection with the onshore works, the Order seeks to confer powers for the compulsory acquisition and use of land for the purposes of those works and for ancillary purposes.

The application is to be made subject to an environmental impact assessment.
Any objections to, or other representations about, the proposals in the application should be sent to the Welsh planning Inspectorate either via email or through the post:
Email: TWA.Morlaistidalarray@planninginspectorate.gov.uk
Post:
The Planning Inspectorate
Crown Buildings
Cathays Park
Cardiff
CF10 3N
Reference: 3234121 - Transport & Works Act

An objection or other representation MUST (i) be received by the Welsh Ministers on or before the 31st of October2019, (ii) be made in writing (whether sent by post or e-mail), (iii) state the grounds of the objection or other representation, (iv) indicate who is making the objection or other representation, and (v) give an address to which correspondence relating to the objection or other representation may be sent. (If you are sending your objection or other representation by e-mail, please provide a postal address.)

The Welsh Ministers may publish copies of the objections and other representations on their website, excluding any personal information contained in them, and will copy them to the applicant for the Order including personal details.

Eversheds Sutherland (International) LLP, Solicitors and Parliamentary Agents, One Wood Street, London EC2V 7WS
Solicitors and Parliamentary Agents on behalf of Menter Môn.

Dated: 18th of September,2019

Deddf Trafnidiaeth a Gweithfeydd 1992

Rheolau Trafnidiaeth a Gweithfeydd (Gweithdrefn Ceisiadau a Gwrthwynebiadau) (Cymru a Lloegr) 2006

Gorchymyn Parth Arddangos Morlais

HYSBYSIAD CYFLWYNO CAIS AM ORCHYMYN

Mae Menter Môn Cyf, Neuadd y Dref, Llangefni, Ynys Môn, LL77 7LR am gyflwyno cais i Lywodraeth Cymru o dan Adran 6 Deddf Trafnidiaeth a Gweithfeydd 1992 am yr orchymyn a nodir uchod o dan adran 3 a 5 y Ddeddf honno.

Byddai'r Gorchymyn hwn yn awdurdodi adeiladu a gweithredu dyfeisiau ynni llanw a'r isadeiledd cysylltiedig mewn parth arddangos yn y môr o'r enw Parth Arddangos Morlais ("MDZ"). Byddai'r parth yn 35 cilomedr sgwâr ac yn ymestyn o Fôr Iwerddon i orllewin Ynys Cybi, Ynys Môn. Hefyd, byddai'r Gorchymyn yn awdurdodi gosod ceblau allforio ar wely'r môr mewn coridor o geblau allforio. Bydd yr ardal hon yn ymestyn ar draws 4.75 cilomedr sgwâr rhwng yr MDZ a safle glanio ar arfordir gorllewinol Ynys Cybi, ardal a elwir ym Mhorth Henborth / Porth y Pum Ogof.
Ynghyd â'r gwaith yn y môr, byddai'r Gorchymyn hwn hefyd yn awdurdodi gwaith ar y tir rhwng is-orsaf drydan arfaethedig ar lan y môr ac ar safle i'r Dwyrain o Gaergybi ger yr A55, er mwyn darparu cysylltiad grid â'r isadeiledd rhwydweithiau trydan presennol, gan gynnwys adeiladu is-orsaf yn Nhŷ -Mawr, adeilad cyfnewid ym Mharc Cybi ac Is Orsaf ar safle Parc Eco Orthios gyda cheblau allforio tanddaearol rhwng y ddau yn dilyn y rhwydwaith ffyrdd ar hyd ffordd South Stack, Ffordd Porthdafarch a Ffordd y Felin ac yna yn rhedeg ym mharalel gyda'r A55 gan groesi oddi tan yr A55 a rheilffordd Bangor i Gaergybi i mewn i safle Orthios.

Mewn cysylltiad â'r gweithfeydd ar y tir, bydd y Gorchymyn hwn yn ceisio ennill pwerau i sicrhau a chaffael tir a'i ddefnyddio ar gyfer y gweithfeydd hynny ac at ddibenion ategol.
Bydd y cais yn destun asesiad effaith amgylcheddol.

Dylid anfon unrhyw wrthwynebiadau, neu unrhyw sylwadau arall am y cynigion yn y cais at Arolygiaeth Gynllunio Cymru, naill ai drwy e-bost neu drwy'r post:
E-bost: TWA.Morlaistidalarray@planninginspectorate.gov.uk
Post:
Yr Arolygiaeth Gynllunio
Adeiladau'r Goron
Parc Cathays
Caerdydd
CF10 3NQ
Cyfeirnod: 3234121 – Deddf Trafnidiaeth a Gofal Stryd

Mae'n RHAID i unrhyw wrthwynebiad neu sylwadau eraill (i) gael eu derbyn gan Weinidogion Cymru ar neu cyn 31 o Hydref 2019, (ii) fod yn ysgrifenedig (naill ai drwy'r post neu drwy ebost), (iii) nodi sail y gwrthwynebiad neu'r sylwadau eraill, (iv) nodi pwy sy'n gwneud y gwrthwynebiad neu'r sylwadau eraill, a (v) rhoi cyfeiriad y gellir anfon gohebiaeth sy'n ymwneud â'r gwrthwynebiad neu'r sylwadau eraill ato. (Os byddwch yn anfon eich gwrthwynebiad neu sylwadau eraill trwy e-bost, nodwch y cyfeiriad post.)

Gall Gweinidogion Cymru gyhoeddi copïau o'r gwrthwynebiadau a sylwadau eraill ar eu gwefan, ac eithrio unrhyw wybodaeth bersonol sydd ynddynt. Byddant hefyd yn eu rhannu copïau o'r gwrthwynebiadau a sylwadau eraill gydag ymgeisydd y Gorchymyn - gan gynnwys y manylion personol.

Eversheds Sutherland (International) LLP, Solicitors and Parliamentary Agents, One Wood Street, London EC2V 7WS
Cyfreithwyr ac Asiantau Seneddol ar ran Menter Môn Cyf.

Dyddiad: 18fed o Fedi, 2019

Lloyd's List Intelligence
Maritime intelligence | informa

The Next Generation Lloyd's List Intelligence

Uniquely powerful vessel tracking, characteristics, ownership and incidents data.

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