Lloyd's List
Maritime intelligence | informa

Daily Briefing
Leading maritime commerce since 1734

Shipping industry moves to mitigate sanctions risks

BUNKER SUPPLIERS, BANKS, marine insurers, charterers and port states have rushed to reassess and reduce exposure to Chinese government-owned shipping giant Cosco, in the wake of unilateral sanctions imposed by the US.

Two Cosco tanker subsidiaries were among six companies blacklisted by the Office of Foreign Assets and Control last week for allegedly shipping US-sanctioned Iranian crude and gas, plunging the global tanker market into chaos as oil traders sought alternative ships, and insurers withdrew cover.

More than 29 Cosco tankers and liquefied petroleum gas carriers were directly affected, including 21 very large crude carriers.

The affected subsidiaries were Cosco Shipping (Tankers) Dalian and Cosco Shipping (Dalian) Seaman and Ship Management Co.

Contagion fears have charterers looking beyond the two subsidiaries when excluding tonnage, given the opaque ownership structure of the parent company Cosco Shipping Corp. The state Chinese behemoth beneficially owns more than 1,000 ships and has the world's largest fleet of dry bulk carriers and containerships.

"The Cosco parent company is not subject to sanctions and dealings with that company and its other subsidiaries are still theoretically permissible," said James Treanor, a New York-based attorney with Cadwalader, Wickersham & Taft who specialises in sanctions.

"It's only these entities, and their majority-owned subsidiaries, it's not the parent company. That was intended to give a little bit of comfort to the industry. It may not have been received as such, because as is often the case, the devil's in the detail," he told Lloyd's List.

"I'm sure that Ofac statement (on clarifying the parent company position) was appreciated, but there's all kinds of ways that I think companies — whether it's insurance, financial institutions, counterparties, charterers, etc, could still run afoul of these new sanctions either wittingly or unwittingly."

Charterers have replaced at least two Cosco VLCCs to load crude in the Middle East Gulf, while a further two in West Africa, one in the US Gulf and another suezmax have also been substituted, said London-based shipbroker Braemar ACM in a note to clients on Friday.

"Vessels are likely to suffer further discrimination over coming weeks, thinning vessel position lists in all key load areas," the report said.

The VLCC *Yuan Qiu Hu* diverted from the US east coast over the weekend, while the *Cosmerry Lake*, another company VLCC heading for the US Gulf, slowed speed mid-Atlantic amid broker reports charterers were going to replace it.

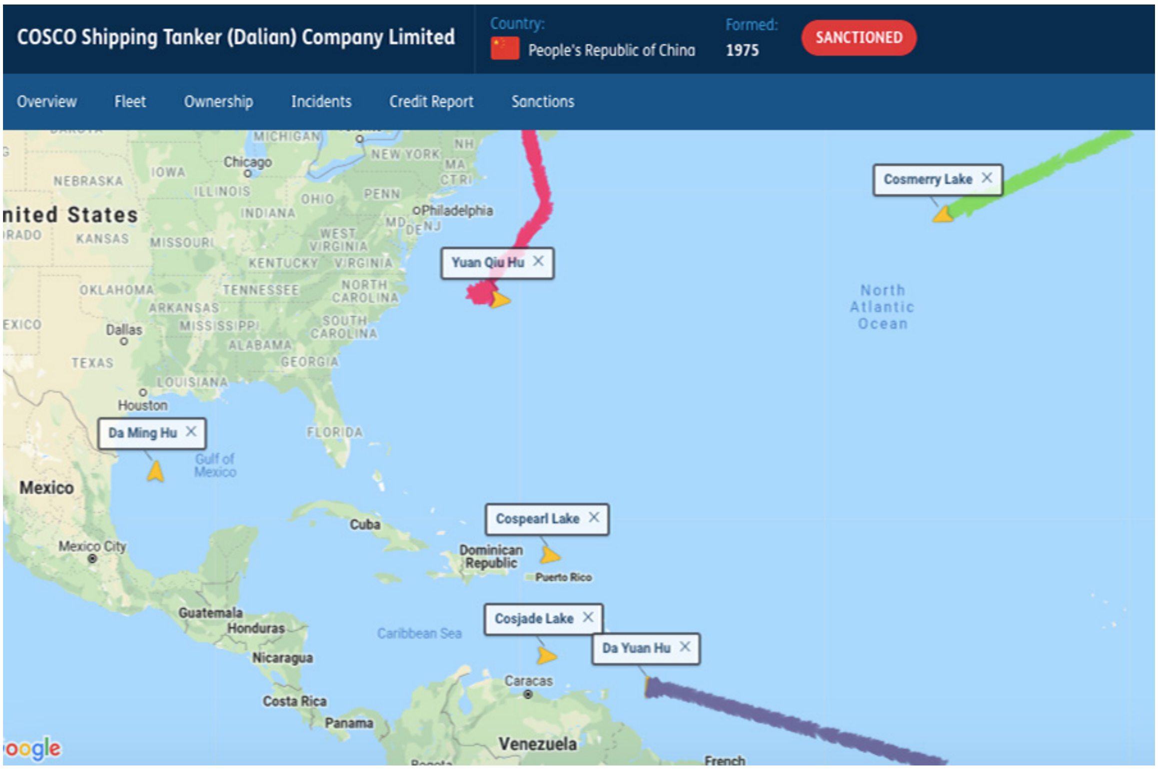
It was also uncertain whether bunker suppliers will supply vessels connected with the Cosco entities, as transactions in US dollars could leave companies with the risk of being subject to secondary sanctions. These vessels would now show in bunker suppliers' risk profile checks, a senior bunkering executive told Lloyd's List.

The decision on whether to extend credit and services would be for the individual supplier. The punitive secondary sanctions on Iran can be imposed on anybody who is a non-US citizen who is "knowingly providing significant financial, material, technological, or other support" to activities or transactions that benefit the energy, shipping or shipbuilding sectors of Iran, according to section 1244 of the Iran Freedom and Proliferation Act of 2012.

The International Group of P&I Clubs, whose 13 members provide cover for 90 percent of the world's commercial fleet, are among those providing cover to the Cosco fleet.

They include Steamship Mutual Underwriting Association, UK Mutual Steam Ship Assurance Association (Bermuda) Ltd, West of England Mutual Shipowners Protection & Indemnity Association (Luxemburg), North of England P & I Association, and London Steamship Owners Mutual Insurance Association Ltd.

International Group of P&I Clubs' Nick Shaw said the group had no comment on the situation.



Terms of the group's cover retrospectively invalidate P&I cover if the vessel is carrying sanctioned cargo. That potentially leaves tankers now uninsured at ports and mid-voyage while alternative cover is secured from an insurer prepared to risk secondary sanctions.

"The challenge is that the implications (of the sanctions) are unclear, because for all the guidance that Ofac has released, and there has been some, they have not been crystal clear on where exactly the lines might be might be drawn in some of these cases," Mr Treanor said.

"So I think that's why you're seeing a very cautious approach. What we could what we could see is in in the near future, or the not too distant future, is some additional guidance as Ofac answers specific questions and very practical questions from the industry. Historically they have come out and issued additional guidance."

Cosco is now under pressure to define its complex ownership structure in which the two blacklisted units remain subsidiaries of Shanghai and Hong Kong-listed Cosco Energy Shipping Transportation. Trading resumed in CEST today after it was suspended after Ofac sanctions were announced.

The entities were penalised by the US after investigations disclosed they operated tonnage that formed part of a subterfuge fleet of Chinese and Iranian-owned tankers and gas carriers. An established logistics network used ship-to-ship transfers, and turned off AIS signals to obfuscate the origin and destination of sanctioned cargo en route to China from Iran, first reported by Lloyd's List in March.

Cosco changed the ownership structure of both subsidiaries in June to cut ties with Kunlun Holdings, another of the companies named by Ofac last week for owning tonnage in the subterfuge fleet.

WHAT TO WATCH

Sanctions spark short-term bullishness for VLCCs

THE US government's sanctions on two Cosco Shipping Energy Transportation subsidiaries for allegedly trading oil with Iran is turning out to be the biggest bullish factor for the very large crude carrier market this month.

Under the sanctions, US entities including oil companies, banks and other shipping companies are prohibited from dealing with CSET.

Cosco owns about 6% of the global VLCC fleet, comprising about 50 VLCCs, making them the second-largest owners in the segment.

Thus, a prohibition of the use of these ships even from only a limited number of regions could be disruptive to the global balance of trade. This situation was the case last week as average VLCC spot rates rose 43% to more than $50,000 per day, Stifel analyst Benjamin Nolan said.

As the CSET vessels destined for the US (or others impacted by sanctions) are off limits, it means oil companies are scrambling to find replacement ships and paying a premium for them.

According to Charles R Weber, in a move to avoid possible US sanctions, charterers were looking to replace any Cosco ships taken on the spot market.

"The surge in activity, and the possibility that some 43-plus vessels may be effectively taken out of the spot market (at least for some period), buoyed sentiment and rates across the globe."

Mr Weber noted that, "as the uncertainty over these most recent sanctions persist, the pressure will continue".

Typically, crude tanker rates increase later in the year because of increases in seasonal demand and reductions in ship efficiency, but normally this does not occur until October or November.

The average VLCC spot rate in the last week of September for the past 10 years has been $18,850 per day with only 2015 being significantly above this figure.

"The absence of new Iranian crude from the market as well as uncertainty about Cosco ships from being able to carry oil from the US is a windfall for its domestic crude producers and international crude tanker companies given the rise of crude exports from the US Gulf coast," said Mr Nolan.

Since June, the US has been averaging about 3m barrels per day of crude exports, although in the past month there were two new pipeline additions which brought an extra 1m bpd of crude capacity to the US Gulf Coast for export.

Currently, there are only 10 of the nearly 800 VLCCs in the world located on the US Gulf Coast including one Cosco ship, Stifel data shows.

"As infrastructure to load VLCCs grows, we expect the US Gulf Coast also to grow to become a much more meaningful contributor of VLCC demand, but for now, at least it is not core," it added.

"Over the course of the next month, this should normalise with Cosco ships gravitating towards new non-restrictive markets and other ships being paid more to move to Cosco-restricted markets."

Fortunately for tanker owners, this should also coincide with new pipeline capacity from the US Gulf Coast, a significant portion of the VLCC fleet out for scrubber fitting and seasonal strength.

Mr Nolan conceded that "these sanctions should increase the magnitude and duration of a seasonal recovery, although not make much of a difference in VLCC rates permanently".

Gibsons shipbrokers had similar views and said: "Spectacular spikes in tanker rates have a tendency of being short lived. Only time will show how long the current strength in the market will last."

Teekay tanker joint venture 'blocked' by sanctions on Cosco units

TEEKAY LNG, whose liquefied natural gas joint venture business has been caught up in the sanctions imposed by the US on Cosco companies, has postponed a meeting with investors due this week as it deals with the impact on its Arctic shipping business.

New York-listed Teekay said in a statement that Cosco Dalian, one of the two Cosco units, is a 50% shareholder of China LNG Shipping (Holding) Limited (CLNG), which in turn holds a 50% stake in Teekay's Yamal LNG joint venture.

As a result of CLNG's 50% interest, the Yamal LNG joint venture also qualified as a `Blocked Person' under the US's Executive Office of Foreign Assets Control order, Teekay said.

It added that it was pushing back an investor and analyst meeting scheduled for Wednesday in New York.

"The company is working with its joint venture partner to expeditiously resolve this issue and will provide further updates on the situation as and when appropriate," Teekay said.

Last week, the US government sanctioned Cosco subsidiaries, including Cosco Dalian, for violating oil sanctions against Iran, catching a number of other business, such as Teekay, in the crossfire.

The sanctions also extend to any company in which Dalian and the other penalised companies have at least a 50% stake, including China LNG Shipping, which owns a 50% stake in the joint venture with Teekay through which they control six 172,000 cu m Arc7 ice-breaking LNG carriers that will be chartered by the Yamal LNG facility in Russia at least until 2045.

OFAC has said "blocking immediately imposes an across-the-board prohibition against transfers or dealings of any kind with regard to the property".

Four of these six Bahamas-flagged LNG carriers that cost a total of around $2.1bn to build have been delivered. The remaining two are expected to arrive from Daewoo Shipbuilding & Marine Engineering in the "near future", according to Teekay.

The fifth carrier, the *Georgiy Ushakov*, left South Korea around two weeks ago and is headed to Sabetta, Russia where Yamal LNG is based, according to data from Lloyd's List Intelligence.

"For clarity, the Teekay Group has not traded and will not trade with Iran and will not act in contravention of any trading sanctions," the company said.

OPINION

From the News Desk: Sanctions shockwaves create volatility, but also opportunity

THE ripple effect of Washington's highly provocative move to slap sanctions on China shipping behemoth Cosco in the pursuit of its Iran crackdown are only now starting to emerge, but rest assured there is still more to come.

Bunker suppliers, banks, marine insurers, charterers and port states have all had to rapidly reassess and reduce exposure to Cosco entities, in the wake of last week's move by the US Treasury. While Cosco Shipping Energy Transportation saw its share price plunge Monday, tanker rates for everyone else near doubled in the wake of the news as oil traders and companies shunned Cosco tankers in a bid to distance themselves from any potential fallout that might see them locked out of the US financial system.

That rush only adds to the existing tanker dynamics at play, including last-minute pre-2020 sulphur plays, the supply concerns in the wake of Saudi Arabia's Abqaiq attacks and the seasonal demand of a northern hemisphere winter starting to take effect.

All bets are off when it comes to the fourth quarter, but the tanker markets are starting to look a little spicy.

For those more interested in why this latest sanctions snafu is happening, our editor Richard Meade has a few thoughts on the matter. It's a complicated picture, with much of the dynamics at play having nothing to do with shipping, but given that the Trump administration has made no secret of its increasingly hardline stance on any shipping entity prepared to trade oil to Iran, the question we should be asking is why was Cosco caught off-guard by this, and why now?

Stena Impero sails for safer waters, but risk remains

As Washington's latest sanctions salvo opened a new chapter in shipping's long-running Iran saga, a related and particularly harrowing chapter was thankfully ending. The UK-flagged *Stena Impero*, the product tanker seized by Iran's Islamic Revolutionary Guard Corps on July 19, was finally freed on Friday.

Thus ended a fraught 70 days for Swedish owner Stena Bulk, and weeks of trauma for the crew, who disembarked in Dubai over the weekend and will shortly be reunited with families and loved ones.

Sadly, not enough people in power and any side of what passes for political dialogue have been thinking about the crew in this shameful episode.

And while the crew's release is very welcome news for everyone involved, it does not end the risk to seafarers in the region. The UK government is still smarting from the fact that *Stena Impero* was "unlawfully seized by Iran and part of a pattern of attempts to disrupt freedom of navigation," as UK Foreign Secretary Dominic Raab put it following the release.

The fact that Mr Raab has not seen an AIS signal on Lloyd's List Intelligence from the *Adrian Darya 1* since September 2 (after it went dark upon entering Syrian waters, disregarding the assurances offered to the UK that its oil would not head there) has only compounded the concerns both inside the UK government and shipping boardrooms across the industry.

Mr Raab can rest assured that Lloyd's List Intelligence customers can track sanctioned vessels and will be the first to know when the *Adrian Darya 1* reappears, no doubt having offloaded its cargo via ship-to-ship transfer.

Time to talk seriously about shipping's moon shot

Since the IMO adopted its greenhouse gas strategy in April 2018, pledging to slash emissions by at least 50% by 2050, little has changed in the regulatory landscape. But the new coalition working to develop commercially viable zero-emissions vessels by 2030 could push regulators to accelerate their work, and for that reason alone it deserves our collective attention.

Coming so soon after the finance community pushed out its landmark Poseidon Principles, it seems clear now that there is a visible coalition of the willing prepared to take a leading position on the industry's future.

As ever, such shifts come with opportunity but it's also laden with risk and uncertainty. Understanding the dynamics at play is, we would humbly suggest, pretty damn essential right now. With that in mind, a good place to start would this week's Lloyd's List

Podcast, which is brimming with expertise to provide the context you need to decipher what decarbonisation means to you.

Don't forget you can now subscribe to the Lloyd's List Podcast via iTunes and Spotify, as well as most other podcast providers. And make sure you are registered for a free account on Lloydslist.com so you can receive our Daily Briefing e-mail.

Don't let the noise distract you from the IMO's message about empowering women

Given everything else that has been happening over the past week it was perhaps easy to forget that Thursday, September 26 was World Maritime Day, a time normally when social media comes alive with hashtags as the fish bowl posts platitudes related to the theme.

The theme was 'empowering women' and many worthwhile comments were sadly overshadowed at the time by the sound of the Iran-US conflict being played out in the tanker markets. But despite the noise (made mostly by men) valuable progress is being made and it requires the attention of us all.

ANALYSIS

European shipowners push back against calls for EU regulation of shipping

EUROPEAN shipowners are pushing back against calls for the European Union to regulate shipping's emissions.

The European Community Shipowners' Associations said that a future in which the EU decides to impose emissions measures on shipping will create more harm than good. The bloc currently regulates emissions through the Emissions Trading System, but shipping is temporarily excluded.

"Regional measures such as including shipping in the EU ETS are suboptimal, will lead to carbon leakage and creates serious administrative burdens that are especially troublesome for small and medium-sized shipowners," Mr Dorsman told Lloyd's List.

Carbon leakage refers to companies relocating operations to regions where there are less stringent emissions rules. To combat this the EU is giving more carbon trading allowances to those industries more likely to cause carbon leakage.

The association's comments come after the European Federation for Transport and Environment released a report estimating the EU loses out on €24bn ($26.3bn) by not taxing bunker fuel sales and urging the EU to include shipping in its ETS, a move shipping industry lobbies have repeatedly opposed during the past few years.

The disagreement between shipping and environmental interests in the bloc will likely be a recurring theme during the next few months and years with the incoming European Commission having climate policy and decarbonisation at the heart of its agenda.

Shipping is currently not governed by the ETS, but the EU only agreed to that in late 2017 under the condition that a satisfactory global decarbonisation measure is imposed by 2023. Shipping's global regulator, the International Maritime Organization, has agreed to at least halve greenhouse gas emissions by 2050 but has not yet agreed on the measures that can get it there. It will revise its strategy and targets in 2023.

Incoming EC President Ursula von der Leyen, whose five-year tenure begins on November 1, has explicitly said it plans to extend the ETS to shipping, indicating the official debate will resume well before 2023.

Mr Dorsman argued that such a move would also undermine the ability of the IMO to develop global solutions, which he said will be vital to achieve the ambitious targets which have already been agreed for international shipping.

"The IMO is the responsible body to generate the regulatory framework at global level for all flags, guaranteeing a level playing field for all shipowners," he said.

Cosco Shipping Energy Transportation shares plunge as trading resumes

COSCO Shipping Energy Transportation saw its share price plunge on the first day of resumption of trading after the shock imposition of sanctions on its units last week.

The Shanghai-listed stock fell more than 10%, reaching the daily fluctuation limit, while CSET's Hong Kong shares dropped nearly 25%.

While acknowledging that its Cosco Shipping Tanker (Dalian) unit had been added to the US Treasury's Office of Foreign Assets Control's Specially Designated Nationals list, CSET said in a Hong Kong Exchange announcement that the "company is comprehensively organising its various businesses, assessing the relevant impact, and conducting various response work".

CSET has yet to disclose detailed information about how many of its vessels are involved in the sanctions on its blacklisted Cosco Dalian subsidiary, and the uncertainty has roiled tanker markets during the past few days.

Brokers have also reported that a contagion effect has spread to other Cosco tankers that are not directly operated by Cosco Dalian as tanker charterers and brokers are cutting ties with the Chinese giant to avoid any potential sanction risks.

The news has also rippled through the liquefied natural gas carrier market, as the status of China LNG Shipping, a joint venture between Cosco Dalian and China Merchants Energy Shipping, remains unclear.

Carriers tame volatility on South America trade

TIGHT control on Asia-east coast South America container trade capacity has helped drive freight rate gains despite relatively weak demand prospects, according to analysis by Drewry.

Describing the Asia-east coast South America container trade as "the poster child for volatility, witnessing huge swings in monthly demand and freight rates", Drewry said this year has been no different as far as box shipments are concerned, "but despite that carriers have had some success in taming the worst of pricing's ups and downs".

It said headhaul southbound volumes from Asia to ECSA jumped 6% year on year in the second quarter, following a 17% decline in the first quarter of the year.

"This see-saw performance has existed for many years: in the 26 quarters since the start of 2013, southbound flows have risen on 15 occasions and shrunk on 11."

Drewry said the positive performance in the second quarter was "purely the result of a 15% upturn in Asian goods destined for Brazil", according to Datamar statistics, although the analyst added that Brazil's inbound volume of 269,000 teu during the three months was only more or less what was being traded at the start of 2013.

"The numbers just seem to go round in circles," it added. "For July, Brazil's imports from Asia were down by around 1% compared to the same month last year, ending a run of three months with double-digit gains."

While the Brazil market has provided something of a fillip to the trade, Drewry noted that the opposite is true for the Plate region — Argentina, Uruguay and Paraguay — which saw imports from Asia fall by over 17% between April and June, "which admittedly was a good deal better than the 46% fall in the first quarter. A 28% decrease in Asian to Plate volumes in July suggests that a recovery is still some way off".

"Argentina is causing the damage, with its financial crisis deepening all the time," Drewry said. "Three years ago, one needed around 14 pesos to buy one US dollar; today, one would need four times that amount. Partial currency controls have therefore been reinstated."

Drewry noted that there are "not too many reasons to be optimistic for higher demand in this trade", highlighting: "The Brazilian economy has indeed been boosted by stronger output in the construction and manufacturing sectors, but so far the government has not succeeded in tackling the high unemployment rate (12%), while a slowing Chinese economy impacts directly on Brazil as a provider of various raw materials. Brazil will also suffer from Argentina's woes as its third third-largest trading partner, exporting mainly industrial goods."

It noted that the Asia-ECSA trade operates with only four weekly services, the smaller fourth loop from PIL only being added early last year. "This streamlined set-up makes it easier for carriers to respond to the market's temperamental demand and in general headhaul load-factors have been maintained at levels that have kept freight rates on a relatively even keel," Drewry said.

Drewry's Container Freight Rate Insight time series of monthly Shanghai to Santos spot rates shows that the standard deviation over the first eight months of this year was $285/40ft, which compares favourably to nearly $500 in both of the previous two years. In 2016 the monthly standard deviation was "a staggering $1,100", Drewry said.

"The good news for carriers is that spot rates made a leap in August and September with Shanghai-Santos rates reaching approximately $2,300/40ft, their highest in 12 months," it added. "It is unclear at this stage what triggered this rise, but given the taut supply line even a marginal improvement in demand will have been enough to have ships at full capacity."

It concluded: "Drewry is not confident there will be any growth in this trade lane in 2019, which will not incentivise lines to introduce new services. By keeping such a tight control over supply there is scope for further freight rate increases so long as demand doesn't fall off a cliff."

IN OTHER NEWS

BIMCO proposes regulating ship power to curb emissions

BIMCO is calling for the global regulation of vessels' power to curb greenhouse gas emissions and also appease supporters of speed regulations.

The world's largest shipping association has tabled a proposal to the International Maritime Organization ahead of a working group meeting in London next month to assess several proposals geared towards short-term reductions of ship emissions.

BIMCO proposes introducing ship power limits based on average operational speeds for different types of vessels.

Gard confirms cover for Ulsan explosion ships

NORWEGIAN insurer Gard provided both P&I, and hull and machinery cover for the two vessels involved in the explosion at the South Korean port of Ulsan during the weekend, according to a spokesperson.

"I can confirm that Stolt Groenland and Bow Dalian are both entered for P&I cover and have H&M insurance at Gard," a representative said in an email exchange with Lloyd's List. It declined to comment on individual claims.

While it is too early to estimate at the extent of Gard's exposure, especially as conditions have not yet permitted even preliminary investigations, up to 18 injuries have been reported.

Piraeus posts higher first-half earnings

PIRAEUS Port Authority, the Cosco-controlled Greek port, has unveiled higher earnings for the first half of 2019 despite a dip in container transhipment.

After-tax profit increased by 20% from the same six months of 2018, reaching €15.9m ($17.4m) as turnover rose by 11% to €70.6m.

The Athens-listed port authority, which is majority-owned by the Chinese giant, said revenue from the Cosco concession agreement, which covers two of the three operative piers in the port's container terminal, increased by 18.6%.

Eleven crew missing after Bourbon tug sinks in Atlantic

SEARCH and rescue efforts are continuing for 11 missing crew members after firefighting tug Bourbon Rhode sank in the Atlantic following being hit by a hurricane at the end of last week.

Vessel owner Bourbon updated that the search continues with the full support of Regional Operational Centre of Surveillance and Rescue (CROSS) and the French navy, with five commercial vessels being diverted to help the rescue teams.

A Falcon 50 aircraft from the French navy and US National Hurricane Center aircraft have conducted many flights over the search area.

Blockchain pioneer suspends operations

CONTAINER freight blockchain pioneer 300Cubits has pulled the plug on its token-based service following weak uptake.

Launched in Hong Kong in 2017, the company aimed to use blockchain tokens, known as TEU, as a means of preventing no-shows and cargo rolling by using the cryptocurrency as a means of deposit.

But despite some successful trials, and the participation of carriers including Maersk's Sealand unit, CMA CGM and Mediterranean Shipping Co, along with more than a dozen shippers, transaction volumes have failed to reach commercial levels.

Globus Maritime posts heavier second-quarter loss

BULKERS owner Globus Maritime says it is "elated" by recent spikes in charter rates after posting a heavier loss in the second quarter.

The Greece-based, Nasdaq-listed owner saw revenues fall by 19% in the second quarter, saying that the market came under "severe pressure" resulting from trade war concerns and disruptions to the iron ore trade.

Interest and finance costs jumped to $1.6m compared with $500,000 in the equivalent quarter last year, mainly due to a recent refinancing of the company's debt.

Kjaedegaard takes advisory role at digital services specialist

SHIPPING industry veteran Jesper Kjaedegaard has joined Dubai-based digital operation Marcura Group as a senior adviser.

Mr Kjaedegaard, who is partner in maritime consultancy Mercator International, is former chief executive of the Maersk Company, past chairman of Maritime UK and former president of the UK Chamber of Shipping.

Marcura provides a range of cloud-based business services to the shipping industry, including its flagship DA-Desk port cost management product.

Maran's first FSRU goes to Excelerate

EXCELERATE Energy has taken Maran Gas Maritime's newbuilding floating storage and regasification unit, under construction by Daewoo Shipbuilding & Marine Engineering, for delivery next year.

A five-year bareboat charter agreement was sealed by the two parties in recent days, with the deal including a purchase option for Excelerate to acquire the FSRU.

The agreement was signed just a few days after Excelerate was instructed to proceed with a floating LNG terminal for the Philippines.

CMA CGM appoints head of security

FRENCH group CMA CGM has appointed a senior policeman and hostage negotiation expert to a new post in charge of security and safety.

Franck Chaix, a colonel in the National Gendarmerie and former soldier, joined CMA CGM at the start of the month as vice-president for group security and safety, with responsibility to ensure the security of the group's staff around the world.

A source in the Gendarmerie revealed that Mr Chaix, 51, had headed negotiations during the attack on the luxury cruise yacht *Le Ponant* by Somali pirates in 2008. The ship had been owned by CMA CGM at the time.

Classified notices