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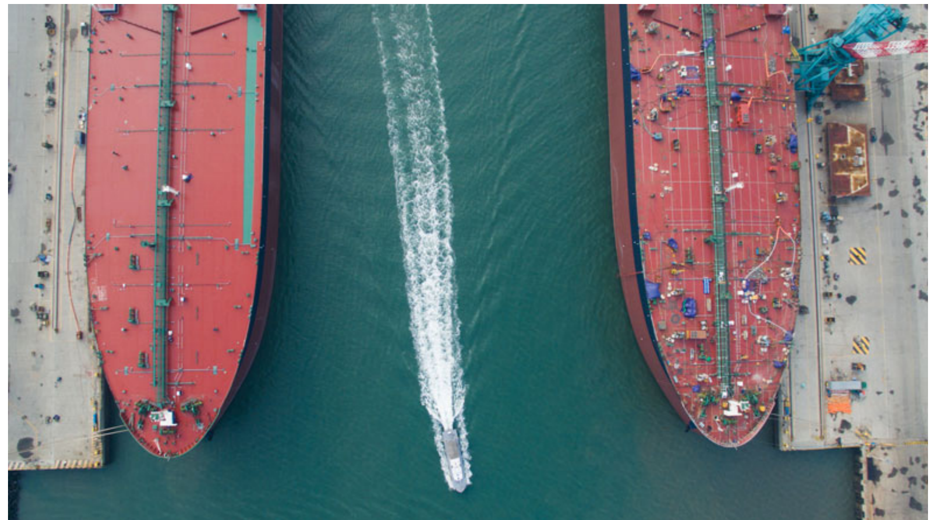

CHINESE ENERGY TRADING giant Unipec has matched ExxonMobil's move to stop chartering any vessels that have conducted business with Venezuela within a 12-month time span, Lloyd's List understands.

The decision by the world's largest charterer of dirty spot tonnage is likely to accelerate increases in soaring tanker rates, which have hit 11-year highs this week as US sanctions against Iran and Venezuela have created an imbalance in the market.

A contract clause text believed to be issued by Unipec, and seen by Lloyd's List, reveals how the charterer is now forcing owners to carry all risk associated with Venezuela and effectively halts any association with ships that have had links to Venezuela in the past year.

"Owners warrant that the performing vessels has not within the previous one year from the date of this charter party called at a port or place in Venezuela, carried any cargoes to or from Venezuela, or been charter to or otherwise associated with any party identified in respect of any Venezuelan sanctions regime, including those of the UN/UK/EU/USA," the text reads.

Lloyd's List understands the clause was issued by Unipec within the past week and the implications of the decision, the details of which matches ExxonMobil's contract clause very closely, implies more than 200 tankers could be affected, dramatically tightening the already limited list of vessels immediately available for hire.

As of this week, some 88 very large crude carriers had called at Venezuelan ports and 115 suezmaxes had called at ports and loaded crude from anchorage zones within its waters in the past 12 months according to Lloyd's List Intelligence data.

The US government issued new sanctions against Venezuela in early 2019, banning US companies from importing Venezuelan crude and banning imports of naphtha.

Unipec, which is a subsidiary of Chinese energy producer Sinopec, was the largest charterer of VLCCs in the first of half 2019, according to Poten & Partners.

The contract clause effectively gives Unipec the right to cancel the charter contract immediately without any liability.

The vessel owner also has to agree to protect charterers against an extensive list of specified financial damages and any legal penalties that come its way due to the owners violating this clause or sanctions on Venezuela.

News of ExxonMobil applying the same clause to vessels it charters emerged earlier this week, further pushing up tanker rates that have been boosted by US sanctions on Cosco's tanker business.

As many as 150 tankers beneficially owned by Chinese sipping giant Cosco are being shunned by refiners and traders, after the US administration sanctioned two Cosco subsidiaries on September 25.

A charter contract clause text believed to be issued by SeaRiver Maritime, Exxon Mobil's fully owned shipping outfit, and seen by Lloyd's List confirms that the company is also avoiding charters with vessels that have conducted business with Venezuela within the past year.

The clause uses the same language as the one believed to be issued by Unipec.

Lloyd's List has approached both ExxonMobil and Unipec for comment, but neither company was immediately available to confirm the authenticity of the contract clauses which are now being circulated by brokers.

With these two major decisions relating first to Venezuela and second to the US sanctions against Cosco tankers' business, tanker rates have reached heights in some routes that have not been seen in more than a decade.

By Wednesday afternoon, the Baltic Tanker Index showed that rates for tankers on routes between the US Gulf to China had reached time charter equivalents of $103,304 per day. Middle East Gulf to China rates hit $123,472, the highest rate in 11 years.

WHAT TO WATCH

LNG oversupply forcing floating storage, says Poten

THE oversupply in the liquefied natural gas market due to current mild weather is forcing product into floating storage as was the case at the end of 2018, according to Poten & Partners.

The contango in market pricing is supporting shipments with capacity builds at Dutch and Spanish terminals, Poten's LNG analyst for Europe and the Atlantic Oleg Vukmanovic said at an event in London.

But slot availability is tightening, leading LNG carriers to "loiter" for about two weeks waiting for a berth, he said, adding that the netbacks favour Europe but there is no space in underground storage.

Moreover, the ability of countries outside Europe to absorb excess LNG is limited into next year, according to Poten's head of forecasting Kristen Holmquist, with not much potential in traditional demand centres such as Japan, Taiwan, and South Korea.

Latin America too is not going to rebalance the market, she said, with seaborne imports expected to decline in Mexico due to pipeline connections with Texas.

"Strong supply growth coupled with relatively moderate demand growth leads to another round of surplus volumes" in 2020, making it a difficult year for the LNG market, she said.

While demand growth in China is slowing, it is still healthy, she noted, adding that there is also a potential boost from India, Pakistan and Bangladesh, depending on infrastructure improvements and pricing economics.

Poten's data showed China gas demand growth in billion cubic metres terms more than halving this year from 2017.

China's demand growth "rescued the market in 2017 and 2018 but the engine is slowing", Mr Vukmanovic said, adding that the slowdown in China has surprised the market at large.

China's tremendous appetite for natural gas was widely seen as bolstering LNG spot prices in Asia during the last two years.

But LNG spot prices in Asia have tanked during the first half of this year, hitting a low of less than $5 per million British thermal unit before staging a recovery ahead of the winter season in the northern hemisphere.

Mr Vukmanovic named a decrease in coal-to-gas switching, higher domestic gas production, a slowing economy and the lingering US-China trade spat as key contributors to the slowing Chinese demand growth.

The trade spat between the world's two economic powerhouses certainly would not help lift LNG trades.

China, which is widely expected to overtake Japan as the world's top LNG importer, was once considered a major market capable of absorbing vastly growing supplies from the US.

LNG exports from the US have dramatically expanded over the last three years to even rival the top dogs of the game, Qatar and Australia.

But as Ms Holmquist pointed out, many US greenfield projects — along with others elsewhere — have now stalled because they have not signed enough long-term contracts.

Still, energy majors such as ExxonMobil, which have the muscle to absorb new LNG volumes into their global portfolio, look set to press on with sanctioning of mega projects.

ExxonMobil and Qatar Petroleum have gone ahead earlier this year to sanction the Golden Pass project in Texas, which is expected to start pumping LNG from 2023.

Ms Holmquist pointed to a robust pipeline of projects with combined capacity exceeding 237.8m tonnes per year that may boost LNG supply growth by the mid-2020s, but limited supply growth from 2020 till then.

DryShips to de-list from Nasdaq after Economou buyout approval

DRYSHIPS will de-list from the Nasdaq stock market after 14 years following an overwehelming vote by shareholders in favour of a buyout offer from a vehicle controlled by founder and chief executive George Economou.

The vehicle, SPII Holdings, had offered $5.25 per share in cash for the 16% or so of the company not already owned by Mr Economou.

Given Mr Economou's stake of more than 83%, the move to take DryShips private always looked sure to prevail.

Nearly 90% of all DryShips common shares were voted at a special meeting held to approve the proposed merger.

Of the shares voted, about 98.8% were cast in favour of the merger deal, including about 82.5% of the shares owned by unaffiliated outside investors.

On closing of the merger, DryShips will become a privately-held company within Mr Economou's private empire and the shares will no longer be listed on the Nasdaq Capital Market.

DryShips, which was the first existing dry bulk outfit to list in the US at the outset of the freight boom in 2005, owns and operates a modern fleet of 32 ships including 20 bulkers, six tankers and six offshore support vessels.

The merger will also give Mr Economou full ownership of tanker pools operator Heidmar.

The shipowner may have to pay up to about $76m to acquire all of the remaining DryShips shares.

Evercore has acted as financial adviser and Fried, Frank, Harris, Shriver & Jacobson LLP is legal counsel to the special committee of the DryShips board of directors that evaluated Mr Economou's bid to buy out remaining shares.

Seward & Kissel LLP has been legal counsel to DryShips. Orrick, Herrington & Sutcliffe LLP is acting as legal counsel to SPII.

OPINION

Viewpoint: Speed or power?

TO SOME, slowing down to save the environment is "low-hanging fruit" — an obvious and easy fix that produces instant results and enables the shipping world to hold its head up high amid the clamour for climate action, *writes Michael Grey*.

It is a solution proposed by President Macron of France, no less, who seems determined to become an environmental champion and is employing his not inconsiderable political weight in such debates.

To others it is taking the easy way out, with uncertain consequences, as slow-steaming ships cannot carry the same amount of goods as faster ones in the same time, so more ships will be required to carry the same amount of world trade, which itself is likely to grow.

And if everyone goes down this route, it does not exactly encourage the braver members of the shipping fraternity to invest in innovation and technical advances.

"More days, more dollars" — has a certain traditional charm about it, but surely will not incentivise the efficient.

BIMCO, the world's biggest shipping organisation, recently came out firmly against the slowing down of the world fleet and proposed instead that power should be restricted, thus producing a more cohesive and comprehensible solution to the greenhouse gas problem.

It is not entirely a new idea, as it was a Japanese proposal at the International Maritime Organization earlier this year, but it has attracted the approval of Maersk, so a substantial body of opinion is being developed along these lines.

If there is a limit on power, it is argued, there will be every incentive to use that power efficiently, to maximise utilisation, to minimise downtime and port time and to encourage engineers and designers to produce ships that will get the maximum efficiency out of the available power.

It may not offer the instant gratification that slowing down will produce, and will clearly involve investments, but it can be argued that the gains will be real and as a "forcing mechanism" for efficiency, it can only produce dividends for both the environment and those driving the efficient operations.

There are obviously cautions that need to be borne in mind with power limitation.

There remains an absolute requirement to ensure that there is adequate power to keep the ship safe under all circumstances.

The concerns of mariners about the old risks of the "low-powered steamers", which were unable to stay off a lee shore in heavy weather, need to be addressed in any regulations. We can probably agree that it is unlikely that ship operators are going to install a lot of additional power as a sort of "insurance" and that people will design up to the regulations, but no more. Classification societies will surely have a big role in the determination of the "adequacy" of installed power in any ship, whether a new vessel or one with derated machinery.

Much more can be done

There is clearly so much more that can be done to use ships more efficiently.

For years people have acknowledged the nonsense of ships steaming hard for weeks across oceans, to "make their number" with a Notice of Readiness at an arrival port, where they will sit in a roadstead at anchor for days waiting for a berth.

Ports and terminals, with a certain amount of justification, will tell you that they are prepared to be a bit more scientific about this and can co-operate with incoming ships regarding their arrival schedule. Charterers (or many of them) seem oblivious to this and are anxious to have the ship ready to load as soon as possible.

The old legal definition of the “arrived ship” continues to be something of a stumbling block and is cited in the objections to any progress. But we have excellent communications between all parties these days, there is an obvious benefit to the environment and indeed to the party paying for the fuel, so the sooner some formula is found that shares any benefit equably between the parties can be agreed, and become regularly utilised, the better.

The important thing to realise, surely, is that the proposals show that the shipping industry is indeed very serious about its responsibilities on emissions and that it deserves credit for its sincerity in this area. It is not something that greens activists will acknowledge — they just shout for more, endlessly, but actions always speak louder than worlds.

None of this removes the responsibility and the pressure to fund real, long-term research into technological solutions, in the shape of entirely new fuels, machinery, power trains and better ways of using ships more efficiently.

It is said that the solutions for shipping’s environmental problems are to be found on land. And it is in the engineering laboratories, the research establishments working on new fuels and energy storage, from where the answers will emerge.

But it is not something that the shipping industry itself can solve or finance out of its own earnings.

Forum to consider hazardous cargo concerns

ONE of the universal concerns that unites the container shipping sector is the danger posed by hazardous cargoes.

The container shipping sector is engaged in a forensic analysis of all aspects of transporting hazardous cargo to identify and implement the best options for minimising, if not eliminating, the risks of hazardous and misdeclared cargoes.

The list of human and capital casualties for container shipping from hazardous cargo mishaps has become woefully long in recent years, but incidents keep occurring.

The fire on board *MSC Flaminia* in 2012 claimed three lives and has led to regulatory changes, as well as a seminal court judgment on liability between stakeholders.

The *Maersk Honam* casualty in 2018, in which five seafarers were killed, has become the catalyst for the kind of industry resolve that began to take shape throughout 2018.

The *Yantian Express* fire in January 2019, followed by others through the year, has raised the volume of concern further.

Lloyd’s List and its research and consultancy counterparts at Lloyd’s List Intelligence will host an interactive forum next month in London with industry leaders, coinciding with Informa’s Global Freight Awards, to drive collaborative effort to tackle the faults in the global supply chain of dangerous goods.

It will examine the options being put forward to stamp out undeclared and misdeclared shipments, poor packing and securing in the unit load industry, and other cargo-related malpractices that can have deadly consequences, and discuss the necessary actions to protect lives, the environment, ships and cargo.

It will also evaluate the progress towards greater collaboration across the industry, encompassing shippers, forwarders, ports, terminals, insurers, and other stakeholders, as well as container lines.

TT Club, which is campaigning for change with its #Fit4Freight cargo integrity campaign, is sponsoring the event on November 14 at the Royal Lancaster Hotel from 1.30pm to 3.30pm, to be chaired by Lloyd’s List Containers editor James Baker.

Contributors will include Peregrine Storrs-Fox, risk management director at TT Club; Laurent Audaz, head of P&I insurance, legal and claims at Mediterranean Shipping Co; and Tom Sommerwerck, managing director at Döhle Assekuranzkontor.

ANALYSIS

Bottiglieri says rates and regulators pushed shipping company to the edge

THE Giuseppe Bottiglieri Shipping Company's decision to seek bankruptcy protection in 2017 was forced by low rates, excessive regulation and unfavourable currency effects, its owner has told an industry audience.

In the wake of the global financial crisis in 2008, capesize rates had fallen to as low as $500/day by 2015 and 2016, Giuseppe Bottiglieri told the Shipping and the Law conference in Naples.

But what really pushed the company to the brink was the impact of both Basel II capital requirements and the euro/dollar exchange rate, which caused the company to have a negative balance sheet.

The company was saved by Bain Capital after a courtroom tussle that saw the US investment house triumph over an alternative offer from the Lighthouse consortium, a joint venture between Augustea Holdings and Oceanbulk Maritime.

"We had to make an agreement and we survived. We turned this shock into an opportunity," Mr Bottiglieri said. "This is what happened in my case, and we had to face all the proceedings and the competition of other shipowners who wanted to take advantage of the situation."

Bain Capital is very skilled but inexperienced in the shipping sector, and therefore needs guidance, he said.

He also criticised the bureaucracy imposed on users of the Italian flag, who must inform the authorities in Rome and the relevant classification societies of the least technical failures.

"Shipping companies are under excruciating pressure to comply with rules, [and have to] meet the stipulations of investors with a non-shipping agenda," he said. "It's not always possible to aim at cost effectiveness. You can imagine how hard it is to run this business."

If anyone with $50m to invest were offered the choice between putting the money in the bank or funding a new ship, most would not invest in shipping.

"It is a very high-risk business. It's not straightforward. It takes huge investment and sometimes there is no return.

Rates can now be acceptable for secondhand tonnage, but the situation remains too uncertain to guarantee adequate investor return.

Peppino D'Amato, chairman of Perseveranza di Navigazione, criticised the Italian government for ignoring the financial plight of many Italian shipping companies.

Starting from the beginning of the crisis, more than 100 bulk carriers have been sold, and about 50 are now operated by funds, he said.

Nicola Coccia, a former president of Italian shipowners' association Confitarma, noted that German owners enjoy de facto state support through the Landesbank system.

In looking to renew their financing, Italian owners should avoid reliance on banks as the sole source of funds, and look in addition to funds and to traders.

"The time has come to start all over again, make a new start, but which model should we use? We must have a different approach to the financial world."

Vincenzo Ercole Salazar Sarsfield, from Italy's foreign affairs ministry, said that the government was interested in merchant shipping from a security perspective.

"At the geopolitical level, security goes hand in hand with shipping," he told delegates.

Fabrizio Vettosi, chief executive of Venice Shipping and Logistics, said the old model of shipping tycoons of the past no longer worked.

Rapid fortunes are no longer to be had on asset play, while the availability of information to all on the internet diminished the chances of arbitrage.

Shipowners must accept their future as 'sea truckers', with operating margins halved, even though investment costs are still as high as ever.

Deadly pig disease to bog down soyabean trades

THE massive culling of pigs that has taken place in China in response to the spread of African swine flu is working in combination with the US-China trade war to reshape soyabean trade patterns and altering the pattern of dry bulk shipments.

Given that China is a dominant soyabean importer, with most of its shipments coming from the US, the commodity, which is a major compenent of pig feed, has already been the poster-child for the tit-for-tat tariff spat.

However, it's not just the trade war, but the deadly pig disease spreading through the Asian giant which is likely to have longer-term effects on trade patterns between the two countries, as the impacts may linger for years, significantly bogging down panamax demand.

BIMCO chief shipping analyst Peter Sand noted that "lower Chinese demand as a result of the African swine flu means that, even without the effects of tariffs, seaborne volumes of soyabeans imported by the Chinese may not return to levels seen in 2017 for some years".

Soyabeans grown within China are primarily processed into food for human consumption, whereas imported soyabeans go towards feeding livestock as well as making soyabean oil. Therefore, imported soyabeans are the first market sector to suffer when there are fewer pigs to feed.

Pork production in China probably will decline about 30% this year, a drop roughly the size of Europe's entire annual supply, according to a Rabobank report, which highlighted that it will take at least three years to rebuild the herd.

Combined soyabean exports from Brazil and the US are down 7.8% in the first eight months of this year, because the main Brazilian soyabean export season disappointed, BIMCO estimated.

The fall in volumes from the two countries has also led to an 8.5% drop from last year in the tonne-mile demand generated by the two dominant soyabean exporters.

Falling exports from Brazil, in particular, have hurt the shipping industry, with accumulated soyabean exports from Brazil in the first eight months of this year 7.8m tonnes lower than the first eight months of 2018, BIMCO data shows. This has resulted in tonne-mile demand from Brazilian exports falling by 12.9% or 83.7bn tonne miles.

Chinese soyabean imports in the first eight months of 2019 declined by 9% year on year, to 56.4m tonnes, which is the lowest number since 2016, according to Banchero Costa.

However, the volumes in July and August were back to levels experienced before the trade wars. In July this year, it was 8.6m tonnes up from 8m tonnes a year before and in August imports were reported at 9.5m tonnes up from 9.2m tonnes in the previous year. The monthly volume in August this year is the highest since May 2018.

"A decline of 9% on a year is certainly a lot, but frankly could have been much worse given the extent of the swine flu crisis," said Ralph Leszczynski, head of research at brokerage Banchero Costa.

He added that the increased price of pork has shifted demand to other meat types, in particular to chicken. In particular, there has been a boom in poultry farming this year, which also uses soyameal as feed, so this helps to mitigate some of the effect of the swine flu epidemic.

Mr Sand warned that the higher levels of off-season exports to China are good news for the shipping industry but should not be taken to mean that things are back to the status quo as there may still be many twists and turns ahead.

"Once relations between two trading partners have gotten this bad, it takes a long time to restore business as usual."

MARKETS

Shippers eye lower contract rates

PRESSURE on spot rates and a general slowdown in demand is providing shippers with an ideal opportunity to fix contract rates ahead of the introduction of the International Maritime Organization's sulphur cap in 2020.

"There is solid evidence that now is a good time to start an ocean transport tender for standard dry containers and ask container shipping providers to quote competitively," analysts at Drewry said.

Spot market rates on most lanes, with the exceptions of the transatlantic and several north-south routes, had decreased for most of 2019, with the biggest falls witnessed on the east-west trade lanes, which had fallen by 12% in the first nine months of the year.

Moreover, the heat had come out of the transpacific market following the frontloading rush to beat US tariffs on Chinese imports.

"Traffic volumes have decreased or increased more slowly than last year in all regions," Drewry said. "So, the spot market is now weak."

The longer-term contract market had remained strong for longer, holding out until around May before following the same downward trend.

In this environment, there was opportunity for carriers to lock in contract rates for the year ahead.

"Our recent experience of running ocean bids showed that some carriers are currently pricing very aggressively in the market and seem keen to secure volumes rather than profits," Drewry said.

But it warned that while shippers would be able to fix their base rates, they should not expect to reduce or even freeze their current bunker charges.

"The opportunity for beneficial cargo owners now is to identify and benchmark clearly and separately the base rate costs and the bunker costs of rates in any new bids, to develop a strategy and target to reduce the base rates part of their spend, and to develop practices to monitor and control expected increases in bunker charges."

IN OTHER NEWS

Cosco's Piraeus investment plan handed partial approval

GREECE has given the green light to the Cosco-controlled Piraeus Port Authority to proceed with an €612m ($675m) investment plan for the country's largest port.

The approved investments, however, are those contained in an earlier version of the PPA's masterplan that was stalled until a new conservative Greek government took power in July and immediately encouraged Cosco to resubmit its plans.

The new version raised the projected level of spending on the port to €800m and added a further container terminal with annual capacity for 2.8m teu.

MISC seals two-vessel long-term LNG charter deal with ExxonMobil

MISC has ordered two liquefied natural gas carriers on the back of a long-term charter contract with oil major ExxonMobil, building on earlier deals it has also sealed with Japanese companies NYK and Mitsubishi.

MISC, through its wholly-owned subsidiaries, has signed 15-year time charter contracts with Exxon Mobil unit SeaRiver Maritime LLC for two LNG carriers at an undisclosed rate. The vessels will serve the transportation needs of ExxonMobil's worldwide LNG portfolio.

MISC had earlier signed a Won485.3m ($405m) deal with Samsung Heavy Industries to build the 174,000 cu m LNG carriers with delivery scheduled in the first quarter of 2023.

Class NK joins decarbonisation coalition

CLASS NK, the Japanese classification society, has joined a shipping-industry led effort to develop zero-emissions vessels.

The Tokyo-based company is joining the Getting to Zero Coalition, which seeks to launch commercially viable zero-emission vessels by 2030.

The initiative, involving over 60 companies, was launched last month during the United Nations Climate Action week in New York.

Seafarers concerned over prosecution risks

CRIMINALISATION has been highlighted as a core concern among seafarers, according to a new survey by maritime professionals' union Nautilus International.

The survey, polling 612 seafarers as part of a Nautilus Federation report, showed nearly 90% are worried about being convicted as a result of working at sea, while two thirds said it impacted how they felt about working in the industry.

Nautilus International general secretary Mark Dickinson said that in a "truly unique" industry seafarers were faced with scenarios incomparable to other professions.

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- Enhanced visibility of port, terminal and berth activity including new alerting and filtering tools
- Increased vessel tracking data granularity with improved AIS capabilities
- Raw data manipulation through Excel downloads

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