Lloyd's List
Maritime intelligence | informa

Daily Briefing
Leading maritime commerce since 1734

LEAD STORY:
VLCC spot charter breaks $300,000 level on market disruption

WHAT TO WATCH:
Iranian tanker 'hit by missiles' in suspected terror attack

Supply tightness prompts upgrade on forecast LNG shipping rates

Questions remain over carriers' ability to pass on 2020 sulphur costs

OPINION:
The Interview: Vincent Power

ANALYSIS:
Ocean freight peak season fails to materialise

Regulators must decide if unmanned vessels are 'ships'

MARKETS:
Is IMO 2020 the final nail in the conventional coffin?

Reefer rates on the rise despite softening perishables trade

Time to take reefers to the 'next level'

IN OTHER NEWS:
China ramps up cement imports

Elba Island fires up LNG export project

UK signs Brexit freight capacity contracts worth $109m

Holyhead 'unprepared for no-deal Brexit'

Italy must integrate port reform and maritime governance

VLCC spot charter breaks $300,000 level on market disruption

SPOT CHARTER CONTACTS for very large crude carriers broke $300,000 as the industry digested the fallout from the US focusing its spotlight on sanctions on oil and from the latest security incident in the Middle East.

ExxonMobil chartered in the 2017-built, 299,946 dwt *Ardeche* from Euronav for World Scale 325, equating to a $327,853 time charter equivalent rate per day, excluding idle days, for 29.08 days, for a Middle East Gulf-Singapore route.

The spot rate for this vessel was revised from Thursday, when it was at WS165, according to Tanker International, which comprises a pool of VLCCs owned by different companies.

Separately, Idemitsu chartered in the Euronav-owned 318,438 dwt *Ingrid* for a trip from the Middle East Gulf to Japan for WS280, or a $301,219 TCE including idle days, for 45.41 days and $285,224 excluding idle days, for 49.76 days.

That contract also appears to have been revised up from Friday morning when it was WS240.

ST Shipping also chartered in the 2008-built, 320,513 dwt *Maran Capricorn* from the Angelicoussis Group for a $237,228 TCE excluding idle days for almost 66 days for voyage between West Africa and China, according to TI.

Frontline chartered out its 2009-built, 321,300 *Front Endurance* for $216,405 per day, excluding idle days, to Stasco for almost 71 days. The vessel will move oil from the Middle East Gulf to the UK coast through the Cape of Good Hope.

Crude oil tanker rates have increased in recent weeks as US sanctions have effectively squeezed tonnage out of the market.

The US government sanctioned some of Cosco's tanker units in late September for importing Iranian crude oil in violation of US sanctions.

The sanctions have not just knocked out those specific vessels also contaminated those in joint ventures where Cosco has a presence.

The disruption has been augmented by recent decision form major tanker charterers Unipec and ExxonMobil to effectively shun vessels that have within the past year called done any business in or with Venezuela, affecting over 200 VLCCs and suezmaxes.

The Baltic Dirty Tanker Index, which works as an aggregate of global shipbroking assessment, reported that by Thursday afternoon, rates for West Africa to China VLCC routes had reached $143,119.

Middle East Gulf to Singapore and China routes had reached $162,048 and $158,030 respectively.

WHAT TO WATCH

Iranian tanker 'hit by missiles' in suspected terror attack

A SUSPECTED terrorist attack has caused an explosion on an Iranian oil tanker off Jeddah, according to reports.

Iran has said that the National Iranian Oil Company tanker was struck by two rockets.

The company said two separate missiles hit the vessel at 5am and 5.20am local time, damaging two main reservoirs on board and causing an oil leak into the Red Sea.

The tanker is in a stable situation, the statement said.

"Technical experts on board are looking into the reasons behind the explosion but they think it was a terrorist attack," state media said. "The tanker is currently in a stable situation... and the crew are safe."

The incident comes as the region is on high alert after attacks on energy infrastructure in Saudi Arabia last month and after months of rising tensions involving international shipping in the Gulf.

There was no immediate claim of responsibility for the incident, which follows attacks on tankers in the Gulf in May and June.

Industry sources said the suspected attack could drive up shipping costs further.

"War risk insurance premiums for the Red Sea will now likely go up significantly, as will likely the freight [rates]," Ashok Sharma, managing director of shipbroker BRS Baxi in Singapore, told Reuters.

Iranian news agency FARS quoted the National Iranian Oil Company's public relations and international affairs department as saying crude oil tanker *Sabiti* (IMO: 9172040) was hit.

Lloyd's List Intelligence shows the vessel is a 1999-built, 159,681 dwt Iran-flagged crude oil tanker owned by NIOC.

Israeli newspaper Haaretz cited the NIOC as saying the oil tanker *Sinopa* had been hit.

According to Lloyd's List Intelligence, *Sinopa* (IMO: 9172038) is a 159,681 dwt Iranian-flagged crude oil tanker owned by National Iranian Oil Company.

The vessel's movement data shows it has been in transit in the Red Sea since leaving Fujairah anchorage on August 8 bound for Suez, where it was supposed to arrive on October 12.

The most recently available Automatic Identification System signal was from the evening of October 10, when it signalled it was heading northwest at 9 knots.

Maritime data consultancy Windward Maritime Analytics said the vessel had been struck by missiles offshore Jeddah and pointed out that the vessel had been drifting in the Red Sea for more than three days before it was reportedly hit.

Lloyd's List Intelligence figures show NIOC owns 70 vessels, 61 of which have been sanctioned.

The initial assessments of industry security experts who spoke to Lloyd's List ranged from this being a safety incident rather than an attack to regional state actors or armed factions trying to destabilise oil trade.

Maritime security firm Dryad Global said that if the incident were officially confirmed to have been an attack, the region would likely face another period of threats against shipping

"It is likely that Iran will wish to respond to this event, therefore the threat to Saudi-flagged vessels within the Strait of Hormuz is assessed as being high," Dryad wrote in a statement.

It said vessels carrying flags of governments aligned with the US Sentinel military operation in the Middle East are thought of as being at a heightened risk.

Tensions between Iran and Saudi Arabia have been running high since an attack on two Saudi Aramco oil facilities on September 14 that caused fires and other damage. The effect was to shut down 5.7m barrels per day of production.

The US government blamed Iran for the attacks, despite Houthi rebels in Yemen claiming responsibility. Iran has denied the accusation.

In May, four vessels, including two Saudi Arabia-flagged tankers, were damaged following explosions off Fujairah thought to have been caused by limpet mines.

The United Arab Emirates, Norway and Saudi Arabia claimed a state actor was behind the attacks, while the US blamed Iran for the attack. Iran denied any involvement.

In June, two more crude oil tankers were attacked while in the Strait of Hormuz. The US said forces linked to Iran were responsible.

Escalating tensions raised alarms for safe navigation in the Middle East and particularly the Strait of Hormuz, one of the major oil chokepoints of the world.

In July, an Iranian crude oil tanker, *Grace 1*, was detained by UK authorities in the Strait of Gibraltar on suspicion it was transporting crude oil to Syria in breach of European Union sanctions.

Tehran responded by seizing the British-flagged tanker *Stena Impero* in the Strait of Hormuz, alleging it had violated maritime laws.

Gibraltar allowed the Iranian tanker — since renamed *Adrian Darya 1* — to depart in mid-August. Stena Impero was released at the end of September.

Supply tightness prompts upgrade on forecast LNG shipping rates

AN expected delay in this year's winter season may force liquefied natural gas tankers to slow steam, further tightening supply in the shipping market.

Platts Analytics, in flagging also continually high rates of floating LNG cargoes, which reduces available shipping tonnage, has raised its November to January forecasts for LNG shipping rates by $13,300 per day.

Tankers may need to slow steam as hot weather in East Asia has dampened hopes of an early winter this year, a Platts report noted.

East Asia is home to the world's largest LNG importers, namely, China, Japan and South Korea.

LNG trades generally spike ahead of the winter season as demand for gas-fired heating ramps up in the region.

But a warmer-than-expected winter in the northern hemisphere last year has not helped trades of LNG and its freight market.

Excess supplies spilling over from over-stocking in Asia during the last winter have until recently been absorbed by floating storage off Europe that is now filled to the brim.

The arbitrage between LNG trades in Asia and Europe however, has widened of late with leading importers including China and Japan taking in more cargoes, observers told Lloyd's List.

That has bolstered freight rates particularly in the spot market.

Platts analysts noted that on the flip side, the supply tightness in LNG shipping is mitigated by global fleet growth outpacing production, growing at an annualised rate of 9.5% compared to LNG output, which expanded 5% compared with the year before.

But "a sharp contango" has developed in freight rates and shipping players are now motivated to "move ships onto the water as quickly as possible".

The leading energy and commodity pricing agency forecasts that spot rates for TFDE (tri-fuel diesel electric) LNG tankers would jump from $81,200 to $137,200 for trades in the Atlantic basin and from $78,000 to $136,900 for trades in the Pacific basin.

Spot rates for steam turbine-engined LNG tankers are also expected to increase from $46,600 to $78,400 for Atlantic trades and $44,700 to $78,200 for Pacific trades, Platts analysts predicted.

Questions remain over carriers' ability to pass on 2020 sulphur costs

SHIPPERS that have to build their 2020 box shipping budgets are probably scratching their heads over uncertainties about fuel prices.

The spread between high sulphur bunker fuel and the compliant fuel that meets the 0.5% sulphur limit next year remains uncertain — and the same seems increasingly true about the underlying crude oil price. The bunker adjustment factor is complex, varying from different formulas by different carriers. And the installation of scrubbers has further complicated the situation.

Kuehne + Nagel, a major freight forwarder that sits in between the cargo owners and carriers, has no simple answer for its customers.

"Simply because there's too much volatility," Arne Voller, the company's seafreight director for South China Cluster, told the TPM Asia conference. "Carriers are applying too many different methodologies, because they are uncertain by themselves. They are also constantly changing their mind, weekly or fortnightly."

To reduce its exposure to that unpredictability into 2020, K+N has already moved to sign only monthly contracts with shippers as opposed to the traditional quarterly deals, in particular for the long-haul trades such as Asia-Europe services, Mr Voller told Lloyd's List.

His company is also not making any long-term commitment to the bunker price.

"We are not quoting any long-term bunkering. Every tender or any request that we respond to is going to have a clause that the price is going to be floating with the market," he said.

Silvia Ding, senior vice-president and global head of ocean product at Maersk Line, the world's largest liner shipping carrier, tried to alleviate the concerns.

She said the estimated prices for low sulphur fuel oils would be settled at somewhere between $500 and $600 per tonne next year, which is in fact lower than the level seen before when crude oil was traded at $100 per barrel.

"So actually, it is not a massive reset compared to what the customers had experienced previously."

But it's all uphill from now, as the low sulphur fuel oil price is widely expected to be $150-$200 more expensive than that of high sulphur fuel oil. More importantly, perhaps, the tension in the Middle East has made the pump price outlook less clear, despite the rising US output and slowing global economy.

A suspected terrorist attack caused an explosion and fire on an Iranian oil tanker off Jeddah, Reuters cited Iranian state media as saying today. That came just a few days after Saudi Arabia said its full oil production capacity will return by end-November following a September attack on some major facilities and a resulting short-lived markup of crude oil.

Even based on the current oil price, the cost related to the switchover to compliant fuel for the 2020 sulphur cap is still substantial — an additional $11bn fuel bill estimated by Drewry in its recent report. The consultancy added that the degree of compensation that carriers receive will dictate the level of supply disruption next year.

Ms Ding at Maersk said that her company had made lots of efforts to gain customers' understanding about why and how the fuel costs should be passed on. And Maersk's BAF formula was set up in the form of a two-way traffic system so that shippers can also benefit from a drop in fuel prices, she added.

"So whenever the fuel price comes down, we'll also pass on the reduction in cost to the customers."

But whether shippers will eventually foot the bill is not only dependent on the level of the fuel prices and the perfection of carriers' BAF set-ups. It is essentially determined by market equilibrium, according to Parash Jain, head of the transport research at HSBC.

While the projection for short-term cargo demand and vessel supply appears relatively healthy, the rising geopolitical uncertainties, including the simmering US-China trade war, are obscuring the market prospects.

"Entering into 2020, if the demand falls of a cliff for a variety of reasons, then the inherent competition will kick in," Mr Jain cautioned. "On the one side, you may put a bunker surcharge, which will capture all the fuel cost increase, but your base rate could come down to zero."

Some shipping line executives argued in private that the current alliance structure with a more consolidated base would prevent the reoccurrence of that type of rat race, even if the trade conflicts escalate and dent the cargo volume next year.

However, carriers will start to feel insecure and consider lowering rates to increase capacity when vessel utilisation fell below 90% and inclined towards 80%, Mr Voller at K+N reckoned.

"But I think that's the situation that our carrier partners will try best to avoid."

OPINION

The Interview: Vincent Power

MARITIME lawyers probably have never been in greater demand than now, *writes Janet Porter*.

As shipping faces tough new environmental regulations, the complexity of sanctions, greater safety and security threats, state aid challenges, the ever-present oversight of antitrust regulators, and Brexit uncertainties, so shipowners need more legal advice than ever before.

Dr Vincent Power, who takes over as chairman of the European Maritime Law Organisation later this month, hopes to capitalise on this changing landscape to broaden the remit of the association, which was set up in 1991 at a time when the European Commission was starting to investigate the Far Eastern Freight Conference.

The purpose was to establish a neutral and independent forum for debate and research on issues of interest to those concerned with EU maritime affairs.

For much of the time since then, Emlo members have concentrated largely on EU competition law as Brussels fought, and eventually won, the battle to outlaw the liner conference system in Europe.

More recently, the EU Consortia Block Exemption, which sets the rules for alliances between container lines and which comes up for renewal next year, has featured prominently at Emlo conferences as delegates considered whether or not shipping should be covered by the same competition regime as other industries, or be treated differently.

With shipping constantly under the scrutiny of antitrust authorities, in Europe and elsewhere, that focus will remain a central theme for Emlo. But Dr Power, who will succeed Lord Phillips of Worth Matravers, hopes to broaden the scope of the organisation's interests.

Speaking to Lloyd's List shortly after the Stena Imperio product tanker was released from Iranian waters and ahead of the Emlo annual conference in Cyprus where one of the speakers will be Stena Line vice-president Claes Berglund, Dr Power says he would like the debates to extend to all aspects of maritime law.

Pulling power

Emlo has always been able to attract an impressive array of speakers to its annual conferences and spring seminars.

Federal Maritime Commissioner Rebecca Dye and Henrik Mørch, director of transport, ports and other services at the European Commission's Competition Directorate, will be joining this month's line-up.

While somewhat below the radar, "Emlo punches well above its weight", says Dr Power.

The organisation is not as visible as it might be, he concedes, and to some extent that is deliberate.

But with shipping facing so many challenges on multiple fronts, every one of which is likely to require legal advice or representation, now seems the right time for Emlo to cover all areas of maritime law.

Emlo has established an undoubted reputation as an authoritative organisation whose members are world experts in their field, which is why top judges, senior EU officials, and industry leaders regularly attend its events.

The quality of the debate is underlined by Lord Phillips, the inaugural president of the UK's Supreme Court, who will step down next week after seven years as chairman. He tells Lloyd's List that having started at the Admiralty Bar and specialised in shipping law, he had expected to find himself in familiar waters in the role.

"I was wrong," he recalls. "My experience was in the civil side of maritime law, whereas Emlo is primarily concerned with public maritime law, and in particular competition law."

At Emlo conferences around Europe, "I have been learning rather than contributing to the laws that govern maritime trade, and in particular the laws of the European Union".

On one memorable occasion in London a few years ago, competition regulators from Washington, Beijing, and Brussels held a joint panel session, something that had never happened before.

Dr Power, a partner with the Irish law firm A&L Goodbody, says maritime competition law will remain at the heart of Emlo's focus, but within a broader church.

The Dubliner compares the change "to an Irish country meal, which traditionally has consisted of a large dollop of meat in the middle with a few vegetables around".

In future, there will still be the same amount of meat, he promises, but accompanied by more vegetables.

He also expects the London-based organisation to become more important than ever when, or if, the UK leaves the European Union.

Whatever the future holds for Britain, there will be no escaping the reach EU law for those involved in international trade, he warns.

"Once you set sail from the UK in any direction, you will bump into the EU," which is where Emlo can provide a vital resource for those trying to navigate the complexity of international maritime laws."

With that in mind, Dr Power hopes the board will agree with his plans for greater visibility for Emlo while maintaining strict neutrality. That may include some smaller events between the spring and autumn conferences, a more active website, and greater use of social media to draw attention to, for example, relevant court rulings, European Commission announcements, shipping news, or other industry developments that matter to maritime lawyers and their clients.

Dr Power, who is head of A&L Goodbody's EU, competition and procurement group, admits he assumed it was a joke when first approached about being the new Emlo chairman.

When several board members independently asked him, he says he thought it must be the most well-orchestrated joke ever, having never lobbied to be chairman, and considering that the previous four - the late Lord Slynn, the Dutch judge Thijmen Koopmans, and Sir Francis Jacobs as well as Lord Phillips - had all been such eminent lawyers.

In his entire career, he says he has never sought anything out, "but if an opportunity arises I will take it".

Lord Phillips is in little doubt that Dr Power is the right choice just when the UK looks poised to leave the EU while still impacted by European maritime law.

"It is perhaps appropriate that I should be handing over the chair to Vincent, a doyen in the field, at a time when the way that those laws impact on the United Kingdom would seem about to change."

Dr Power says he is a little unusual in being both a practising lawyer and author of seven books on maritime law, including the award-winning EC Shipping Law, originally published by Lloyd's of London Press. The 1,800 page two-volume third edition was published this year by Informa Law from Routledge and hosted on the i-law.com platform.

He has a Master's Degree and a Doctorate from Cambridge University and was the first ever law graduate to be awarded the Distinguished Alumnus award from University College Cork.

He is also Adjunct Professor of Law at University College Cork and Visiting Professor of EU Law at Dalhousie University in Canada.

He lectures at the Law Society of Ireland. He is a member of the board of directors of the Irish Centre for Europe Law at Trinity College Dublin.

Dr Power has advised on most of the leading competition, merger control, EU law, cartel, abuse of dominance, state aid, joint venture, pricing, and refusal to supply investigations.

He says he has always had an interest in shipping, the EU, and competition law, "so an unusual confluence".

All these interests come together within Emlo as well.

"Competition, like the poor, will always be with us," says Dr Power, but now is the time to broaden out to cover other areas of maritime law as the shipping industry struggles to keep up with all the new rules and regulations with which it must comply, or risk potentially massive penalties.

Dr Power hopes Emlo can contribute by preparing papers and consultation documents, providing a neutral forum for debate, and becoming a resource and source of expertise both for maritime lawyers and all other stakeholders in this fast-changing world.

By broadening both the scope of Emlo and membership, Dr Power says he thinks the organisation will become more significant than ever before as the "shop window to what is happening in Europe".

ANALYSIS

Ocean freight peak season fails to materialise

FLEXPORT, the digital freight forwarder, has attributed a plateau in transpacific eastbound ocean freight to a "black swan" event — the absence of a peak season — caused by front-loading earlier in the season leading to higher inventory levels as well as less demand in the market, with some US sourcing shifting to Southeast Asia.

Flexport director Jan Hinz says supply is continuing to outstrip demand, with spot market rates trending below fixed contract rate levels.

"Ocean carriers are trying to balance supply and demand by implementing blank sailings to reduce capacity," he told Lloyd's List. "This was implemented around the Golden Week holiday to help prevent further spot rate deterioration. Extensive blank sailing programmes have been announced for October and beyond."

Mr Hinz said this year's 'black swan' event for the trade had been the "complete absence of a peak season".

"This can be attributed to front-loading earlier in the season, and consequently, higher inventory levels as well as less demand in the market," he said. "We have seen slow peak seasons pre-2018 due to shifting sourcing patterns, but not to this extent."

He added that 2018 had been an exceptional year for ocean freight on the transpacific, with a dramatic early peak season due to tariff hikes. But the swift implementation of tariff hikes in 2019 made it impossible for shippers to allow for front-loading as seen in the fourth quarter of 2018.

"Front-loading is less pronounced in ocean freight now."

Alternative sourcing was also starting to take hold, Mr Hinz said.
"When we look at ocean freight volumes from January to September 2019, absolute volumes in China decreased by 5% year on year but we saw massive gains of 32%, 19% and 25% in Vietnam, Thailand and Malaysia, respectively."

But it was important to note that these countries did not have the physical infrastructure or labour market necessary to support manufacturing on the scale that China historically had, he added.

"China is still the biggest exporter in the world. China's role in global trade isn't going anywhere anytime soon. Even if its export volume went down 25%, China would still be the largest player on the eastbound transpacific."

Flexport does not expect an extended peak season due to shippers rushing to have goods arrive in the US before a further round of tariffs emerge. But Mr

Hinz added the caveat that it all depended on capacity deployment.

"We saw these same trends in 2018 prior to tariff implementations: demand was weak and carriers rushed to reduce capacity — even cancelling some services altogether."

Mr Hinz advised shippers on the transpacific ocean freight trades to analyse their supply chains and consider different routes and possibly even new distribution centres on the US east coast as volumes continue to shift to southeast Asia.

"Transit times from Southeast Asia to the US east coast are faster than China to US east coast routes," he said. "Today, there are four weekly services from Asia Pacific to the Gulf coast, compared to only two in 2016. This means more demand is shifting to Southeast Asia — and supply will follow."

Regulators must decide if unmanned vessels are 'ships'

INDUSTRY regulators will have to decide whether unmanned vessels can properly be regarded as ships within the meaning of current international conventions, and if so, how to adapt those conventions to a new reality, a heavyweight industry figure has argued.

Mans Jacobsson, chief executive of the International Oil Pollution Compensation Funds for more than two decades, was speaking at the Shipping and the Law conference in Naples on Thursday.

As the purposes of unmanned vessels are essentially the same as those of manned vessels — namely, the transport of goods and people from A to B — Mr Jacobsson proposed that they should qualify as ships.

But instruments such as the United Nations Convention on Law of the Sea and the International Convention on Standards of Training, Certification and Watchkeeping for Seafarers, 1978, known as the STCW Convention, are worded so as to assume the presence of master and crew, and this raises potential problems. Issues of insurability and both civil and criminal liability also have to be considered.

"Significant work will have to be carried out in adapting maritime law to the requirements of unmanned vessels," he noted.

For instance, where a vessel is unmanned, there can be no watchkeeping of any meaningful kind, and it may be impossible to ensure that unmanned vessels meet the existing requirement to come to the aid of other vessels in distress.

There are essentially two types of unmanned vessels, those controlled by an operator ashore or on a mother vessel, and those that are truly autonomous, which is to say pre-programmed to undertake a voyage without human intervention.

The latter type has primarily been developed for research and/or defence purposes, but the technology should be broadly applicable to boxships, inland vessels and coasters.

Unmanned vessels may turn out to be safer than current vessel types, given that the majority of accidents are the result of human error. But then again, many accidents are also prevented by human action.

Decisions over their operations will have to conform with various frameworks, including jurisdictional rules developed by states; technical rules developed by the International Maritime Organization and others; and liability law.

Among other issues brought up at the conference, Mark Clough, a barrister who sits on the board of the European Maritime Law Association, addressed the question of state support for ports, as set down in European Commission regulation 2017/352.

"It doesn't do much, except get the dossier off the commission's desk after 25 years," he added, and the UK voted against it, thanks to lobbying by private sector ports.

In essence, the simple act of holding a public procurement process can be enough subsequently to justify state aid.

Meanwhile, James Leabeater QC, a barrister at 4 Pump Court chambers, spoke about the possible impact of Brexit on shipping contracts that specify dispute resolution through English law.

The efficacy of English law in shipping contracts is unlikely to be changed under any potential Brexit variant, he concluded, and arbitration will also be unaffected.

Is IMO 2020 the final nail in the conventional coffin?

THE impending fate of conventional reefer shipping seems to be in little doubt.

A fleet that once dominated the seaborne perishables market will eventually give way to the cheaper alternative mode of transport in the form of the reefer container.

Today, the conventional share of the total reefer market stands at below 20%, a figure Drewry says will fall to as low as 15% within the next four years.

However, some industry players say this is far too conservative an estimate in terms of falling numbers. They say IMO 2020 will seal its fate.

Speaking at the Cool Logistics conference in Spain, Great White Fleet president Stefano Di Paolo said that the era of "conventional reefer shipping is over".

GWF effectively switched to full container mode last year, replacing conventional vessels deployed on the Central America/northern Europe trade on behalf of fruit producer Chiquita Brands International with cellular boxships.

Although the line still uses a few conventional ships on specialist trades, Mr Di Paulo said the economics behind their operation will not stack up once the sulphur cap comes into play.

"The cost of the conventional reefer vessel is no longer affordable," he stressed.

This theory was shared by KMB consulting founder Kevin Bragg, the former head of Bonita Europe, who said that IMO 2020 will be the "final nail in the coffin" for traditional reefer shipping.

Others, though, feel it is perhaps premature to write off conventional reefer units at this stage.

Maersk Line's head of global reefer solutions Anne-Sophie Zerlang Karlsen said that she does not expect such ships to essentially stop operating come January 1 next year.

She highlighted how a number of banana exporters operating the north-south trades are still hesitant to part with their tried and trusted conventional units.

"It makes good sense as nobody really knows what the price difference is going to be," Ms Zerlang Karlsen said in reference to next year's emission regulations. "Over time, this will be the consequence, but I'm reluctant to say they'll disappear altogether."

Martin Dixon, director and head of research products at Drewry, shares this view, pointing to how a downgrade in the number of conventional units would also exacerbate the industry's reefer container shortage.

"Even an accelerated jump in scrapping of just 1%-2% would put increasing pressure on an already tight level of equipment balance," he said.

Mr Dixon added that the demolition levels across the conventional fleet had been markedly low given impending regulation.

But he did admit that next year will see a flurry of vessels heading to breakers, not only due to the sulphur cap but also due to the age profile of the fleet.

"Look a few years beyond that and the vessel-age profile does not indicate a high level of retirement, so therefore you would expect the fleet to decline at a slightly slower pace," he said. "I think people are overestimating their decline."

Reefer rates on the rise despite softening perishables trade

GROWTH in the global perishables trade may be expected to slow in the coming years, but box carriers will still be able to command strong freight rates in the segment amid high demand for reefer containers.

According to Drewry's Reefer Shipping Annual Review and Forecast 2019/20, published in early September, global seaborne reefer trade continued to grow in 2018, but at a slower pace than in previous years.

Growth in 2018 was estimated by Drewry at around 3% to 129m tonnes, a figure weaker than the 4.5% growth of 2017, and lower than the 3.6% average annual growth rate recorded in the prior decade.

Slower growth in the overall perishables market will become a feature over the next few years.

Drewry forecasts a compound annual growth rate of 2.7% through to 2023, a figure in line with the overall slowdown in global trade and the adverse impact of the tariff stand-off between the US and China. The reefer market will also likely feel the effects of certain seasonal climate related factors such as El Niño slow production output in the short term, but also from other rising geopolitical risks.

Although the growth of the wider perishables trade may not quite be the level container lines would wish, this steady sub-division for the box industry will continue to offer much needed respite from the trials and tribulations of the dry cargo market and ongoing rate volatility.

Speaking at the recent Cool Logistics conference in Valencia, Spain, Drewry director and head of research products Martin Dixon noted how containerised reefer trade grew by 4.3% in 2018 to around 9.4m teu.

“Significantly this was lower than the growth in dry cargo last year, which climbed by 5.4%,” he said.

Traditionally, reefer trade has grown incrementally at a faster rate than the dry market, but Mr Dixon said that Drewry expects normality to return in 2019. “This year we expect slightly slower growth (4%), but trade will recover in 2020,” he said.

Drewry forecasts a compound annual growth rate of just over 4% for containerised reefer trade from 2019 to 2023.

“This will again put it slightly above the growth in dry cargo,” he said. Supporting growth beyond the wider growth of the perishables market will be the ongoing shift from conventional reefers to containerisation.

“The additional boost of modal shift is providing container carriers with an attractively expanding market in reefer cargo,” said Mr Dixon.

Drewry expects the containerised share of reefer traffic to grow from a level of around 81% in 2018 to 85% by 2023, as the specialised breakbulk reefer shipping fleet continues its contraction.

Although much of the reefer market is already containerised there are still survivors particularly on the banana and exotic fruit trades operating out of Central and South America, where conventional ships move around 40% of total trade.

Mr Dixon said he expected this strong market for conventional operators to swing further in the favour of the liner operators, supporting a large chunk of the modal shift over the next few years. Drewry estimates that by 2023 conventional ships will see their market share of the banana and exotic fruit trade fall closer to 30%.

The continued modal shift and the increasing demand for reefer units this incurs only points to higher rates, said Mr Dixon.

Rate increases will also be supported by a shortage of reefer boxes that industry commentators forecast for the fourth quarter of 2019 onwards.

Speaking to Lloyd’s List on the side lines of the Cool Logistics Conference, Maersk Line’s head of global reefer solutions Anne-Sophie Zerlang Karlsen admitted that strengthening rates can only be positive for both carriers and box lessors. However, she said this will only be the case if rate increases are sustainable.

Shippers may pay a premium now to ensure enough reefer containers are available, but when equipment becomes plentiful once more, they will expect a reduction in rates accordingly, she explained.

Ms Karlsen said for carriers it is difficult to judge how much you “hurt the customer” in this scenario. “It is a fine balance,” she said.

In recent years, reefer rates have continued to outperform those on the dry market. Since Drewry started benchmarking rates on the seaborne perishables trades in 2017, average reefer rates have risen by around 6%. Dry cargo rates have dropped during the same period by approximately 3%, according to the London-based analysts.

The divergence has come largely off the back of strong demand for reefers, however, Mr Dixon said higher concentration in the market and the pricing power this gives carriers has also played a crucial role. “If you look at some of the specific reefer trades,

Time to take reefers to the ‘next level’

THE reefer industry is often described as the Formula 1 of container shipping, leading the way on technology and setting the standard.

Acting too as a test ground for various digital solutions, it has helped clear a path towards greater cargo transparency and visibility, while of course being a hotbed for ingenious methods to moderate and control atmospheric conditions in the transfer of perishable goods.

But is the reefer industry in danger of slipping from its mantle?
Maersk Line’s head of global reefer solutions Anne-Sophie Zerlang Karlsen says she is continually lashing out at peers for calling themselves “innovative”. The back-patting needs to stop, she says.

Despite praising the strides made by the controlled-atmosphere container, she highlights how the fundamental design has changed little since its introduction in the 1990s.

“Now we need to take it to the next level,” Ms Karlsen told Lloyd’s List. “There is so much happening in the post-harvest space in terms of extending shelf life and eradicating waste by small and upcoming companies, especially in the US, but also in other parts of the world,” she said.

While paying more attention to so-called outside disruptors will prove vital in taking this next step, she still holds concern that the industry is still lagging behind in what existing technology can bring the table.

Ms Karlsen fears that with other carriers set to join Hapag-Lloyd in following Maersk’s lead on smart reefer containers, there is a danger that customers could be left with numerous data sets for reefer shipments given they seldom choose to do business with a sole carrier.

“If you ship with CMA CGM, Maersk and Hapag-Lloyd it would be better for the customer to open one user interface and have all the information in one place.”

Standardisation will hold the key, she says

“The smart container may be a step forward in terms of transparency of what is happening in the box, but I would just love for this industry to take it a step further and actually collaborate on this and not be so afraid of that.”

IN OTHER NEWS

China ramps up cement imports

CHINA is increasingly relying on cement imports, the bulk of which are coming from Vietnam, supporting smaller bulker sizes, according to research by shipbrokers Braemar ACM.

In the last 12 months, China imported 21m tonnes. That compares to almost zero prior to the fourth quarter of 2017, Braemar said in a dry bulk note.

In the first half of the year, shipments averaged 1.7m tonnes per month. They peaked at more than 2.5m tonnes in May.

Elba Island fires up LNG export project

THE first of 10 liquefaction units at the $2bn Elba Liquefaction Facility at Elba Island near Savannah, Georgia, is in service, said Elba Liquefaction Co LLC.

The $2bn project is being developed as a 51%-49% joint venture respectively between Kinder Morgan and private equity firm EIG Global Energy Partners.

The original start-up was delayed in early September when Kinder Morgan halted the process following mandatory evacuation orders on the approach of Hurricane Dorian.

UK signs Brexit freight capacity contracts worth $109m

THE UK government has signed what it has called freight capacity contracts to ensure medicines will arrive uninterrupted into the country after it leaves the European Union.

The contracts, which will be in place for six months, are worth as much as £86m ($109m), the UK government has said in a statement.

The contracts are with Brittany Ferries, DFDS, P&O ferries and Stena Line, who will be ready to deliver “capacity equivalent to thousands of heavy goods vehicles per week from October 31”. They are the first arising from the government’s freight capacity framework, which has a shortlist of experienced and capable freight operators, the government said.

Holyhead 'unprepared for no-deal Brexit'

HOLYHEAD, the UK's second-biggest ro-ro port, is "absolutely not" ready for a no-deal Brexit and lacks the infrastructure needed to avoid a backlog of lorries to the key UK-Ireland road freight crossing, according to one of the Welsh port's major freight users.

The infrastructure needed to avoid a backlog of lorries on the A55 was not in place and it was "implausible" that it would be in time, according to Andrew Kinsella, managing director of the UK-Ireland road freight specialist Gwynedd Shipping.

Stena Line Ports, the company that manages the port in Holyhead, claims it has "taken all prudent steps" to prepare for a a Brexit on World Trade Organisation terms.

Italy must integrate port reform and maritime governance

WITH over 8,000 km of coastline and a centuries-old maritime vocation with a capacity to produce wealth that is estimated at around 2.7% of gross domestic product, Italy is strategically located right in the centre of the Mediterranean, providing access to the European Union.

It boasts a shipbuilding industry of global importance with companies such as Fincantieri (for heavy shipbuilding) and Perini (for yacht and luxury shipbuilding). It also offers major attractions on cruise itineraries as well as providing a resource for coastal tourism.

Over 50% of goods entering and leaving Italy are handled by sea through its commercial ports. Despite all this, however, Italy lacks a structured maritime policy both as regards ports and the sea as a resource for all types of sustainable economic activity.

Classified notices follow on the next two pages