Wednesday October 16, 2019

Lloyd's List
Maritime intelligence | informa

Daily Briefing
Leading maritime commerce since 1734

LEAD STORY:
Lower West Africa ship charters trigger tanker earnings collapse

WHAT TO WATCH:
MSC confirms options for five new ultra large boxships at DSME

OPINION:
Changing perceptions from the inside out

ANALYSIS:
Japan-EU trade agreement boosts Italian exports

Shipping is 'human capital intensive' industry

MARKETS:
World steel demand to remain resilient

Capesizes eye gains as Vale ramps up iron ore output

IN OTHER NEWS:
Barakah Offshore revival scuttled by Petronas licence suspension

Alafouzos family tightens grip on Okeanis Eco Tankers

Lukoil to produce IMO 2020 compliant LSFO

MPA revokes bunker craft operator licence of Inter-Pacific Petroleum

BW Group sells BW LPG stake

Fuel-cost indexing mechanism set up for IMO 2020

Lower West Africa ship charters trigger tanker earnings collapse

RATES FOR THE largest crude tankers have tumbled, snapping a run of stratospheric gains over the past three weeks as some of the highest-profile fixtures failed for vessels chartered at rates exceeding $300,000 per day.

Earnings for very large crude carriers on routes to Asia from the Middle East Gulf plunged the most, Baltic Exchange data showed. The daily rate for Saudi Arabia-Singapore oil shipments declined by nearly $90,000, retreating to more than $204,000 per day.

Similar falls were seen for VLCCs to China from Saudi Arabian ports, which lost more than $87,000, settling at nearly $201,500 per day, according to the London-based provider of freight indices. VLCC rates to China from West Africa, which had nearly nudged $300,000 as well, also showed large falls, dropping below $190,000 per day.

Suezmax rates showed much smaller and less dramatic drops, falling between 17% and 25%, while aframax earnings continued to rise, reflecting the trickle-down impact of the recent heat on the larger tanker sizes.

Shipbrokers attributed the collapse to lower-than-expected levels for fresh fixtures concluded today for West Africa cargoes. These were done 30 to 40 Worldscale points lower than expected. This flowed on to rates for the Middle East Gulf, resulting in fixtures agreed last Thursday to fail. Such an earnings disjoint between West Africa and the Middle East Gulf could not be sustained, brokers reported.

“It was always going to be a case that the market was overdone,” one broker told Lloyd’s List. He anticipated this to flow through to the smaller tanker sizes in the next 48 hours. Very few cargoes were worked in the market on Friday and Monday, and those arriving on Tuesday are attracting the much lower rates.

Crashing rates came after three of the highest-profile fixtures concluded at 15-year highs on Thursday and Friday failed on subjects. The deal between the owner of 2017-built VLCC *Ardeche* chartered to load 270,000 tonnes for ExxonMobil from the Middle East between November 3 and November 5 failed, according to information from tanker pool Tankers International. The Worldscale rate of 325 equated to just under $300,000 daily.

Another fixture reported on Friday for oil company Shell’s shipping subsidiary Stasco also failed. The VLCC *Front Endurance* was loading around similar dates from the Middle East Gulf at earnings equivalent to nearly $230,000. The vessel *Evgenia*, taken by BP, also failed at earnings of $235,000 daily.

By contrast, Tankers International reported VLCC tonnage to have been chartered on October 15 at slightly lower levels, with Middle East Gulf-West Coast India earnings now at $210,000 per day.

News of these failed fixtures has tanker owners, oil companies and refiners closely watching the remaining VLCCs provisionally chartered at sky-rocketing levels. The 2012-built VLCC *Ingrid*, whose Middle East Gulf-Japan fixture broke the $300,000 barrier, is still show that it is on subjects, five days after it was provisionally chartered.

Rates had soared since September 25, after the US government sanctioned two tanker subsidiaries of China’s Cosco for shipping Iranian crude in violation of unilateral sanctions. Oil companies feared chartering vessels connected to the sanctioned entities or those which had called at Venezuela, another country sanctioned by the Trump administration.

Average VLCC time charter rates climbed from $18,284 per day on September 25 to peak at more than $240,000 on October 11, Baltic Exchange data showed.

WHAT TO WATCH

MSC confirms options for five new ultra large boxships at DSME

MEDITERRANEAN Shipping Co has taken options on five more ultra large containerships from South Korea’s Daewoo Shipbuilding & Marine Engineering.

In a regulatory filing to the Korea Stock Exchange, the yard said the value of the order was Won903.9bn ($761.9m) and that the ships would be delivered by August 2021.

A spokesman for MSC told Lloyd’s List that while the company had no new orders in place, it did have “optional arrangements” with DSME related to previous orders.

He would not confirm the size of the vessels, but brokers contacted by Lloyd’s List said the ships would be in the 23,000 teu range and fitted with scrubbers.

The options follow on from an $1.5bn, 11-ship order that MSC signed with DSME and rival South Korean yard Samsung Heavy Industries in 2017.

These vessels, which are currently being delivered, include the 23,756 teu *MSC Gülsün*, currently the world’s largest containership.

Lloyd’s List understands the vessels are fitted with hybrid scrubbers, making them less susceptible to the regulatory challenges facing open-loop scrubbers.

The first ships on the order were financed by Chinese leasing houses CMB Leasing and CCB Leasing.

The price is similar to what Evergreen paid for its order of six ships from SHI, which was said to be underbid, indicating that MSC is using current low yard prices to push forward with its fleet development plans.

OPINION

Changing perceptions from the inside out

HOW often do you hear executives on the conference circuit bemoaning the fact that the industry isn't understood, doesn't present itself well or attract the best talent? asks *Mark Stokes*, director with BLUE, a business, brand and communications consultancy specialising in the marine and energy markets.

Yet how many of the companies that those executives represent clearly articulate what they do and how they add value in today's world? And how many make a compelling proposition for why anyone, let alone the new generation entering the workforce, would want to come and work in the maritime sector?

Industry bodies representing our fragmented industry are often criticised. However, by the very nature of them having to represent disparate groups, the organisations themselves are also fragmented and are working full-time in dealing with issues and challenges specifically relating to their constituents. Companies too, driven by the need to provide shareholder value or, in some instances in shipping, merely survive, intuitively look inwards and not out towards the broader world they operate in.

Nevertheless, some progressive companies and organisations are seizing the initiative by demonstrating an outward looking approach — understanding that we can't continue to complain to our own echo chamber about how we are perceived and taking affirmative action in having a global conversation about their commitments.

However, we also need to take individual responsibility for how broader society and future talent views us — and this starts at home with our own brand communications and the purpose and values that define us.

BLUE recently held a wide-ranging debate on the subject in collaboration with Lloyd's List at London International Shipping Week. Dispelling Myths: Brand, Reputation, PR and Marketing in Shipping featured panellists including Joe Cook, communications director at Cargill, Sharn Samra, group marketing director at V.Group and Emily Luscombe, deputy managing director of Golin London, alongside BLUE director, Amie Pascoe.

The good news is that change is coming. As Cargill's Joe Cook said: "Brand is extremely important in retaining talent. But it's also important for our customers, as they are increasingly close to our business. There is a much greater understanding of how we operate and what we believe in."

Maritime companies are starting to invest in communicating their purpose and role in an integrated and sustainable supply chain, rather than merely playing a role in the shipping of goods from A to B at the lowest cost. They're also recognising that by engaging in society's broader conversations around environment, the circular economy, social responsibility, diversity and digitalisation they're finding resonance in attracting and retaining the next generation of talent.

If you can't inspire or articulate why your people should get out of bed in the morning, then it's best to stay in bed. People want to work for companies and organisations that have a clear sense of purpose in why they exist, who they serve and what their contribution is, not just to shareholders but to society as a whole.

There is much debate and hand-wringing about how we engage with Generation Z, those born between 1995 and 2010, as they enter the workforce.

It's true that they have demands that seem novel and challenging to the established way of doing things. But fundamentally people haven't changed. Technology has changed. And technology has brought information and transparency, leading to much greater mobility and awareness of opportunities in the marketplace. Shipping's reality is that we're competing for talent with companies in other sectors who are really good at telling their story.

So, who should tell our story? People ultimately trust and identify with people like them. The annual Edelman Trust Barometer tells us that trust in leaders is at an all-time low. People tend to trust what they hear from peers and industry experts far more than they do from senior management.

With an increasingly diverse workforce, we need an inside-out approach, investing in training and empowering our people with the purpose, passion, knowledge and confidence to talk fluently about our organisations and our role in the world. The biggest advocates for our industry are our people.

ANALYSIS

Japan-EU trade agreement boosts Italian exports

AFTER years of negotiation, the Japan-EU Economic Partnership Agreement entered into force on February 1, 2019.

At a time of widespread protectionism, characterised primarily by the withdrawal of the US from a number of multilateral agreements such as the Trans-Pacific Partnership, the trade war between the US and China and the planned exit of the UK from the European Union, the agreement between the EU and Japan, together with the previously agreed EU-Canada Trade Agreement, has been welcomed by those who support international co-operation and free trade.

The latest trade data from MDS Transmodal for the second quarter of 2019 suggest positive results for EU exports to Japan, with Italy among the best-performing countries.

It is estimated that between April and June, EU exports to Japan increased by about 10% compared to the corresponding period in 2018, with Italian exports estimated to have grown by over 12%.

The positive results observed by Italian exporting companies in the second quarter of 2019 were mainly driven by the product groups "Vegetables and fruit" (+9% compared to 2018), "Mineral manufactures" (+7%), "Cereals and cereal preparations" (+5%) and "Beverages" (+22%).

The partnership agreement, described as a "mega-deal" as it covers almost 28% of the world economy, over a third of global trade and a market of around 635m people, has been labelled by some analysts as "cars for cheese".

Under the agreement, the EU nations want to increase their exports of agricultural and food products to Japan, while in the opposite direction Japanese car companies want to export their vehicles to Europe tariff-free by 2027.

The agreement also covers services, as it provides better access to competition for public procurement for service companies.

It is worth noting that the positive results are also attributable to the appreciation of the yen against the euro, a factor that has made Italian exports more competitive.

Undoubtedly, however, the JEEPA agreement will continue to encourage positive trends for Italian exports to Japan. The potential new opportunities of the agreement will certainly be the subject of debate during an event organised by the Italy-Japan Business Group which will take place in Tokyo and Osaka next November.

Shipping is 'human capital intensive' industry

SHIPPING should be regarded as as 'human capital intensive' industry rather than its more usual designation as a capital intensive industry, a leading Greek ship finance specialist has argued.

Katerina Stathopoulou — executive director ship finance consultancy Investments and Finance — has described herself as "born in shipping", having sailed on merchant vessels since her earliest childhood as the daughter of master.

She has seen many changes in her 34 years of working in shipping, including changes in leadership style.

Vessels are now more sophisticated, living conditions far better, and internet enables seafarers to maintain family contact.

As a master, her father never made crew follow his orders, but instead inspired them to follow his lead. As a result, crews happily put team interests first.

While management styles come and go, humility never goes out of fashion.

"We need to remain human, with care for our subordinates. Having authority doesn't make you a leader," she said.

In particular, today's young people are more introvert, and more often than not communicate through typed messages rather than face-to-face conversation.

Shipping should see itself not so much as a capital intensive industry, but as a 'human capital intensive' industry.

"We don't build the business, we build people, and people build the business," she told a conference in London organised by the Institute of Chartered Shipbrokers and Maritime London. "The banks didn't stop financing shipping because it is dirty. The got over-regulated after the Lehmann collapse."

Dr Thomas Hoyland, associate dean of the University of Hull, told delegates that recent years have seen a move away from static models of leadership to models that better prepare people for today's world.

"You don't want leaders, you want people who can engage in leadership," he said.

Dr Hoyland defended the value of MBA courses, which have come under some criticism over the last period as simply a badge of honour, and not much else.

"MBAs provide students with a great opportunity to develop their skill and become more valuable employees in our organisations."

At their best, MBA students have their assumptions challenged, and to meet with people outside shipping industry bubble.

Vicky Pryce, chief economic advisor at the Centre for Economics and Business Research, spoke of the growth of anti-globalisation and nationalist sentiment.

She argued that trade is at the core of the economic growth than has lifted millions of people in China and elsewhere out of poverty.

That makes recent trade clashes, such as the US imposition of tariffs on steel and aluminium and the Airbus/Boeing subsidy dispute, worrying. Non-tariff barriers are also increasing.

Greek-born Ms Pryce hailed the European Union as perhaps the freest of free trade blocs, while not beyond improvement, especially in digital and financial services.

But free trade agreements can be "very bitty" and rarely go as far as the EU single market, she contended.

"The UK moving out, trying to have agreement with others, is just one side of moving away from arrangements that have served us well."

MARKETS

World steel demand to remain resilient

GLOBAL steel demand continues to be resilient despite concerns over slowing economies, according to a report by the World Steel Association.

Overall growth of 3.9% to 1.78bn tonnes in 2019 will be followed by another 1.7% next year to 1.81bn tonnes, the group said in its short-range outlook, adding that the forecasts face downside risks if economic uncertainty prevails.

"Global steel demand will continue to grow in 2019, more than we expected in these challenging times, mainly due to China," said chairman of the group's economic committee Al Remeithi. "In the rest of the world, steel demand slowed in 2019 as uncertainty, trade tensions and geopolitical issues weighed on investment and trade."

"Manufacturing, particularly the auto industry, has performed poorly, contracting in many countries, however in construction, despite some slowing, a positive momentum has been maintained," he said.

Steel demand in China is estimated to expand by 7.8% to 900m tonnes this year, with a further gain of 1% to 909m tonnes in 2020, the report said, driven by investment in the real estate sector.

That contrasts with earlier forecasts of a slight contraction in 2020.

China's real estate market reported the strongest performance over the January to July period in five years. This was attributable in part to a relaxation in control policies in tier 2 to tier 4 cities, combined with a new construction standard that came into effect in April this year. The new measure is estimated to have increased steel intensity in new buildings by about 5%, according to the association.

But China's manufacturing sector is experiencing a significant slump owing to the slowing economy and the effect of trade tensions, the group pointed out, with the country's automobile industry contracting for 13 months in a row.

"We expect the Chinese economy to worsen in the latter part of 2019 and in 2020 with the unresolved trade tensions adding further pressure," the group said. "It is unlikely that the Chinese government will reintroduce substantial stimulus measures as it continues to hold a balance between containing the slowdown and pushing forward its economic restructuring agenda."

"Selective mild stimuli focused on infrastructure and strengthening consumer purchasing power through tax cuts is more likely," it said, which should benefit the auto industry.

The rest of the world is estimated to record growth of 0.2% to 874.9m tonnes in 2019, with a further expansion of 2.5% in 2020, which is driven by a 4.1% rise in emerging and developing countries due to infrastructure investments, especially in Asia.

The continued growth in steel demand should benefit the dry bulk market through imports of steel-making raw materials.

Chinese stockpiles of iron ore are rising again, following a drop earlier in the year, to reach 130m tonnes, according to analysts.

Exports of iron ore from Australia and Brazil to China have recovered over the past few months following supply disruptions earlier in the year.

According to Banchero Costa, Australia's exports may end the year on par with 2018 shipments, or even record a gain of 1% to 2%.

Exports to China from Port Hedland, Western Australia's biggest terminal, averaged 36.2m tonnes in the third quarter versus 35.1m tonnes a year earlier, according to data by the Pilbara Ports Authority.

Capesizes eye gains as Vale ramps up iron ore output

BRAZILIAN miner Vale is expecting to restore about 30m tonnes of shuttered iron ore output next year, with a further 25m tonnes in 2021.

The miner said in a production report that it would resume 5m tonnes this year, mainly as a result of restarting dry processing operations at the Vargem Grande complex from its southern mining system.

Next year, Vale will have an additional 7m tonnes available, with 23m tonnes coming from dry processing operations at Fabrica, Timbopeba, and others, Vale said. It expects all the 2021 volumes to be made available from wet processing at Timbopeba and Vargem Grande.

Vale was forced to halt several mines earlier in the year following the fatal Brumadinho dam disaster in January which killed up to 300 people. The stoppages affected about 95m tonnes of iron ore output, leading to the collapse in capesize rates.

In the third quarter, it produced 86.7m tonnes, down 17% from the year-earlier period, but up from the 64.1m tonnes produced in the second quarter.

Vale has been ramping up output from other systems, namely its S11D mine, which produced 20m tonnes in the July to September period, up from 16m tonnes a year earlier.

The higher volumes versus earlier in the year have led to increased capesize market rates.

The average weighted time-charter in the capesize market was assessed at $26,065 per day on the Baltic Exchange on Monday. That compares with a multi-year high of $37,519 per day on September 3.

A Europe-based capesize owner said the market should continue strongly this quarter as demand from Brazil "was still there", with the obvious tonne-mile multiplier effect.

In addition, supply was thin due to vessels taken offline for scrubber installations, he said, adding that he sees quite positive demand-supply prospects.

According to Braemar ACM, 9.9m dwt of capesize tonnage is tied up at shipyards this month, up from 8.6m dwt two weeks ago, comprised of 56 vessels — seven mini-capes, 38 standard capes and 11 newcastlemaxes.

The number of very large ore carriers at yards has however fallen to 3.5m dwt, comprised of 12 vessels, compared with 4.5m dwt a fortnight ago, it said.

Scrubber retrofits are taking an average of 41 days, including waiting times, the shipbroker said in a note, adding that about 4% of the overall fleet is effectively excluded from trading.

IN OTHER NEWS

Barakah Offshore revival scuttled by Petronas licence suspension

BARAKAH Offshore has seen its hopes of revival go up in smoke after the suspension of its Petronas operating licence, with what looked like a viable financial rehabilitation plan being scuttled by the inopportune development.

The troubled Malaysian offshore services company said in a stock market announcement that with suspension, "it will be challenging for Barakah to implement its proposed regularisation plan".

It added that as a result, Barakah and Lecca Group yesterday "mutually agreed to terminate the following agreements".

Alafouzos family tightens grip on Okeanis Eco Tankers

MEMBERS of Greece's Alafouzos family have increased their majority stake in the Oslo-listed Okeanis Eco Tankers just as a New York investment management firm became the firm's second-largest shareholder.

Okeanis, which controls a fleet of 17 tankers, announced on Monday that its chief executive Ioannis Alafouzos bought NKr1.764m ($193,559) worth of shares, boosting his direct holding in the company to 1.59%.

At the same time, Sea Shell, an entity controlled by Ioannis Alafouzos's brother Themistoklis Alafouzos, bought NKr4.41m worth of Okeanis shares to control a 1.69% stake.

Lukoil to produce IMO 2020 compliant LSFO

RUSSIAN oil company Lukoil said its Volgograd refinery has begun production of low sulphur fuel oil compliant with the requirements of IMO 2020. It plans to produce about 1m tonnes a year along with other types of marine fuel possessing "improved environmental characteristics".

In addition to the new supplies of LSFO from the Volgograd facility, Lukoil said its Perm refinery will continue producing 1m tonnes a year of "ecological marine fuel". It said the fuel has been produced since 2015 at Perm for ships in the Baltic Sea, where vessels are obliged to burn bunkers with a maximum of 0.10% sulphur content

Russia's decision to produce IMO-compliant fuel comes as differentials for its Urals crude have fallen to the widest discounts in a year against dated Brent crude.

MPA revokes bunker craft operator licence of Inter-Pacific Petroleum

SINGAPORE has come down hard on Inter-Pacific Petroleum Pte Ltd for the continued tampering of mass flow meters, completely revoking its bunker craft operator licence after temporarily suspending it in June.

The Maritime and Port Authority of Singapore has said it has revoked the bunker craft operator licence of Inter-Pacific and it will not be allowed to operate as a bunker craft operator in the Port of Singapore with effect from October 15, 2019.

The MPA said that checks conducted on Inter-Pacific earlier this year, and subsequent investigations revealed magnetic interferences affecting the measurements of bunkers supplied in numerous mass flow meter readings across Inter-Pacific's fleet of bunker tankers.

BW Group sells BW LPG stake

BW GROUP has sold an approximately 5% stake in its publicly-listed liquefied petroleum gas unit BW LPG.

The diversified energy carrier sold NKr409.5m ($44.8m) worth of BW LPG stock within less than a day after announcing its was exploring the sale. It now controls about 42% of the Oslo-listed company, BW LPG said.

"The purpose of the placement is to return free float to the market and increase the liquidity in BW LPG's shares," the company said in a statement.

Fuel-cost indexing mechanism set up for IMO 2020

A BUNKER adjustment factor indexing mechanism and bunker charge guide has been published to help shippers monitor and control bunker charges as carriers switch to the more expensive bunkers required under the IMO 2020 low-sulphur regulation.

The mechanism was drawn up by group of 10 European shipper experts asked by the European Shippers' Council and container shipping analyst Drewry to gather views and best practices on low-sulphur fuel-related issues.

"By giving shippers the possibility to better analyse present and future types of fuel costs, this toolkit is representing a significant step towards a more transparent framework for the best interests of all parties," said Jordi Espín, the council's policy manager.

For classified notices please view the next page.

Lloyd's List Intelligence
Maritime intelligence | informa

The Next Generation Lloyd's List Intelligence

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

At the centre of Lloyd's List Intelligence is our online vessel tracking system, Seasearcher. This gives you access to the transactional and analytical data required to make a measured difference to your business, whether you are trying to increase operational efficiencies, manage risk, or develop new business opportunities.

The new Next Generation platform was launched earlier this year to offer our customers a greatly improved service and some fantastic new features including:

- A modern, simplified search and mapping interface
- Streamlined operational workflows and geospatial tools
- 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

To find out more about Lloyd's List Intelligence services, please email **info@lloydslistintelligence.com**, call **+44 (0)207 7017 5392** or visit **info.lloydslistintelligence.com**

Looking to publish a judicial sale, public notice, court orders and recruitment?

Please contact **Maxwell Harvey on +44 (0) 20 7017 5752 or E-mail: maxwell.harvey@informa.com**