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Cosco Shipping's tanker unit denies vessels are 'going dark'

A SANCTIONED UNIT of state conglomerate China Cosco Shipping Corp has denied accusations that the company's tanker fleet has switched off their transponders to conceal the shipment of Iranian oils in violation of US sanctions.

The Reuters news agency cited two US officials as saying the US was "deeply concerned" about untrackable Chinese vessels carrying energy cargoes from Iran.

"None of our vessels had turned off the Automatic Identification Systems on board," an official from Cosco Shipping Tanker (Dalian) told Lloyd's List.

The company, also known as Dalian Tanker, is among the several Chinese firms and individuals that were blacklisted last month by the US over their alleged involvement in transporting Iranian oils via a complex ship-to-ship transfer logistics network used to obfuscate their origin and destination.

The Cosco official added that an earlier Reuters report — which said 14 Dalian Tanker vessels stopped sending location data from their AIS between September 30 and October 7 — was incorrect.

"We've sent Reuters photos from the vessels to prove that we didn't shut off the AIS. And our vessels have not shipped oils from Iran," the official said.

In a written statement, the company blamed technological issues for the missing of its vessel traces.

It said the shore-based receiving stations normally can only reach AIS signals within 50 nautical miles offshore or even shorter during bad weather, and hence cannot locate ships sailing further away from the coast.

While low-orbit satellites were now used to supplement the AIS signals of ships in open sea, the massive coverage areas and the enormous number of vessels have resulted in a high error rate of the information, the statement added.

"These have led to the misunderstanding that the suspected ship has closed AIS or the ship's position is not updated in time."

According to the report, two Dalian Tanker very large crude carriers — *Yuan Shan Hu* and *Cosglad Lake* — were untraceable between October 8 and October 16, while the location of aframax tanker *Yang Mei Hu* has been lost since October 11. Yuan Shan Hu last appeared on Lloyd's List Intelligence vessel tracking data on October 10 near the port of Qingdao, China, while *Cosglad Lake* was in the Addaman Sea, west of Myanmar, on October 14. *Yang Mei Hu* was about 25 nautical miles away from the anchorage of China's Ningbo port on October 15.

Lloyd's List Intelligence data also shows that Dalian Tanker is the registered owner of 14 tankers, including four VLCCs. Besides this, it is also the technical manager of 39 ships.

Nevertheless, its Shanghai- and Hong Kong-listed parent Cosco Shipping Energy Transportation has yet to reveal the full ownership structure of its tanker fleet, an opaqueness that has in part made charterers and brokers shun away from the remainder of the internationally-trading ships owned by the company.

WHAT TO WATCH

Scrubber installations could reverse slow steaming

CARRIERS could deploy scrubber-fitted vessels using lower cost high-sulphur fuel to reverse the trend toward slow-steaming, according to Alphaliner.

"The price of heavy fuel oil is expected to be substantially discounted from the end of this year, as ships that are not fitted with scrubbers — the vast majority — will have to switch to the more expensive 0.5% very low sulphur fuel oil," the analyst said.

It said high-sulphur fuel is currently available in the forward markets at prices of less than $300 per ton."

The number of scrubber-fitted boxships stood at 142, representing a capacity of 1.1m teu, at mid-October. This would likely reach 260 vessels by January 2020. At 2.3m teu, these vessels would represent 10% of global fleet capacity. By the end of 2020, Alphaliner expects this figure to increase to 5m teu.

In the 2M alliance, Maersk and Mediterranean Shipping Co will have more than 35 ultra-large containerships of over 18,000 teu fitted with scrubbers by next January, with all 62 of their 18,000 teu-23,000 teu ships expected to have scrubbers fitted by 2021.

"This will allow the carriers to run some six Asia-Europe strings at higher speeds than currently, giving them a competitive edge over their rivals," Alphaliner said.

Of the other carriers, the Ocean Alliance partners will have 20 scrubber fitted units of 15,000 teu-21,000 teu by January 2020. These ships will, however, initially operate on mixed loops alongside conventional units that are not equipped with scrubbers.

The Alliance carriers have the smallest number of scrubber-equipped ships, with Hapag-Lloyd confirming orders for 20 units, while Yang Ming will have 30 units. Ocean Network Express' scrubber plans remain undefined, with less than 10 units currently due to be retrofitted, according to the report.

The Alliance's scrubber-equipped fleet will be boosted in April next year when HMM joins as a new member, however. The Korean line will contribute a fleet of 53 scrubber-fitted ships, including 12 23,600 teu newbuildings to be delivered from the second quarter of 2020, as well as a further eight new ships of 15,000 teu, due in 2021, Alphaliner said.

But while increasing steaming speeds may bring some competitive advantages in service offerings, carriers have also utilised slow steaming to help counter overcapacity on the Asia-Europe trade lane. Increasing speeds and reducing sailing times would require fewer vessels to fill each loop.

OPINION

A lesson for China tanker stock investors

INVESTORS dealing with Cosco Shipping's tanker business appear braver than the charterers who have cut the ties with its vessels, *writes Cichen Shen*.

Cosco Shipping Energy Transportation, one of whose subsidiaries is blacklisted by the US for being involved in shipping Iranian oils, is struggling to find employment for a large part of its ocean-going tankers. Its liquid natural gas carrier fleet, worth more than $2bn, is also affected with its prospects in the dark.

But the company's share price has been surprisingly resilient.

Having gone through the initial slumps after the US sanctions were announced three weeks ago, its stock value has regained quite a lot of the ground lost. CSET's Shanghai-listed shares closed at Yuan6.71 ($0.95) per unit on Wednesday, compared with the nadir at Yuan6.05 a week ago.

On Monday, the price even surged to Yuan7.87, the highest level seen since early 2016.

The rebound is likely to have surprised many institutional investors, who had built a long position in CSET on the expectation of a sizzling tanker season in the fourth quarter but ended up deciding to dump the shares following the sanction news. Some Chinese investment fund analysts were said to have lost their jobs.

One China-based equity analyst who covers the CSET stock said the price was perked up by small-holding individual retail investors as news that the very large crude carrier rate topping $300,000 per day had even hit the headlines on mass media.

These retail investors in China will have little knowledge about the complexity of shipping and sanctions. They are likely to have viewed CSET as being like any other tanker companies that are set to reap a fortune from the recent market boom, the analyst added.

What they should know is that there has never been a lack of investors and speculators outside of shipping — not least the US private equity funds — that hope to strike it rich through this industry. Many of them lose their shirts.

ANALYSIS

Growing trade strains weigh on transatlantic trade

BOX carriers have a job on their hands to ensure that transatlantic utilisation levels are upheld amid the prospect of an all-out trade war, according to analysis by MDST.

Trade tensions between the US and Europe are high, as the two trading blocs continue with the threat of tariffs on imports from either side.

While regarded as allies on several fronts, they increasingly seem to disagree in other areas — from the use of Huawei equipment on the 5G network to the impact of China's Belt and Road Initiative and Iranian sanctions.

In July 2018, the outgoing European Commission president Jean-Claude Juncker visited the White House expressing hope that the relationship between the EU and the US would improve. Instead, points of disagreement seem to have increased.

Last year, President Donald Trump reiterated his discontent with the European Union stating that "the EU is worse than China, just smaller. It treats us horribly."

The commission and its incoming president Ursula von der Leyen are now facing a threat from the Trump administration to introduce tariffs on automobile and automobile parts imported from Europe, starting from November.

This begs the question as to whether the EU should try to negotiate with the US with the aim of avoiding tariffs — and the inevitable retaliation — or whether it should wait and hope for a different administration after 2020.

It is reasonable to assume that Brussels will not wait and it will attempt to suggest some specific deals to (at least) minimise the risk of automobile tariffs.

It is also likely that the EU will try to bring together China and like-minded countries to support and reform the World Trade Organisation and solve the Appellate Body crisis.

Washington has recently worked closely with Tokyo, compromising on automobile tariffs in return for Japan allowing market access to some US agricultural products. That a similar agreement could be reached between the EU and the US appears unlikely. Although Germany relies on imports of automobile parts from other EU members, it is improbable that the EU member states will make concessions to save German car makers.

'No agreement' could result in the EU facing higher tariffs for its largest importing partner of cars and this could equate to an additional €10,000 ($11,028) per car.

That scenario would also result in the EU "strengthening its toolbox to use sanctions when other countries adopt illegal measures and simultaneously block the WTO dispute settlement process" as it recently stated. In the meantime, EU producers and consumers would not be unharmed.

Temporary solutions

Goodwill to solve the dispute is emerging with, for instance, the deal to improve US access to the EU beef market and the offer made by France to compromise on digital taxes, in which it would repatriate revenue from the tax if there is a global deal on taxing technology companies.

However, those are temporary solutions. Although crucial, they may not be enough and the need for proper engagement with Washington appears inevitable given that the US tariffs on European automobiles and automobile parts would affect a market about 10 times bigger than the EU steel and aluminium exports combined. A cohesive EU will be crucial to work productively on this task.

An equally urgent matter to sort out with the US is the settlement of the long-standing dispute over the Airbus subsidies.

After a 15-year battle over illegal state aids given to Airbus and Boeing, at the beginning of October the WTO ruled that the US can impose tariffs on $7.5bn of goods it imports from the EU (the list includes aircraft, cheese, olives and jumpers) from October 18.

This marks the largest penalty decided by the WTO despite being cut down from the circa $11bn in goods proposed by the US. These tariffs will mainly affect France, Germany, Spain and the UK. The EU has threatened to retaliate against US goods with the WTO expected to decide on what tariffs can be imposed against the US next year. The EU proposal would accumulate to $20bn of US goods.

In this geopolitical context, we estimate that during the first half of 2019, the transatlantic trade lane saw a marginal contraction of 0.1% in demand. Based on our preliminary projections we expect volumes to have reported an annual increase of circa 3% during the third quarter of 2019.

For the third quarter, overall deployed capacity on this trade lane declined in the region of 2.5%, with an increase of over 9% on the Mediterranean- North America and a decrease of circa 13% on the North Europe – North America route. The decline in supply accompanied by an increase in demand meant an improvement in the utilisation level, increase from 76% last year to 81% in the third quarter of 2019.

For the fourth quarter (based on the assumption that no tariffs are imposed on this trade lane) the expectation is for the level of the utilisation to remain above 80%, as carriers have made significant cuts to capacity in recent months.

Analysing the load factor for the two directions separately, MDST anticipates improvements in both during the fourth quarter of 2019. The eastbound direction is anticipated to see an increase from 65% to 70% and the westbound direction an improvement from 86% to 93%.

US tariffs on Turkish steel to have little impact on dry bulk market

THE US decision to increase tariffs on imports of steel from Turkey will have a muted effect on the dry bulk market as shipments have in any case been dwindling.

Turkey exported 19.8m tonnes of steel in 2018, a 22% increase on the year before, according to the International Trade Association at the US Department of Commerce. The US was the fourth-largest importer, along with Belgium and Romania, each at 5% of the total volume. Italy was the largest with 9%, followed by Israel at 7% and Spain at 6%.

But in 2018, volumes to the US dropped by 38% from the 2017 level, while imports into Belgium rose 238%, the report showed.

The US this week announced sanctions on some of Turkey's ministers and ministries, while halting trade talks with the country, and increasing tariffs on steel for infringements related to Syria following the withdrawal of US troops from the border.

"It's unlikely that the increased tariffs will affect US imports of Turkish steel," said William Tooth, an analyst at Maritime Strategies International, as volumes have been declining since 2015, when they reached 2.6m tonnes, or 9% of total US steel imports.

Imports from Turkey dropped by 15% in 2016 and then a further 9% the following year. In 2018, with the introduction of tariffs, imports fell by 47% to 1.1m tonnes, he said, adding that the rate of imports so far this year has slumped to an annualised 247,000 tonnes.

Conversely, Turkey remains one of the largest importers of ferrous scrap from the US, with purchases of about 3.5m tonnes every year, with shipments up 5.7% in the January to August period from a year earlier.

Banchero Costa analyst Enrico Paglia said that the volumes moved from Turkey to the US were fairly small in 2018, corresponding to about three handysize cargoes per month, and the shipments this year were "definitely not enough to affect the dry bulk market".

Turkey, which is the 7th largest steel exporting country, may find an impulse to export more to alternative markets, he said, adding that domestic steel producers have had to cope with US and EU tariffs amid an economic slowdown that drove down steel consumption.

The World Steel Association, in its latest outlook report, expects steel demand in Turkey to fall by 14.5% to 26.1m tonnes in 2019 from 2018's levels, which were 14.9% below 2017.

But the group sees a rebound of 6.6% to 27.7m tonnes in 2020.

Pakistan may have called off long-term LNG tender

STATE-owned Pakistan LNG has reportedly cancelled a major tender issued in early June for imports of 33.6m tonnes of liquefied natural gas cargoes over 10 years.

Citing sources, Reuters reported that the state player has decided against committing to long-term offtake due to inadequate LNG demand.

The tender was said to have attracted offers from Eni, PetroChina, SOCAR and Trafigura.

The tender was issued at a juncture when LNG cargoes traded on the spot and futures market are trending at levels that cannot support contracting of long-term offtake.

Rystad Energy's analyst for gas and power markets, Xi Nan said: "This news came at a time when LNG prices on the spot market for the same year-on-year period have hit historical lows so it would be unsurprising that Pakistan would choose to cancel the 10-year tender and turn to the spot market instead when needed."

The average price of spot LNG cargoes imported into Japan was $5.40 per million British thermal units in September.

Japan retained its crown as the world's largest LNG importer last year though it is expected to be overtaken by China in the near future.

CME Globex trading platform showed LNG futures traded based on Platts benchmark JKM marker settled at between $5.825 and $6.915 per mmBtu for November to March cargo deliveries.

These are way off the double-digit band LNG spot cargoes were seen trading at during last year's peak.

Ms Xi also noted that Pakistan's LNG demand for power generation would be inadequate to justify the 10-year tender.

The country's utility providers are not encouraged to run base-load power generation on natural gas or liquefied natural gas because these would not be the cheapest energy sources, she said.

IN OTHER NEWS

Yinson agrees $5.4bn FPSO contract with Brazil's Petrobras

MALAYSIAN floating production, storage and offloading vessel specialist Yinson Holdings has won a $5.4bn, 25-year contract from Petrobras for an FPSO in the Marlim field offshore Brazil in the north-eastern part of the Campos Basin.

Yinson said in a stock market release that letters of intent have been signed for the provision of the Marlim 2 FPSO and operation and maintenance services for the vessel. The FSPO is scheduled to begin operations by the first quarter of 2023.

The letters of intent were signed by its Yinson Production Pte Ltd subsidiary and contracts will be signed between its units and Petrobras subsequently.

2020 Bulkers to make first dividend payment

THE Tor Olaf Troim-backed owner 2020 Bulkers is to pay its inaugural monthly dividend in November 2019 when four of its six ships will have started operations.

This was possible owing to robust market conditions and the securing of attractive charter coverage. It was also assisted by increased liquidity and the recent sale-and-leaseback deal with Ocean Yield, the company said.

Assuming the remaining two open ships are fixed on terms similar to the last index charter drawn up for for the Bulk Shanghai, the company would, based on the current Baltic capesize spot index rate of $26,000 and forward fuel prices for 2020, generate in excess of $50m in free cash flow after interest payments and debt amortisation for the full year, 2020 Bulkers said in a statement.

Gazprom Neft sets up shop in Singapore and eyes lube sales post-IMO 2020

GAZPROM Neft has set up shop for the sale of marine lubricants ahead of one major maritime regulatory deadline in Singapore.

The new business, Gazpromneft Marine Lubricants, will manage the sales and logistics network for the group's marine lubricants in Southeast Asia and Europe.

The group's marine lubricant products are already available in more than 250 ports worldwide, a statement said.

France urges EU tax on ship fuel

THE European Union is being urged to introduce a tax on shipping fuels as part of a push to rein in carbon emissions.

French Finance Minister Bruno Le Maire said on Tuesday the tax would complement plans supported by France and Germany for a carbon border tax that would shield European companies from competition from countries with lower emissions standards.

"It's incomprehensible that carbon emissions targets were set for cars and not for airplanes and ships," Mr Le Maire was cited by Reuters as telling a conference. "We propose that work is done on a European tax on airplane and ship fuel."

Reducing engine power to ensure 2030 target gets Greek backing

PROPOSALS submitted by Greece to the International Maritime Organization to reduce the main engine power of ships for environmental reasons have been endorsed by the Union of Greek Shipowners.

The country's contribution to the debate on measures to reduce greenhouse gas emissions by the industry is to be considered at next month's meeting of the IMO's technical group.

The sectoral approach advocated by Greece prescribes a 50% reduction in main engine power for dry bulk carriers and tankers, while it proposes a 66% cut in power for containership engines.