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Fuel change likely to generate insurance claims, say clubs

LOWER-SULPHUR FUEL OIL is good for the environment, of course, but is it good for ship engines?

With the International Maritime Organization sulphur cap approaching and with the vast majority of shipowners opting against the use of exhaust gas scrubbers, we could be about to find out.

That the wrong kind of bunkers can do serious damage is evidenced by the recent string of incidents in which contaminated bunkers have led to hull and machinery claims.

All told, around 1,000 vessels are thought to have experienced engine damage after taking on contaminated residual fuel oil, a development that seems to have originated in Houston in early 2018 and thereafter spread as far afield as Singapore and Panama.

Fears have been raised in some quarters that the overnight introduction of LSFO will have a similar effect. The issue was even debated at the International Union of Marine Insurance conference in Toronto in September.

Bunker contamination pandemics have occurred periodically in the past, and fortunately, experts see no direct link between the Houston bunker problems and the new products that will hit the market on or around January 1.

The major potential problem is the lack of specifications for blends of very low-sulphur fuel oil slated to take over from 3.5% sulphur bunkers at the start of next year.

Harmful contaminants could quite easily make their way into the supply chain because in many cases it is hard to know just where the fuel comes from. By the time it has been cut, blended and traded, tracing provenance is virtually impossible.

Different compositions could mean question marks over the stability and compatibility of the new offerings, consequent vulnerabilities in the bunker supply chain, and even perhaps inadequate standards.

A degree of confidence is merited in the short term, because most LSFO will be either propriety blends or products from the majors. But the risk increases as secondary blenders introduce compliant fuels into the market, which may be cheaper. That is where problems could kick in.

An even bigger risk is engine damage through unstable or more likely incompatible fuels that generate a sludge. Given that little is known of the characteristics of the new fuels, this could be a further cause for concern.

Fuel stability could be affected by its constituents and its chemistry. The components in some LSFO products will be short-chained cracked residuals, which are highly reactive. For example, a component which may end up in some LSFOs — ethylene cracker residue — has a shelf life of days.

That would not mean that the whole fuel parcel would have a shelf life of days, but it is something to take into consideration when ordering and managing fuel.

Another issue is the adequacy of current testing for stability. The current ISO 8217 laboratory tests for stability may not be suitable for new LSFO products. The deposition of sludge is a slow process, and short timespan tests in laboratories rely on artificially severe conditions.

Compatibility does not fall under the ISO 8217 suite of tests, as this requires a sample of mixed new fuel and existing fuel. This is therefore likely to fall on the crew. Ship engineers have long had the ability to use an onboard compatibility test kit, whereby a mixed sample is dried on blotting paper, in what is known as the 'spot test'.

Past experience shows that the spot test has been historically underemployed on ships, but it will now take on increased importance.

However, this test may not be suitable for use with LSFO products, especially where both are paraffinic in nature. In the absence of a better alternative, spot tests should continue, but under caution.

If LSFO products contains heavy cycle oils, then there is a risk of damaging high catalytic fines content, with the damage caused by cat fines well documented.

Tiejha Smyth is deputy director of freight, demurrage and defence, known as FD&D, at North P&I, and sits on the BIMCO committee that has drafted new sulphur cap clauses. She also presents regularly on the cap at industry conferences.

"At the moment, there's still a lot of uncertainty, particularly about what the bunker markets will look like and what the prices will be, as well as availability and quality," she said. "There is anxiety about how easy it will be to comply, and what action the authorities will take if vessels can't comply. Those are things we won't know until we get there."

From an insurance point of view, most of the problems will be uninsured issues that will result in commercial losses.

That could mean a commercial claim, perhaps against bunker suppliers, and that is where FD&D cover will come into its own.

"If things don't go well — and we don't know, it may be another millennium bug — it will mean more cases landing on the desks of our department," said Ms Smyth.

OPINION

Viewpoint: Getting what you pay for

IS THERE anyone who is remotely surprised that some scrubber installations are exhibiting the sort of performance that you might expect from a second-hand car bought from Arthur Daley? *asks Michael Grey.*

Why did anyone think that this mandated equipment was going to perform to uniform standards of excellence, much like the expectations that were dashed cruelly with a lot of water ballast treatment systems, or if you look back far enough, oily water separators?

The fact that this equipment is providing a rich source of work for ship repairers might possibly be due to the fact that so many people insist on procrastination as a business strategy, putting off buying the equipment until there is absolutely no alternative as the deadline looms.

Then it was a case of rushing around desperately looking for some equipment that might possibly meet the regulations, then, even more desperately, finding somebody able to fit it in their ships.

It is scarcely a surprise that a few months down the line, corrosion is a major issue, water is leaking all over the place and even fires have broken out as poor workmanship demonstrates its inevitable outcome.

Dare we also suggest that the work of the bean counters might also contribute to these problems, as they repeatedly have in the past? People without much technical knowledge and with a fixation on the "bottom line", it is the bean counters who will invariably insist on the cheapest quote being accepted, triumphantly believing they have saved the company money by ignoring the recommendations of the technical superintendent.

Their influence can be found everywhere, in every walk of life.

They will be present in the procurement departments of shipyards, seized with the need to buy the cheapest components and equipment, to maximise the profit (or minimise the loss) to the shipbuilder. And in a business where the warranties on a VLCC tend to be shorter than that on a toaster, they may well get away with this strategy of cheapness over any pretence at quality.

It isn't helped by the owner of the ship only looking at the capital cost and the delivery date, rather glossing over the details of what is being installed in the ship and the quality of the construction.

A few years ago, I listened to a well-known owner raging at the quality of a couple of tankers that had been delivered to him. The ships, he said, were rubbish, the welding was faulty and the expensive coatings fell off like the cheap paint you put on wooden fences in the garden. He wouldn't go back to this shoddy shipyard in a month of Sundays.

And yet, about two years later, when I asked him why he had indeed returned to this very yard for more ships, his answer, albeit a little sheepishly, was that "the price was right".

It is exactly the same with scrubbers as it is with any other goods you might buy.

The old adage that "you get what you pay for" is ignored at the peril of the purchaser. If the equipment was bought because it was the cheapest on the market, or the only one left, and the installer's slot was the only one available, it would suggest that your inspection team overseeing the installation should be exceptionally diligent.

There are shipyards around with a reputation for quality that they try to protect. There are even owners who go that extra mile to ensure that the work they are paying for is of the highest standard.

They tend to be the same operators who may pay more for their ships and equipment and carefully maintain their ships, but in the end it ought to be money well spent, although with the vicissitudes of the shipping cycles, it doesn't always work out like that.

*Those who remember Lloyd's List when it was published six days every week as a broadsheet newspaper will be sad to hear of the death of David Mott, who was a go-to person in the field of passenger shipping and a frequent broadcaster on the subject.

But David was also one-time business editor on the newspaper and worked for several years editing the Lloyd's List Diary, which was said to be the column on the paper that readers never missed; a subtle blend of news, rumour and gossip that reflected his wide range of industry contacts. "Disgraceful!" shouted an enraged shipowner who had appeared in a diary item to the delight of everyone else, although he had to admit, under duress, that David's piece was wholly accurate. It is why people read it.

David was a delightful friend and colleague, an unselfish professional who could always be relied upon to help out, a giver, rather than a taker, who would share a story, rather than hog it for the sake of a byline. He had a keen sense of humour and was a master of the laconic one-liner, treating the most colourful accounts of public relations people with a polite scepticism.

As passenger ship correspondent for the paper, he was the first to travel on the new Eurostar under the English Channel on one of its first return trips to Paris. We were eager to hear his assessment of the infernal device that was designed to put all the Channel ferries out of business. "Very smooth," he said, turning to the business of the day.

There was no more to be said. It is very sad that he has gone, and our sympathy goes to his wife Patsy and the family.

ANALYSIS

Container shipping goes big on transition fuel

RECENT headlines around liquefied natural gas as a fuel in the containership sector have focused on the top end of the boxship market.

French carrier CMA CGM has stolen most of the limelight, with its 2017 order for nine LNG-powered 23,000 teu boxships, the first of which was launched in September.

While *CMA CGM Jacques Saadé* will not be delivered before the middle of next year, when it does enter service, it will be the biggest gas-fuelled ship on the water and will mark the entry of LNG into the major deepsea container trades for the first time.

Yet it will not be alone for long.

In recent weeks, shipowner Eastern Pacific has announced it will increase its order for a series of 15,000 teu ships from the 11 on which it had confirmed charters with CMA CGM to 22, with the remainder being built on a speculative basis.

These two events alone show that LNG has come of age in container shipping; but they mark the culmination of a far longer story.

That story has been driven by low-sulphur regulations emanating from the International Maritime Organization.

Although the current impetus on sulphur is driven by the IMO 2020 rules that require all shipping to emit no more than 0.5% sulphur in its exhaust, the direction of travel was established more than a decade ago, with the establishment of the first sulphur emission control areas (SECAs).

These zones, which include the Baltic, the North Sea and North America, have witnessed reducing limits of permissible SOx emissions.

LNG, with its zero-sulphur emissions, has become attractive as an alternative to highly refined distillates that meet the stringent 0.1% sulphur requirements of a SECA.

European shortsea operator Containerships, which has since been acquired by CMA CGM, was one of the first to order boxships with LNG as a power source for use in 2014, ahead of the 2015 reduction to 0.1% SOx in the Baltic SECA.

The first of these 1,400 teu ships, *Containerships Nord*, entered service in 2018, while the second, *Containerships Polar*, was delivered in June this year.

Yet even these were not the first LNG-fuelled containerships. That accolade goes to Jones Act carrier Tote Maritime, which ordered its first LNG vessels in 2012. The 3,100 teu *Isla Bella* started service as early as 2015.

By then, however, IMO 2020 was on the horizon, with its global 0.5% sulphur cap, and carriers began to look at their options for reducing emissions.

United Arab Shipping Co became the first large-scale carrier to order "LNG-ready" vessels when it ordered a series of ultra large containerships, the first of which, the 15,000 teu *Sajir*, was delivered in 2014.

These ships used conventional engines and fuel, but were designed from the outset to be converted to LNG should the fuel become economically viable.

That did not happen during UASC's ownership of the vessel, which came into the ownership of Hapag-Lloyd when the two companies merged in 2017.

The German carrier has, however, picked up the baton and announced earlier this year that it would convert *Sajir* to run on LNG.

Yet that conversion is no easy matter.

"On our vessels, 'LNG-ready' simply means you have auxiliary engines that are ready for retrofitting," said Hapag-Lloyd fleet management director Richard von Berlepsch.

During the initial planning of the vessel, space was allocated to allow for retrofits to be done but it had no tank, no piping and no engine ready.

The challenges of converting a vessel to run on LNG are immense, even if it is classed as LNG-ready, Capt von Berlepsch said.

The ship will enter the yards for conversion next May, with the process expected to take around three and a half months.

Whether the remaining 16 LNG-ready ships in Hapag-Lloyd's fleet will be converted will depend on the outcome of this conversion.

However, as with LNG newbuildings, it was the smaller ships that got there first with conversions.

Wessels Reederei's 1,036 teu containership *Wes Amelie* holds the honour of being the first successful LNG containership retrofit, when it came back into service in 2017.

Unlike *Sajir*, which Hapag-Lloyd is paying for itself, *Wes Amelie* had government support in its conversion, raising the question of whether it is viable to retrofit smaller vessels for LNG.

The jury is still out, as it is with the massive investments made by the likes of CMA CGM and Eastern Pacific. Only time will tell if LNG will help make box shipping more environmentally sound — and even then, it will only be a stop-gap solution.

If shipping is to make progress in its efforts to decarbonise, LNG is a step in the right direction. The real changes will come with the future fuels that replace it.

MARKETS

Improved tanker market strengthens China state oil shipping firms

CHINESE state-owned energy shipping firms, which together operate a combined fleet of over 100 very large crude carriers, have posted improved results in the third quarter.

Cosco Shipping Energy Transportation posted Yuan113.9m ($16.2m) net profit in the three months to September 30, reversing the year-ago losses of Yuan53.5m. Revenue increased almost 6% to Yuan3.4bn.

The Shanghai- and Hong Kong-listed oil and gas shipping arm of state giant China Cosco Shipping Corp controls a live tanker fleet of 151 ships, including 52 very large crude carriers, while holding stake in 32 liquefied natural gas carriers of 147,000 cu m-174,000 cu m in service.

Shanghai-listed China Merchants Energy Shipping, part of another state conglomerate, China Merchants Group, saw net profits doubled year on year to Yuan248.6m in the three months. Revenue jumped 26% to Yuan3.4bn.

It has 52 VLCCs in addition to the other 150 ships in its fleet on the water, including a large number of dry bulkers with 31 very large ore carriers, and 19 LNG carriers co-owned with CSET and other foreign partners.

Both companies said they had enjoyed an improved tanker market during the period, while CMES's bottom line was also boosted by a rebound in the dry bulker market.

Investors appeared more impressed by the performance of CMES, whose share price closed at Yuan5.51 per unit on Thursday, up 2.8%. CSET's stock value, at the same time, dropped 4.4% to Yuan5.85.

Analysts said the difference was partly because CMES outperformed CSET on probability, and partly because the latter company's prospects had been overshadowed by the US sanctions on its subsidiary Cosco Shipping Tankers (Dalian).

The blacklisted unit owns 43 oil tankers, including 26 VLCCs. The restrictions on the operation of these vessels will take a toll on CSET's ability to benefit from the expected tanker peak season in the fourth quarter.

Cosco Shipping sees liner business soften in third quarter

SLACK container trade demand has weighed on Cosco Shipping Holdings' results in the third quarter this year.

The Shanghai-and Hong Kong-listed company, which controls the world's third largest boxship fleet, saw liftings rise 1.9% year-on-year to 6.6m teu in June-September while shipping revenue increased nearly 4% to $5.1bn.

Among those, its home-grown brand Cosco Shipping Lines contributed 4.9m teu in volume, representing a 1.1% growth, and about $3.5bn in revenue, up 3.5%.

The lifting figures displayed an across-the-board softness on almost all trades.

CSL's transpacific volume edged up just 0.7% and Asia-Europe rose 5.7%. Intra-Asia (including Australia) volumes saw flat growth while other international routes (including transatlantic services) advanced only 1.2%. China's domestic volume even contracted 0.3%. Revenue performance on each trade was in general better, thanks to more disciplined capacity management.

The results of Orient Overseas Container Line, which CSH acquired in August last year, were reported last Friday.

CSH said: "In the first three quarters of 2019, due to the slowdown of global economic growth and the escalation of trade friction, the growth in demand for container shipping was slowing down.

"However, pressure on the supply of shipping capacity in the industry eased during the reporting period with newly delivered shipping capacity decreased and scrapped capacity increased as compared to the same period of last year."

Throughput from the company's ports business, under Cosco Shipping Ports, expanded 5.3% to 92m teu.

All in all, CSH recorded Yuan879m ($124.9m) net profits for the third quarter, up 7% from the same period of last year. Total revenue climbed 6.6% to Yuan39.5bn.

IN OTHER NEWS

Despina Theodosiou re-elected as Wista chief

CYPRUS'S Desipna Theodosiou has being re-elected a president of Women's International Shipping & Trading Association International for another two years.

Ms Theodosiou was re-elected during the annual general meeting of Wista International at the Cayman Islands after she ran for re-election unopposed.

She was first elected in 2017 and during her first term she secured Wista's membership as a consultative organisation in the International Maritime Organization, allowing the organisation to participate directly in the global maritime policy-making process.

Performance Shipping identifies Palios' successor

PERFORMANCE Shipping, the Nasdaq-listed owner of two tankers and two container vessels, has appointed Andreas Michalopoulos as deputy chief executive.

The move is a clear indication of the company's preferred successor to lead it when founder Simos Palios "eventually" steps down as chief executive.

Mr Michalopoulos, 49, who is married to Mr Palios' youngest daughter, will continue to serve as the company's chief financial officer and treasurer "for the time being", said Greece-based Performance.

Okeanis facing opposition over four VLCC buybacks

OSLO-listed Okeanis Eco Tankers faces a potential battle to reclaim four very large crude carriers.

The Ioannis Alafouzos-led firm that owns and charters 17 tankers, including newbuilds, is facing opposition from Ocean Yield over the buyback of four VLCCs.

Okeanis had sold four of its newbuild VLCCs to Ocean Yield in February 2018 when they were still controlled by Mr Alafouzo's Kyklades Maritime, for about $84m per vessel.

Under the agreement, Okeanis has chartered them back in on a bareboat basis for 15 years. It has also sub-chartered them to

Koch Industries on five-year contracts.

Grindrod in sale-and-leaseback bulker deal

GRINDROD Shipping has entered into a sale and leaseback deal for a handysize bulker, its third in recent weeks.

The 2011-built IVS Magpie was sold to a Japanese shipowner for a cash amount of $10.3m, before commissions but net of charter pre-payments,the Singapore-based company said in a statement, adding that it will bareboat charter the vessel back for a period of up to 12 years.

The sale is expected to generate about $5.4m in cash for the company, after settling debt associated with the vessel. It also has the option to purchase the vessel from the end of the second year of the charter.

ONE posts strong recovery but tones down full-year forecast

OCEAN Network Express has made a big turnaround in bottom line, as expected, as the Singapore-based carrier has got back on its feet from the earlier start-up troubles.

The company — a joint venture set up by Japan's NYK, MOL and K Line — posted a profit of $121m for the second quarter of financial year 2019 ended September 30.

The gains were slightly lower than its previous forecast of $123m but significantly improved from a $192m loss during the year-ago period when ONE was hit by a lack of staff and technical issues.

Japanese lines return to profit after integration woes

THE fortunes of the three main Japanese lines have taken a turn for the better as they recover from the burden of the initial start-up costs from their Ocean Network Express container line joint venture.

Mitsui OSK Lines, NYK Line and K Line all returned to the black in the first half of financial year 2020 except MOL, which had already turned in a profit in the previous corresponding period and indeed built on this to more than quadruple its gains to ¥25.6bn ($235.5m) in the current period.

NYK turned to a ¥11.1bn profit from a ¥9.7bn loss while K Line saw the most dramatic turnaround, to a ¥16.3bn profit from a ¥24.6bn loss in the previous corresponding periods.

Hong Kong port alliance boosts services for barge operators

THE recently launched Hong Kong Seaport Alliance, which groups together the four main container terminal operators at the Port of Hong Kong, is making good on its efforts to improve efficiency and bring volumes back, starting with barge operators.

The alliance has recently improved its Common Barge Platform to simplify operational procedures to help boost the efficiency and flexibility of operators running barging services.

As part of the process of reorganising and streamlining the port's processes and infrastructure through the use of a terminal-neutral model and standardisation of operations policy, it has been able to handle some 100 daily barge calls at 12 dedicated berths, enabling seamless cargo connections between more than 100 terminals in South China and over 200 international weekly vessel calls.

Hafnia targets $345m offering ahead of Oslo listing

HAFNIA, the product tanker company planning to list on the Oslo Stock Exchange next month, is to offer up to $345m worth of company shares through a private placement.

The Mikael Skov-led owner of 91 vessels is targeting current and potential investors through a three-pronged pre-listing placement.

Hafnia has said it will issue new shares through a primary offering worth $125m. In a potential secondary sale of shares, existing shareholders would sell Hafnia equity worth about $175m.

Dorian LPG sees increased seaborne demand

DORIAN LPG, a US-listed owner of very large gas carriers, has a bullish outlook for the sector based on expectations of increased demand for seaborne shipments.

"Expansion of US export capacity and increasing demand in Asia from both the domestic and petrochemical sectors continue to have a positive impact on freight rates, and our market outlook remains positive," said chief executive John Hadjipateras in a statement.

The company reported a net profit of $40.7m in the third quarter versus an $8.2m loss a year earlier as earnings were boosted by higher volumes available to the market. Time charter equivalent earnings surged to $47,623 per day in July-September, from $20,973 per day a year earlier. Lower bunker prices contributed to the 127% increase.

London to host global shipping forum in 2020

LONDON is to host the Global Maritime Forum's annual meeting in 2020 as the UK capital seeks to consolidate its position as one of the world's premier maritime hubs.

The invitation-only gathering will be held in the year between the biennial London International Shipping Week, so providing continuity in the annual maritime calendar from a UK perspective.

"The UK's maritime industry is thriving, which is why I am so delighted to welcome global leaders to the UK for the Global Maritime Forum Annual Summit next year," said UK Maritime Minister Nusrat Ghani. "We are championing industry through our flagship Maritime 2050 strategy and Clean Maritime Plan, and the summit represents a unique opportunity for us to further showcase all the UK has to offer."

Hapag-Lloyd introduces IMO 2020 transition charge

HAPAG-Lloyd is adding an additional surcharge to spot rates in order to cover the transitional costs of transferring to using low-sulphur fuels ahead of the introduction of International Maritime Organization regulations in January.

The IMO 2020 Transition Charge will come into force from December 1 for all 'FAK' (Freight of all kinds), spot and Quick Quotes business and will be additional to the Hamburg-based carrier's Marine Fuel Recovery mechanism, which it introduced in February.

"Switching from high-sulphur fuels to the new low-sulphur fuel will inevitably result in higher fuel prices in the short term," said chief executive Rolf Habben Jansen. "Volatility is also expected to increase, particularly during the transition period."

Classified notices