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MR tankers expect a winter transatlantic boost

LOWER REFINERY RUNS on the US east coast alongside middle distillate stocks at 18-month lows are expected to result in winter gasoil price spikes in New York, opening up reverse arbitrage trades for medium range tankers in the transatlantic region.

This higher demand may prolong the gains in earnings for medium range tankers plying transatlantic trades, which have nearly doubled since early October.

Tankers normally deliver gasoline to the east coast from the Amsterdam-Rotterdam-Antwerp region, and then sail to the US Gulf of Mexico to load diesel for shipment to northwest Europe.

But when demand for gasoil used in heating on the US east coast spikes during winter, higher prices open arbitrages that make it profitable to buy and ship diesel from Europe to the US for sale at a profit.

There has been renewed focus on the transatlantic trading region after the June closure of the Philadelphia Energy Solutions refinery, the region's largest. That has led to increased imports of gasoline. Strike action at the Bayway refinery at New Jersey may also dent output.

Increased volumes derived mainly from Canada but also Europe, data show.

Overall imports to the PADD1 region (which covers New England to Florida) so far average 627,000 barrels per day this year, US Energy Information Administration figures show.

European shipments to the US — most of which head for the Atlantic coast — accounted for about 465,000 tonnes monthly, or roughly

128,000 bpd, according to Eurostat data. Cargo sizes for a medium range tanker are 37,000 tonnes.

EIA data shows that diesel imports are not keeping up with demand, as refinery runs fall. That has led to inventories on the Atlantic coast shrinking, Morningstar Financial Research highlighted in a report this week.

“That storage deficit versus previous years will increase when the weather turns colder and heating oil demand kicks into high gear,” the report said. “With (gasoil) stocks at historical lows and market prices not attracting new supplies, the shortage may well foreshadow price spikes this winter.”

Diesel flows to Europe from refineries in the US Gulf have diminished in the past years, due in part to increased demand from Latin American countries.

Middle East refineries have compensated with increased supplies to northwest Europe, which produces too much gasoline for its needs but not enough jet fuel or gasoil.

These altered trade flows within the Atlantic basin have impacted medium-range tanker earnings, which plunged to loss-making levels during the third quarter on the triangulated route.

But the research analyst Morningstar says that the US east coast will be increasingly reliant on outside supplies, signalling steadier imports from Europe.

The Colonial pipeline, which pumps up refined products from US Gulf refineries, already running at maximum capacity, and it is not economically viable to ship gasoline or diesel to the coast on US-flagged tankers in Jones Act trades.

European Union-US imports of gasoline measured 521,000 tonnes in August, the last month for which Eurostat statistics are available, compared with 575,000 tonnes over the same month last year.

The Baltic Exchange currently pegs MR transatlantic earnings at just under $20,000 per day, well above the loss-making levels of $5,700 daily seen in September. Owners and traders are anticipating arbitrage-related price spikes, as well as increased demand to ship marine gasoil for higher earnings into 2020.

WHAT TO WATCH

Lack of finance demand leads to more leasing orders

CHINESE leasing houses have increased their exposure to operating leases this year as shipowners’ demand for finance wanes, according to Bill Guo, executive director at ICBC Financial Leasing, one of the largest shipping lessors in China.

The business model under which lessors order vessels directly with yards and own the residual value of the assets is gaining momentum because shipping firms are neither in a hurry to refinance their existing fleets nor keen to build new vessels.

“Freight markets have in general improved in recent years so owners’ appetite for sale and leaseback of secondhand ships has declined,” Mr Guo told a conference in Shanghai.

In other cases, owners are just looking to borrow with a low leverage of 50%-60%, which can be provided by banks more cheaply, Mr Guo told the Marine Capital conference, co-organised by Beyond Shipping and BIMCO in Shanghai.

A high loan-to-value ratio, typically offered by lessors, is more attractive in newbuilding deals. But orders have fallen sharply this year, partly because of uncertainties regarding post-2020 fuel options.

New contracts stood at 41.4m dwt for the first nine months of 2019, down 42% from 2018 in dwt terms on an annualised basis, according to data from Clarksons.

This is why leasing companies in China — especially the cash-rich players backed by major Chinese banks — have increasingly opted to order ships on their own, said Mr Guo.

“All we need is to find a reliable project and a reliable cargo owner or charterer who can sign a hire contract for 10 years,” he said.

However, he told Lloyd’s List on the sidelines of the conference that operating leases, which endows lessors with more of a role as shipowners, will not become the mainstream.

"I think it will account for about 20% of the Chinese lessors' total shipping assets," he said.

The arrangement of operating lease is only used to meet certain demands, such as large-sized deals that cannot be matched by the traditional owners lacking the financial muscle. But at the same time, owners can co-operate with lessors via setting up joint ventures or taking up the shipmanager's role in the partnership, Mr Guo added.

ICBC Leasing and state-owned Shandong Shipping worked together on a series of dry bulker and tanker newbuilding projects worth $600m in September, backed by long-term charters.

Eight medium range tankers have won charters from Shell for eight years, while four kamsarmax bulkers secured employment with Bunge for 10 years.

Being able to borrow cheaply and easily has largely contributed to the rapid expansion of Chinese leasing lenders whose shipping expertise has also substantially improved

Shipping's low emission drive should follow the auto lead

SHIPPING must take a leaf out of the automotive industry's book as it maps out a path to a low/zero emission future, according to Kamuran Yazganoglu, managing director of marine and energy at Castrol.

Mr Yazganoglu, who draws on how the auto sector has responded to strict emissions targets of its own with overwhelming success, says that the key component that has carried the automotive industry, collaboration, has, until now, been evidently lacking in shipping as it looks to replicate these achievements.

"The way we [the auto industry] achieved such amazing success was by inviting everyone to the table and asking how we are going to do this together," he told Lloyd's List.

In the case of UK-based Castrol, which supplies engine oil and lubricants to either sector, the group has cooperated with car giants such as Jaguar, Land Rover and BMW over the past 20 years as they strived to reach emission goals.

The knowledge and expertise gathered from various stakeholders' expertise has been crucial in achieving emission targets, according to Mr Yazganoglu.

In Europe, the low emission drive kicked-in in the early nineties for commercial and heavy goods vehicles. New standards to reduce harmful pollutants included requirements for cars to switch to unleaded petrol and the universal fitting of catalytic converters. Emission targets have become gradually more stringent and revised regularly at a rate of around every four to five years.

For example, the Euro Zero emission standard for new HGVs in 1992 regarding CO2 was set at 12.3g/kWh, whereas today the fifth incarnation of the European Union's directive, or Euro V, it is as low as 1.5g/kWh.

"The way the automotive industry has achieved such amazing progress is by talking to third-party suppliers, fuel suppliers, and tier two and tier three OEM suppliers," said Mr Yazganoglu.

The absence of similar discussion in shipping is of concern, he went onto explain.

"If you look at how we [the shipping industry] are facing up to the challenges surrounding the 2020 sulphur cap, I was hoping that these stakeholders will come together and discuss the likelihoods, the impact, but I don't see much progress at all," he said. "There are OEMS, service partners, there are big suppliers and yet there is almost no collaboration and partnership among stakeholders."

His frustration extends to how in the case of a company that provides marine lubricants, engine specifications are only seen once announced or published by the manufacturer.

"This is a little bit stupid," he said. ``In the automotive industry when you design an engine, you invite your suppliers, to come together on the technology so you can to support that in in the best way possible. I think this is the missing part from our industry."

Mr Yazganoglu says that limited testing on new fuels to meet the International Maritime Organization's 0.5% limit on sulphur in marine fuel from 2020 keeps him awake at night.

"Most people don't know what they'll do when they have these different blended fields in their engine.

Once operational in a few months' there could be huge problems."

When it comes to the 2050 challenge set by the IMO to reduce greenhouse gas emissions from shipping by 50% on 2008 levels, Mr Yazganoglu says there is no magic solution or silver bullet. But, again, it will require input from all sides if the industry is to get anywhere near achieving this goal.

"Don't forget that this industry is growing by almost double-digit percentiles every few years," said Mr Yazganoglu. ``So, there's a huge challenge ahead. Smart marginal gains" will be the way forward.

"Some of it is going to come from engine alteration or operation, some from fuels and for sure some of it will come from lubricants. But in order to be able to do that, we need to have huge collaboration between operators, suppliers, and engine manufacturers."

Meanwhile, the standard continues to be set by the automotive industry, Mr Yazganoglu says.

"The latest 'big shift' is forcing the internal combustion engine players into electric vehicles, which is once again a huge challenge. But the manufacturers are still inviting us in, and we are still working on a lot of technologies together to be able to make that transition smooth and efficient for everyone.

"We need to do more of this in shipping to learn from each other. If we can move the ball fast, we can meet legislation or maybe even faster."

OPINION

Viewpoint: Learning from the past

THERE is a lot of interest in ancestors these days, facilitated by TV programmes in which famous folk get very emotional after they have been appraised that one of their forebears was transported to Australia for sheep stealing, *writes Michael Grey*

It is a lot easier to probe into the family past, helped by electronic rolls and specialist websites. Whether we learn much about society in those distant days, as we tend to view everything through our prism of contemporary life, I somehow doubt.

You can, however, gain an insight into your ancestor's lives the traditional way, which is a lot harder; ploughing through correspondence and records, arguably a process that is very valuable and satisfying, but possibly doomed to disappear in the age of instant electronic communications.

It was a point made only recently by the journalist and biographer Charles Moore, who has just completed the mammoth task of writing Margaret Thatcher's biography. But the lives of ordinary people can provide as much interest and instruction as those of the great.

These thoughts occurred to me after reading a beautiful book about the last chapter of deepwater sailing ships, and the life and times of Captain John Isbester, born in Shetland in 1856 and who died in 1913, when his ship was abandoned off the coast of Chile.

Written by his grandson Captain Jack Isbester, who sailed with British & Commonwealth ships for many years before becoming a consultant, it is a wonderful insight into a maritime world that can still teach us a great deal about seafarers and seafaring, shipping and the sea.

Captain Jack acts as narrator and guide through the life of his ancestor, which is illuminated by an astonishing archive of letters and postcards which John Isbester wrote to his wife Susie, who kept them throughout her own long life and handed them down to her younger son, Jack's father. He then husbanded them carefully, adding to the story and building the archive further, before passing it to his son Jack.

John was 47 years at sea, more than 30 of them spent in command, at a time when mechanical propulsion and the short cut of the Suez Canal, was firmly relegating sail to the tramp trades and poor-paying bulk cargoes.

Ships were run cheaply, although Captain John was fortunate in working for a respectable and responsible Liverpool management firm, which although did not exactly splash the cash, but did not stint on maintenance and seemed to have recognised a good master when they found one.

These were hard Victorian people, in even harder Victorian times. Susie had eight children in their bleak Shetland home, although four of them died in infancy. She sailed with her husband on a few voyages and for her part, she is an excellent reporter. Captain John writes well, although it is noted by the author that in some of his letters, dashed off in time to catch the pilot, the spelling was sometimes a trifle remiss.

What was it like to sail in those wind-driven ships? In his letters home, he comments to his wife about the competence of his mates, his frustrations with crews who would drink themselves insensible and desert at the drop of a hat when the ship arrived in port. It enables us to flesh out the lives encapsulated in logbook accounts, which tell of each day's sailing and the work done on board.

We learn of the community of Shetlanders who would be found in ports around the world and on board other ships. An observant passenger, whose accounts of a long voyage with Captain John have surfaced, reveals something of the character of this long-serving master.

It appears that he was a firm but cheerful commander, who took infinite pains to train his apprentices, but stood no nonsense from recalcitrant crew members.

In an era before health and safety regulations, life at sea was dangerous, and more so under sail. Captain John lost three ships — one by stranding after an anchor failed to hold, one burned and his final command, the big steel ship *Dalgonar*, was abandoned after ferocious weather knocked it down and shifted the ballast when running between two ports on the west coast of South America. The captain and three of his crew were lost, although the rescue of the survivors by a French vessel was an act of great courage and seamanship.

What shines out of this account is the fortitude of that generation of seafarers and their dependents, the insecurity of the life they lived when casual labour was king and the utter isolation for months on end.

It may seem appalling to us to read that Susie only knew of the death of her husband, after the loss of the ship appeared in Lloyd's List. But communications, even with the world mostly joined up by telegraph, were difficult and expensive.

Modern masters, bedevilled by endless emails and angry charterers on the end of the phone, may have different ideas, but the anguish of finding no mail waiting after a 90-day passage, and worrying about those at home, is reflected in some of these messages across the years.

Some things do not change. Modern masters will warm to Captain John's frustrations at the shore side management — "the office doesn't understand", but will also appreciate the need for leadership, decisiveness and the knowledge of the sea built up during a lifetime, that ironically, was to kill him, when an anticipated fair-weather passage turned lethal. Unexpectedly fierce weather is not just a feature of "climate change".

ANALYSIS

Cleaves takes gloomy outlook on dry bulk

CLEAVES Securities is downbeat about the dry bulk sector because of the high pace of supply growth and weaker spot rates.

"Dry bulk spot rates are under significant pressure. We reduced our forecast for November and December and remain wary of the net reintroduction of scrubber-fitted vessels," said head of research Joakim Hannisdahl in a report.

It has reduced the general dry bulk rating to 'hold' from 'buy', as the analyst expects dry bulk shares to rise 12% over the next year with intermediate softness.

The expectation is also impacted by the dry bulk fleet demand growth which Mr Hannisdahl forecasts to increase marginally by 2.8% in 2020 compared with an average growth of 5.2% since 1991, against the fleet growth rate of 3.6%, the highest since 2014.

"There are still some undervalued companies, and potential bargains to be made during the next few months as the market resurrects from a mid-2020 hiatus," he said.

"We do, however, see our index increasing by 61% in two years, so we would buy on weakness during 2020."

The average dry bulk spot rates reached nine-year highs in early September, and most owners have been able to enjoy an "unusually prolonged" period of earnings significantly above the cash break even point.

Although, capesize spot rates have, as of today, been quoted 91 consecutive business days above the $20,000 per day mark, something that has not happened since December 2010 — and only two times since the global financial crisis — the analyst has reduced its projections for the remaining two months of the year.

Capesize spot rates for November and December range from $25,000 a day to $19,000 per day with potential lows of $14,000 a day before the end of the year, the analyst estimates.

Meanwhile, Mr Hannisdahl pointed out that this could be one of the longest expansionary cycles on record since 1741.

"We do see short-term weakness for the dry bulk segment," he said, adding that "a low orderbook and unusually low contracting do however lead to a quick turnaround of fortunes for dry bulk owners as our low demand growth forecast soon outpaces the even lower supply growth forecast."

IMO faces push to consider lifecycle emissions of zero-carbon fuels

LEADING shipping nations are pushing the International Maritime Organization to consider the lifecycle emissions of zero- and low-carbon fuels.

Norway, South Korea and the UK are among those pushing for the global maritime regulator to develop guidelines on the carbon intensity of fuels to help owners and operators curb emissions.

These countries that account for a considerable share of the global shipowning, shipbuilding, finance and insurance industries, also want the IMO to assess the lifecycle emissions of these fuels.

A meeting of an IMO technical body on greenhouse gas emissions in London next week will focus heavily on potential short-term measures to curb emissions, with governments advocating a series of energy efficiency measures.

But looking further ahead, the need for zero-carbon fuels to meet the targets of the IMO greenhouse gas emissions strategy has also prompted industry-wide discussions about the source of these fuels and the carbon their production and supply to ships emit.

Norway wants the IMO to consider emissions from the production of fuels and of electricity used in ships.

"Shipping should not shift the reduction burden to other sectors and need to ensure that sustainable and truly carbon neutral fuels are in demand," it said in its proposal, seen by Lloyd's List.

South Korea also suggests the inclusion of lifecycle emissions in the IMO's future GHG and carbon intensity guidelines for shipping fuels. It suggests that emissions associated with fuel production, refining, transport to ports and other elements could be considered when calculating these lifecycle emissions.

The UK also calls in its own proposal for the development of a "shared understanding" in the IMO of what true non-fossil fuel energy means and the wider impacts of a fuel's lifecycle.

That would allow for "objective comparisons" between fuels to enable long term investment mitigate the risk of stranded assets and delays in investment and action, according to the UK submission.

"As ships increasingly transition to zero-GHG energy sources, such pressures will increase and it is important that governments and industry understand and respond to the need to address lifecycle emissions to ensure that the sector is achieving real global reductions, while ensuring wider consideration is taken for environmental impacts and sustainability," according to the UK.

IMO head of air pollution and energy efficiency Edmund Hughes recently told Lloyd's List that it would be a "distraction" for the organisation to focus on controlling the lifecycle aspect of the potential zero or low carbon fuels ships will use in the future.

Indeed, these countries that are pushing for the development of guidelines and broader discussion of lifecycle impact also recognise the limits of the IMO.

South Korea cautioned that developing a lifecycle emissions database would involve heavy work for the IMO and potentially not be useful in the long run.

"Moreover, IMO delegates may find it difficult to understand and manage the technical nature and the breadth of the information in terms of policy implications — not least given the IMO's minimal influence on upstream oil and gas processes," it said.

Norway also acknowledged that it would be a big undertaking for the IMO to assess the lifecycle emissions of all the fuels shipping could use.

"The lifecycle aspects can for example be addressed in a future implementation programme for alternative fuels and in national action plans, and can include a general lifecycle evaluation of possible energy carriers," it said.

The UK recognised that next week's working group cannot address the lifecycle emissions through these guidelines. It argued that negotiators should instead focus on the factors that determine emissions from the vessel.

"The United Kingdom would instead suggest further work following on from this considering wider lifecycle emissions," the country said.

MARKETS

Freight forwarding faces worst year in a decade

THE global freight forwarding market is set to record its first full year of contraction in a decade after a "torrid start" to 2019, according to a Transport Intelligence report.

Its analysis shows the global market contracted by 1.4% in first half of the year. It now projects an overall contraction in real terms in 2019 of around 1.3% — the first since the global financial crisis.

It said the overall decline of the market "can be attributed to the weakness in air freight forwarding", which shrank by 4.2% in real terms in the first half of the year. Sea freight forwarding growth was only 1.9%.

"Over the full year, growth rates for air and sea are expected to be -3.9% and 1.8% respectively," Transport Intelligence says in its Global Freight Forwarding report. "This means both segments would be performing at their worst levels since the crisis a little over a decade ago."

The research and analysis company said it was "particularly surprising to see both markets performing so poorly even though the global economy is still growing", but added: "However, trade conditions have severely deteriorated. The trade war between the US and China has escalated to the extent that $110bn of US goods have seen additional tariffs enforced, while $350bn of Chinese exports have been affected.

"The trade conflict is the main underlying reason for the disappointing results of the forwarding market. In an era of global value chains, which create highly interconnected global and regional supply chains, the imposition of tariff barriers means it is not just two countries affected by the trade war, but the rest of the world too."

Sea freight forwarding has suffered with growth slowing to under 2%. "Blank sailings have been a common theme on several routes, with carriers attempting to force up rates as a response to slowing volume growth."

The report noted that there was "still evidence of strong growth on various lanes", however, for example, Asian exports to Europe have been reasonably strong, which has been reflected in the port volumes of Rotterdam and Antwerp.

First half "container growth of 6.4% and 5.1% respectively was recorded despite the apparent weakness in the European economy", it said. "This was partly due to Chinese exporters attempting to find alternative sales locations to the US in light of the trade war."

With continued pessimism around the global economy, and even talks of a possible recession, Transport Intelligence said "there is little reason to expect a substantial turnaround in fortunes for the forwarding market", and added: "The market is expected to shrink by 1.3% in real terms in 2019."

IN OTHER NEWS

Singapore launches upgraded MFM bunker standard

SINGAPORE has launched a new bunker industry standard to provide a guidance for its mass flow meter-based bunkering regime, ahead of the implementation of the International Maritime Organization's 2020 sulphur regulations.

The Singapore Standards Council has issued Singapore Standard, SS 648 — Code of Practice for Bunker Mass Flow Metering, to help MFM bunkering operations, as well as support the changing needs of the bunker industry as it moves to a low-sulphur fuel oil regime in January 2020, the government agency said.

Singapore has mandated the use of MFMs in its bunker sector, the world's biggest, since 2017. Maritime and Port Authority of Singapore figures show the port had bunker sales volume of 49.8m tonnes in 2018.

UK Club announces 7.5% premium increase

THE UK P&I Club is seeking additional premium income of 7.5% from members, joining the Standard Club and Steamship Mutual, in setting what is now the going rate for International Group price hikes.

However, the overall rise will be achieved by targeting vessels on their records rather than by way of a general increase, which could leave some owners facing double-digit increases.

Standard deductibles will also rise from $12,000 to $15,000 per event, including fees and expenses

Eagle Bulk aims to benefit from scrubbers as it sinks into loss

EAGLE Bulk, a US-based owner of ultramax and supramax vessels, said it will see benefit from its scrubber use after posting a loss in the third quarter of the year.

The company reported a net loss of $4.6m compared with a profit of $2.6m in the same period a year earlier, impacted by lower charter rates and a decrease in available vessel days because of drydockings and scrubber installations, said in a statement. It also bought six ultramax vessels during the third quarter.

It achieved time charter equivalent earnings of $11,014 per day in July to September, a 2% fall from the same period a year earlier. So far in the fourth quarter, it has achieved $13,150 per day, the highest figure in more than five years.

Terntank orders first liquefied biogas-fuelled product tankers

SWEDISH product tanker owner-operator Terntank has placed an order with China-based AVIC Dingheng Shipbuilding for two firm newbuilds capable of running on liquefied biogas.

The shipbuilding contract for the pair of 15,000 dwt product tankers carries an option for two further newbuilds.

These new vessels are based on designs developed by Kongsberg and come equipped with liquefied natural gas or liquefied biogas-powered engines. They also feature hybrid battery systems and shore-power connection — a provision necessary for cold-ironing or the process of drawing electrical power from shore during port calls to lower ship emissions.

PSA Marine tests autonomous tug

WÄRTSILÄ'S autonomous tug project with Singapore's harbour and terminal towage operator PSA Marine has moved on to trial phase following the successful installation of its unique Dynamic Positioning system on board the harbour tug *PSA Polaris* and meeting the requirements of Lloyd's Register's DP notation.

On-the-water trials are now being carried out in the port of Singapore under real-world conditions with the approval of Lloyd's Register, which has issued a Statement of Compliance for the DP notation. Building on Wärtsilä's DP system the IntelliTug project takes the technology forward to enable digital navigation instructions to be passed to the vessel's propulsion systems.

The IntelliTug project is a collaboration between the Maritime and Port Authority of Singapore, PSA Marine and Wärtsilä to develop a habour tug with autonomous capabilities. It aims to boost safety standards for vessel automation and autonomy. It was the first project that came out of the Wärtsilä Acceleration Centre that was opened in 2018.

Environmental campaigners block Canada's Trans Mountain Pipeline delivery

ENVIRONMENTAL activists in the port of Vancouver, Washington, blocked a ship from offloading a cargo of pipes bound for the Trans Mountain Pipeline Expansion project in western Canada on Wednesday.

Members of the environmental groups Portland Rising Tide and Mosquito Fleet were targeting the 35,964 dwt Patagonia.

The Trans Mountain Pipeline carries crude oil from the Alberta tar sands to the coast of British Columbia for export, but the expansion project would triple the system's capacity by adding a second parallel pipeline.

Genco sees a strengthening dry bulk market

DRY bulk vessel owner Genco Shipping & Trading has declared a dividend despite turning in a third quarter of the year loss amid higher costs from increased drydocking expenses and vessels going off-hire because of preparations for IMO 2020.

The New York-listed company, which has a fleet of 66 dry bulk carriers, took the market by surprise in announcing a third quarter of the year dividend of $0.5 per share, representing a return of 6.06% based on Wednesday's closing share price.

For the three months ending September 30, Genco posted a $14.6m net loss as the company made provisions for a $12.2m impairment loss in relation to three vessels of which it decided to dispose. Excluding extraordinary items, net loss was $2.4m in the third quarter of the year.

Finnlines focuses on green growth as profits rise

FINNLINES, which operates ro-ro and passenger services in the Baltic Sea and the North Sea, will continue to invest in in larger "environmentally sound" vessels as it seeks to boost its green credentials.

"Reducing fuel consumption and cutting harmful emissions have been one of the key elements of our group's strategy for a long time," said chief executive Emanuele Grimaldi. "This requires vast amount of investments, which we carried out during the past years."

Technology was an important part of that investment but only a part of the solution, he said.

Classified notices