Lloyd's List
Maritime intelligence | informa

Daily Briefing
Leading maritime commerce since 1734

Shipping edges towards mandatory R&D fund

FIVE OF THE BIGGEST shipping associations are considering a proposal for an official mandatory research and development fund that could generate hundreds of millions of dollars annually to help the sector decarbonise.

The fund would be financed through a mandatory levy payment and Lloyd's List understands these associations are considering requiring vessel owners to pay $2 for each tonne of fuel consumed.

While the exact numbers on total bunker fuel consumption are not readily available, estimates of around 250m tonnes of bunker fuel consumed annually suggest the fund could raise about half a billion dollars each year.

Other estimates suggest a figure closer to 300m tonnes of fuel per year, potentially elevating the annual revenues of the fund even further.

If it were to go ahead, the proposal would signify the first major collective step taken by some of the most prominent and influential industry lobbies to contribute to the development of new technologies to help the sector decarbonise.

The World Shipping Council has already spoken of its intention to propose such a levy-based fund to the International Maritime Organization, but had not provided details on the cost.

Now, Lloyd's List understands negotiations among the largest industry associations are at advanced stages and the intention is to make an official proposal for approval by the IMO's ultimate environmental authority, the Marine Environment Protection Committee, which meets again in early April 2020.

However, the proposal and its contents have yet to be officially approved, as some associations' boards still need to sign them off.

While the idea of carbon levy as a means of encouraging the uptake of new technologies is gaining significant traction, publicly and privately in industry circles, this potential $2 levy is not meant to act as a market-based measure, but strictly intended to fund the R&D venture, people familiar with the proposal said.

That $2 levy is also considerably lower than the initial $10 carbon levy a working group at last month's Global Maritime Forum floated to finance a green maritime fund.

The lifespan of this industry-backed R&D fund has not been firmly set, but Lloyd's List understands that it could be between 10 and 15 years.

It does not appear there is a horizon for annual increases in the levy payment under the proposal.

A semi-autonomous venture?

While, next spring, the associations will likely seek the MEPC's approval for the creation of the fund, and its enforcement from the member states, they will also seek direct influence concerning its administration.

The associations are considering having a new IMO-sanctioned international maritime research board, as per the WSC's suggestion in September, to be responsible for the R&D fund.

This board would effectively allow industry participation and would prevent the revenues collected from being controlled or administered by governments.

The hope is that the administration of the money through the board would eliminate the consideration of geopolitical and economic factors in the deployment of the funds, Lloyd's List understands.

The creation of the research board is in line with one of the points in the IMO's initial greenhouse gas emissions reduction strategy that was adopted in April 2018.

The IMO agreed in its initial strategy to establish an international maritime research board to co-ordinate and oversee R&D efforts on "marine propulsion, alternative low-carbon and zero-carbon fuels, and innovative technologies".

WHAT TO WATCH

Rosneft grapples with unsold Venezuelan crude as exports slump

CRUDE exports from Venezuela have dwindled to multi-decade lows as Russian oil company Rosneft, now responsible for sales, resorts to ship-to-ship transfers and prolonged floating storage off Malaysia to disguise the origin and destination of unsold cargoes.

Exports from Venezuela hit the lowest level going back 30 years last month, with nine tankers loading the equivalent of 290,000 barrels per day in October, Lloyd's List Intelligence data shows.

"Rosneft is basically running Venezuela's distribution," Caracas Capital managing partner Russ Dallen told Lloyd's List.

"About 80% of all ships [are] being chartered by the Russians, but with the majority of that ending up in China, Malaysia or Singapore. In that sense, the Chinese are using the Russians as their 'beard' to cover for them."

State-owned Russian oil company Rosneft has used its stake in Nayara Energy, which owns India's Vadinar refinery, as an intermediary to circumvent US sanctions that prevent sales of Venezuelan crude being sold using US-dollar transactions.

The oil company's trading arm is now central to Venezuelan crude sales as Chinese refiners shun direct purchases since the US administration tightened unilateral sanctions in early August.

Instead Venezuela-China shipments are seen arriving via Malaysia, through STS transfers undertaken from Rosneft-controlled tankers. Crude shipments were tracked from Malaysia to China at 460,000 bpd in September, a 24-month high, according to Lloyd's List Intelligence.

The last tanker laden with Venezuelan crude that directly discharged a cargo at a Chinese port was on November 5, vessel-tracking data shows. However, that suezmax tanker, *Ottoman Courtesy*, first spent three weeks in floating storage off the coast of Malacca port, according to Lloyd's List Intelligence data. It then sailed on October 6 and discharged off Tianjin on November 5.

The tanker is one of four tracked calling at China since September 2019, a dramatic fall from pre-sanctions monthly import levels. When the US administration imposed its sanctions in late January, Chinese imports measured 270,000 bpd per day in February.

Tankers sailing east to Asia with Venezuelan crude are regularly spending between two to three weeks at anchor off the coast of Malacca or Port Dickson, a known area for floating storage and ship-to-ship transfers.

The development was first noted in June and escalated in the past four weeks. The strategy mirrors Iranian sales of sanctioned crude and refined products, which centres on the use of ship-to-ship transfers the Malaysian floating storage hub to further obfuscate cargo origins.

As many as nine tankers laden with 12m barrels of Venezuelan crude were observed in floating storage off Malacca during the first week of November, data shows. That included four suezmax tankers, four very large crude carriers and one aframax tanker.

Most have now resumed their voyages, including three which sailed to China. Others discharged cargoes on to other unidentified ships before leaving the area in ballast to other destinations.

"We were normally expecting the ships would be headed to Nayara, Rosneft's refinery on upper west coast of India," said Mr Dallen. "The ships use a variety of methods to try and fool us, including turning off their transponders and signalling waypoints instead of final destinations. We have even noticed some ships saying they were in Curacao and actually picking up in Venezuela."

Mr Dallen said floating storage and slow steaming to destinations in Asia signal that Rosneft is finding it difficult to sell cargoes. Tankers laden with Venezuelan crude also repeatedly signal different destinations to Chinese ports during their voyages, he said.

"We think [this] reflects more the sketchiness that even they [the tankers] do not know where the product is going as it is in limbo or repeatedly sold and resold like a hot potato," according to Mr Dallen.

Venezuelan oil supply was estimated at 650,000 bpd in September, according to the International Energy Agency, compared with 800,000 bpd the previous and 70,000 bpd lower than at the start of 2019.

The decline is attributed to operational difficulties and sanctions pressures with Venezuela's oil company PDVSA struggling to arrest a diminishing list of customers, the IEA said in its monthly report published three weeks ago.

Adding to difficulties are current chartering clauses inserted by Unipec and ExxonMobil in early October that prohibit the use of tankers that have called at Venezuela in the past year. This covered 88 VLCCs and 115 suezmaxes, Lloyd's List Intelligence data shows.

Rosneft did not respond to an emailed request for comment.

Freight forwarders criticise detention and demurrage process

A GLOBAL freight forwarding body has called for a "a more transparent, equitable and business-orientated process" for determining detention and demurrage charges for ocean freight containers in the US and other key markets.

The International Federation of Freight Forwarders Associations is also proposing that the industry would be prepared to share advance data, which it usually has on arriving shipments, with container terminals to help with process improvements.

In its submission to the US Federal Maritime Commission review of container detention and demurrage charges, the federation said it supported "a more transparent, equitable and business-orientated process as regards the determination and levy of such charges not only in the US but in other economies where industry operated under similar processes".

It said it was "critical of the practice which surrounds the determination of detention and demurrage charges which were highlighted in the FMC review. It also questioned the rationale for such charges in achieving the orderly movement of containers to, and from, ports, terminals or depots rather than being pure finance generators".

"The clock for the determination of a charge of demurrage and detention to incentivise the orderly movement of containers through ports and terminals must be stopped when circumstances arise outside the control of the importer and containers are not able to be moved, Jens Roemer, chair of Fiata's working group sea.

"There is no logic in enforcing a charge which is supposed to motivate the importer to pick up, or return, a container in a timely manner if the port or terminal is not able to comply with the delivery request.

"The same should apply for delays due to regulatory agency interventions which are inherent in all international logistic supply chains including maritime where containers and contents require border clearance and control. Such interventions being part of intelligence led risk assessments to address import prohibitions and restrictions and community protection aspects."

In its submission to the FMC Notice of Proposed Rule Making as to the FMC interpretation of the Shipping Act "and an identified industry failure to establish, observe, and enforce just and reasonable regulations and practices relating to or connected with receiving, handling, storing, or delivering of containers with respect to demurrage and detention", FIATA urged the FMC "to provide the necessary guidance, which was currently lacking in industry".

Fiata also urged the FMC "to ensure that freight forwarders are able to compete on a level playing field by the provision of a fair and realistic delivery period free of detention for containers".

Fiata questioned "the reasonableness of demurrage and detention practices, and to what extent the practices were meeting the intended purposes as financial incentives to promote timely movement of containers, particularly as to the issues identified in FMC NPRM".

As to the movement process, Fiata also supported better data sharing by the various stakeholders in the maritime supply chain.

In its best practice document as it relates to data and cargo movement, Fiata "encouraged better data sharing in all modes as this which would lead to greater transparency of information related to the movement of containers from vessel to terminal and to the next mode of transport".

"Such data sharing would significantly improve the timely movement of containers through terminals, increase productivity, reduce demurrage and detention charges and more importantly reduce overall transport cost and lead times for the importer in competitive markets," Fiata added.

The association continued: "What is apparent and happens with regularity in the maritime supply chain is the knock-on effect in disrupted delivery processes. Planning for a pick-up of a container can only be undertaken if, and when, data such as pick-up reference, location and earliest possible date and time is provided. This information is often provided too late and therefore best available — and reliable — data should be made available at an earlier stage."

Roemer said: "Information available to Fiata leads us to contend that terminals are not aware as to the next mode of transport for at least 50% of the containers they discharge from a vessel. The freight forwarding industry, however, usually has this data available well in advance of vessel arrival and would be prepared to share this data for process improvement.

"Such data sharing would enable advance planning of all stakeholders, increase productivity for the terminals and other stakeholders as well improving the timely movement of container throughput in terminals. Importers see reduced lead time in terminals as a value add to the supply chain costs and a significant benefit to terminal operator efficiency."

The association added: "In cost-competitive markets, the whole supply chain must seek to have constant process improvement. To do today what was done yesterday will be of little benefit for tomorrow."

ANALYSIS

Ports detail the impact of climate change

PORTS and terminals covering all major oceans have reported an increase in frequency and severity of extreme weather events, according to early results of a survey on the impact of climate change.

The survey, organised by the International Association of Ports and Harbors on behalf of the partners of the Navigating a Changing Climate initiative, found extreme weather events had had an impact on both infrastructure and operations.

Early responses from over 50 ports of varying sizes located around the world confirm the impact of the increase in extreme events on port infrastructure and operational downtime.

Nearly two thirds have reported downtimes of between one six-hour shift and 72 hours. More than half of respondents considered the effects of these extreme-weather induced closures and downtime to be ‘significant’ or ‘critical’.

In addition, more than one fifth of respondents reported clean-up, damage repair and extra maintenance costs of between $100,000 and $10m.

“The frequency increase in extreme weather events in the past four decades is irrevocable,” said IAPH World Ports Sustainability Program technical director Antonis Michail.

“The survey not only serves as a study in emerging patterns of extreme weather and oceanographic events, but also deals with the question about how ports can step up their plans to minimise the impact of these events, and how ports can share their experience on how to cope in the aftermath of a specific event.”

The full results of the survey, which is still open to contributions until December 20, will be presented at the World Ports Conference in Antwerp next March.

MARKETS

Container demand slowdown goes beyond trade war

GLOBAL volume figures contracted during September, shrinking by 0.4%, but not all the blame can be put on the US-China trade war, according to analysis by Sea-Intelligence.

“The development seen in September only serves to reinforce the pattern seen throughout 2019,” said Sea-Intelligence chief executive Alan Murphy. “This pattern has basically been months of weak demand followed by a spike of higher growth – and then again followed by an even larger growth drop more than negating the otherwise optimistic spike.”

For the nine months to end-September, global demand grew by just 1%, figures from Containers Trade Statistics show.

“While this is of course positive growth, it does not inspire a great deal of confidence in the strength of the container shipping market,” Mr Murphy said.

The figures also called into question the gross domestic product multiplier effect, which has historically seen container volumes grow at a faster rate than the global economy.

“In the wake of the financial crisis it has been realised that this rule of thumb clearly is no longer correct, and the multiplier has been dropping sharply as a consequence of the completion of the containerisation process, as well as reaching the logical endpoint of the outsourcing processes,” Mr Murphy said.

While container shipping is still expected to grow in line with GDP, the latest International Monetary Fund GDP outlook for 2019 puts growth at 3%. But weak container demand growth of just 1% indicates a multiplier of just 0.3.

The ongoing trade dispute between the US and China is often pointed to as a major reason for the slowdown in container demand, but Mr Murphy said this argument was undermined by the data.

When North American growth was stripped out from the figures, global growth was just 0.9%.

"This indicates that there is an inherent underlying weakness which is independent of the US-China trade war," he said.

Import volume growth in Europe has slowed since a strong start to the year, falling to a 0.5% contraction in September.

While North American volumes were positive for the quarter as a whole, in September both import and exports contracted compared to September 2018.

"This should be a cause for concern, as the 2018 post-peak season volume surge due to front-loading of Transpacific cargo only really hit in October/November 2018, so the contraction in September is not simply a question of a high 2018 base," Mr Murphy said.

Meanwhile, exports from Asia remained "stagnant".

"The carriers' collective orderbook for new capacity injection is historically low, and this is indeed a good sign for restoring market balance over time," Mr Murphy said.

"However, the demand weakness seen thus far in 2019 clearly puts pressure on the carriers regardless, and it is also in this light we should see the record high levels of blank sailings, a level which is exceedingly likely to be upheld should this weakness in demand persist."

Singapore boosts IMO 2020 bunker buffer

SINGAPORE is thought to have accumulated more than one tenth of its peak annual bunker sales volume of compliant fuel oil and marine gasoil.

Wood Mackenzie research director for Asia Pacific refining and oils market Sushant Gupta estimates that the top bunker port and its surrounding waters presently hold between 7m and 8m tonnes of fuel oil and marine gasoil complying with the International Maritime Organization's regulatory sulphur cap.

He further suggests that about 40% of this volume is stored in very large crude carriers, while the rest is stockpiled in onshore tanks.

The regulatory cap limiting the amount of sulphur in marine fuels to 0.5% comes into effect on January 1, 2020.

Singapore's annual marine fuels nearly reached 50m tonnes last year, just slightly lower than the record level seen in 2017.

The bulk of Singapore's very-low sulphur fuel oil and MGO reserves will be supplied to shipowners, although some may be used for "flushing of onshore tanks and fuel tanks of vessels" before the regulatory cap, known as IMO 2020, kicks in, says Mr Gupta.

Tank cleaning is needed to avoid any mixing of compliant with non-compliant fuels.

Refiners would also need to change their crude slates to meet the demand for IMO 2020-compliant fuels going forward.

It takes an average of 15 to 20 days for a 200,000-barrel-per-day refinery to take in one VLCC load during a typical crude slate change, according to Mr Gupta.

Both the sweet crude going into the refining process and the consequential refined out fuel, however, need to be segregated from other oil products throughout the supply chain.

This is where the mandatory low-sulphur switch imposed on international shipping complicates the refining value chain.

According to Mr Gupta, considering these complications, only 1.4m to 1.5m bpd of VLSFO may be made available worldwide.

He believes shipping lines will delay switching to compliant fuels until December wherever possible. If that is the case, marine demand for 3.5% fuel oil — high-sulphur fuel oil — will still hold up for several more weeks.

Lloyd's List earlier reported that some containerships have already started loading VLSFO ahead of undertaking voyages that run beyond the end of the year.

Wood Mackenzie forecasts a $19 per barrel HSFO crack for next January.

IN OTHER NEWS

Klaveness scales down in the supramax segment

TORVALD Klaveness, an Oslo-based shipowner and operator in a number of segments, has decided to scale down activity in the supramax dry bulk sector.

The company, which has a particular stronghold in the panamax, kamsarmax and post-panamax bulk chartering segments, said that in order to grow and develop this business further, its primary focus will be on these markets through its offices in Singapore, Dubai and Oslo.

"We have a wide portfolio of activities in our group and have concluded that to grow and develop, we need to focus our efforts where we have the strongest competitive positions," chief executive Lasse Kristoffersen said in a statement.

Torm confident of sustained market strength

TORM, the Danish owner of product tankers, is confident of a sustained market strength.

"It is refreshing and positive for us to see an improvement in the underlying market, with a strong rebound in rates," the company's executive director Jacob Meldgaard told Lloyd's List in an interview.

"We expect the market is teed up for IMO 2020 with the refinery dislocation story still very much intact. We expect an increase in tonne-mile demand in 2020 of 7% and at the same time fleet growth of 3%. If those two factors prove correct, it will be positive for the market," he added.

Euronav secures LSFO deal in Malaysia

CRUDE oil tanker giant Euronav is reported to have taken further steps to ensure the availability of low-sulphur fuel.

The company says it signed an agreement with Malaysia's Linggi Port on Tuesday making the port its supply base to provide low-sulphur marine fuels and other services for ships plying east-of-Suez routes, according to operator TAG Marine and reported by Reuters.

The development comes shortly after Euronav deployed one of its two ultra-large crude carriers to Kuala Linggi International port for floating storage with 3m barrels of 0.2% and 0.5% low-sulphur fuel oil.

ICTSI gains from Papua New Guinea terminals and tariff adjustments

PORT operator International Container Terminal Services, Inc is reaping the benefits from its investments in new terminals in Papua New Guinea, which saw a continuing ramp-up in volumes and contributed to a 5% overall rise to 2.5m teu in the third quarter of 2019, from 2.4m teu in the previous corresponding quarter.

ICTSI said the higher volume was mainly due to continued growth at its new terminals in Lae and Motukea in Papua New Guinea. That was helped by improvements in trading activities at Subic, its other key terminal in the Philippines besides the flagship Manila International Container Terminal, as well as at Matadi in Democratic Republic of Congo and Basra in Iraq.

For the year to date, total consolidated throughput was 6% higher at 7.6m teu compared to 7.2m teu in the previous corresponding period in 2018.

MPC Capital buys stake in German broker

GERMAN shipowner MPC Capital has bought a 50% strategic stake in tanker broker specialist Albis Shipping and Transport.

MPC Capital, which founded the Oslo-listed feeder MPC Containerships in 2017, announced it had bought half of the Hamburg-based firm that employs 20 people. Financial terms were not disclosed.

Christian Rychly, managing director of MPC's maritime unit, said the 2020 sulphur cap and the relatively old age of the global tanker fleet signal many changes in the sector's future.

RCL opens direct link between south China hub and Cambodia

IN yet another indication of shifting supply chains, intra-Asia feeder line RCL is providing a direct link between the southern China manufacturing hub of Dongguan and Cambodia.

RCL announced that Dongguan in Guangdong province would be added to its existing RSK service, starting on November 16. The service will be run with its 628 teu Ratha Bhum.

The new service rotation will connect Dongguan to Sihanoukville via a call in Hong Kong, before travelling to Songkhla in southern Thailand. The relatively small vessel being used for the loop service suggests, however, that volumes are not significant yet.

California ports show hesitant growth trajectory despite tariffs

THE Sino-US trade war continues to impact throughput adversely, according to the directors of California's ports of Los Angeles, Long Beach and Oakland which collectively carry some 50% of the nation's container traffic.

The trade war last year saw all three ports booming in the run-up to October as shippers used frontloading to beat the deadline of threatened tariffs. The frontloading has gone, but the tariffs remain and are having variable effects on the three ports.

Los Angeles had a bad October, but is having a good year. Long Beach is having a bad year, but just had its second busiest October ever. Oakland is having a good year, and a mixed October. It's unclear where things are headed.

Classified notices


Lloyd's List Intelligence
Maritime intelligence | informa