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Global oil and LNG trades 'transformed' by moving supply and demand geography



GLOBAL OIL AND gas trade will become increasingly centred on Asia over the next 20 years, with China overtaking the European Union as the largest oil importer even as demand flattens after 2030, the International Energy Agency forecasts.

The changing geography of oil supply and demand will transform global oil trade as Asia's import dependency rises to 83% by 2040, from 76% today, the Paris-based agency said.

"Asia takes an increasing share of global imports, and gross oil exports from the US overtake Saudi Arabia by the mid 2020s," said the IEA in its annual World Energy Outlook, which forecasts global energy use over the next two decades.

"Some 80% of the international oil trade will end up in Asia in 2040, propelled in large part by a doubling of India's import needs."

The outlook estimates energy demand will rise by 1% annually through to 2040, with demand for liquefied natural gas accounting for a third of this, based on a scenario using current policies.

Clean energy technologies fail to offset the effect of the expanding economy and rising population, with emissions failing to peak before 2040.

Under this so-called Stated Policies Scenario, oil demand slows after 2025, and LNG overtakes pipeline gas as the dominant method of inter-regional trade by the late 2020s, according to the report. This has implications for crude, refined product and seaborne product flows.

Until 2025, crude demand rises by about 1m barrels per day, and then slows to about 100,000 bpd on average each year until 2040, to just over 106m bpd. About half of current demand, at almost 100m bpd, is shipped on tankers to refineries, Lloyd's List Intelligence data shows.

Demand from China peaks in the mid-2030s at 15.7m bpd, but the country still becomes the largest oil consumer just before 2040, the IEA outlook said.

LNG trade flows offer promising scenarios for the global fleet of LNG carriers. Demand for natural gas grows four times faster than oil under the so-called stated policies scenario, defined as incorporating current policy intentions and targets, in addition to existing measures.

While global oil output rises by about 10% over the next 20 years, natural gas production gains 40%, with the US accounting for 85% of oil growth and 30% of gas.

The US becomes a net oil exporter soon after 2020, the IEA estimates, with North America the second-largest exporter by 2030. Refinery configurations on the US Gulf coast mean imports of heavier crude will still continue.

The share of 'pure' oil-indexed LNG import contracts in Asia declines to 20% by 2040, from today's level of 80% today, based on outlook forecasts.

Combined with increased oil flows to Asia, the Strait of Malacca overtakes the Strait of Hormuz to become the large chokepoint for the global oil and gas trade by 2030.

About 19m bpd passed through the narrow waterway off Malaysia and Singapore in 2018, which is also used for fuel storage, bunkering, and blending. By contrast the Strait of Hormuz sees just over 21m bpd.

WHAT TO WATCH

More work needed before a carbon levy, says Platten

THE shipping industry needs to have available low and zero carbon alternatives before the introduction of a market-based measure, according to International Chamber of Shipping secretary general Guy Platten.

Since last year's commitment by the International Maritime Organization to cut shipping emissions by at least 50% by 2050, shipowners have discussed the prospect of a levy on carbon to help accelerate the demand for zero emissions technologies and fuels.

But some question if that would really work when there are not actual realistic alternatives for ships running on carbon-based fuels.

Ursula von der Leyen, the incoming president of the European Commission, has expressed her intention to impose a decarbonisation measure on shipping, stoking industry fears of unilateral action by the European Union.

The chamber has opposed EU unilateral actions on emissions, supporting the IMO as the appropriate maritime regulator and warning against regional action that affects a global industry.

Mr Platten said this week that if the EU does move forward with unilateral action, inclusion of shipping in the EU Emissions Trading System would be particularly damaging. In this case, a levy on carbon emissions would at least be preferable to the ETS.

"The trouble is, I find, philosophically with these things is that you are trying to change behaviour," he said. "That's part of the reason for having it, so you switch to a low carbon alternative. If there is not those alternatives there, it's not really doing its purpose."

The focus should instead be on the research and development to deliver these alternatives, he argued. Once those come, the sector could assess how a market based measure would affect the deployment of zero or low carbon vessels.

Global regulators are convening an IMO technical meeting in London this week to address potential short-term measures to reduce emissions over the next few years.

Mr Platten said that so far progress during the week indicates a movement towards support for goal-based measures. Key goal-based proposals under

discussion this week have been tabled by Denmark, Germany and Spain on the one hand as well as Japan and Norway on the other.

Lloyd's List understands that a proposal by France to impose speed limits on bulkers and tankers has not thus far received much support from regulators at the behind-closed doors meeting.

Mr Platten argued against speed limits, saying that while they would be an appropriate solution in certain cases, they should not be a blanket response forced on shipowners.

The ICS has instead thrown its weight behind the concept of speed optimisation as a better option.

While attempting to address the wider decarbonisation challenge, industry and regulators have to immediately oversee the transition into a 0.5% sulphur cap beginning on January 1, 2020.

Mr Platten was emphatic that compliance with the new fuel rules is mandatory and it is on the shipowners to ensure they abide by the rules.

"We would like to think by the middle of next year it is settled and it is enforced, and everybody accepts it, and the level playing field has been established," he said.

International Group moves to boost competition

THE International Group of P&I Clubs is to shake up internal rules to allow for greater competition between members on charterers' business, although there will be no changes to the controversial practice of levying release calls.

The development appears to come in response to occasional suggestions that the IG acts as a de facto cartel, even though that claim has not been upheld by a number of investigations by regulatory authorities in the past.

Under the so-called International Group Agreement, the 13 IG clubs are effectively prevented from discounting to win business from their peers.

However, a statement released by the IG yesterday confirmed that the agreement will no longer apply to charterers' P&I business from February.

He did, however, reiterate that there are still concerns about the safety, compatibility and availability of the new fuels.

Shipowners are working on implementation plans but are also "acutely aware" of the potential safety risks that come with new regulation and, Mr Platten said.

"The last thing anybody wants is an accident to happen," he said.

Mr Platten said the chamber does have a view on whether scrubbers should be banned or not, but emphasised that at the moment they are recognised as an official means of compliance.

He said it would continue to press for mandatory bunker licensing schemes, similar to what Singapore, as a measure that would help ensure the integrity of the bunker supply chain.

Although backed by various industry bodies, the last MEPC rejected the mandatory nature of the proposal and agreed to consider it simply as a part of implementation guidelines.

"You have licensing schemes for everything else, in terms of fuel, so why not shipping? I think it's an unfortunate position to take, but we will keep pushing for it," he said.

In addition, where clubs offer to return capital to members, on condition that the member renews cover the following year, other clubs will be allowed to match the offer.

But that determination comes with the important proviso that it is not applicable if renewal is not a precondition for getting the cash.

"If the benefit would have been provided by the holding club anyway — regardless whether or not the member renewed its entry — then it is an unconnected benefit, which the holding club pays independently of renewal," the statement said.

"It cannot be said that this kind of benefit reduces the cost of insurance, since it is paid in any event, renewal or not. And because it has no relevance to renewal, the new club cannot promise to match it as part of its quote for the entry."

Resolution of disputes under the agreement will also be speeded up, and the period in which a club must provide records on a member to a competing club has been shortened, and there is clarification on which documents must be provided.

The quoting restraint period for a new entry joining a club has also been reduced to 12 months.

But the system of release calls — payments made by owners switching clubs to provide for any liabilities on subsequent cash calls — stays in place.

Some owners view the payments as a restraint on their ability to shop around freely for the best P&I insurance deal.

ANALYSIS

Transpacific box trade heading for first contraction in a decade

A WEAK fourth quarter is set to lead to the first full-year contraction on the transpacific trade in a decade, despite container volume growth remaining marginally positive in the first three quarters.

Liftings data show a 3.9% fall in October with larger declines expected in November and December. And despite the ongoing trade war between the US and China, there is unlikely to be a repeat of frontloading by shippers to avoid tariffs, which last year pushed up third-quarter volumes.

In the year to end-October, transpacific volumes rose by just 0.02% to reach 12.2m teu, according to Alphaliner.

The negative momentum on the trade has been seen in the results from US west coast ports, which had a combined 12% fall in inbound laden container throughput in October.

Although east coast ports have yet to report their

figures for October, they are also expected to show lower volumes than last year.

“Continued uncertainty over the imposition of new US import tariffs has failed to trigger another round of front-loading,” Alphaliner said.

“In spite of an increased number of sailings blanked by carriers in November, there have not been any reports of space constraints on the transpacific trade so far.”

The most affected lines are Maersk, Mediterranean Shipping Co, Hapag-Lloyd and Cosco, which have seen declines of between 3.1% and 4.5% in the first 10 months of the year.

Of the large lines, the biggest winner on the trade was Evergreen, which had shown a 10.3% increase in liftings, while SM Line, the small South Korean carrier that rose from the ashes of Hanjin Shipping, also reported volume growth of over 10%.

MARKETS

MISC forecasts optimism for LNG shipping market

MISC, the Malaysian tanker operator, says it is optimistic about the short-term future for the petroleum tanker and liquefied natural gas carrier segments.

It noted that petroleum tanker rates had risen in recent months and expected them to stay robust in the fourth quarter. It expected to reap the benefits of the robust but volatile market and sees the year ending on a firmer note.

Rates had risen on strong seasonal fundamentals, reinforced by geopolitical factors such as the attacks on Saudi oil installations and on tankers, MISC said in a stock market release.

In addition, a series of US sanctions combined with tonnage being taken off the market for scrubber installations, has also tightened tonnage in all vessel sizes and regions and pushed freight rates to record highs.

MISC is also benefiting from the LNG shipping segment, where it believes a surge in spot rates has raised expectations for a run-up to a robust winter market.

The major operator of LNG carriers said tonnage availability remains low and increased US liquefaction capacity is expected to drive spot rates further in the coming months. S&P Global Platts has however recently said LNG shipping rates have recently softened along with the first decline in China's gas demand in three years, as a more benign winter season is forecasted.

It was not fully able to capitalise on this, however, because it had a fewer number of vessels in operation and as a result, revenue from petroleum tankers fell 6.7% to RM70.1m (\$16.9m) although segment profit spiked to a RM21m gain from a RM27.4m loss in the previous corresponding period owing to the higher rates.

The numbers showed much more clearly in the LNG segment, with revenue rising 7.8% to RM46.9m and profit up 11.5% to RM278m

Meanwhile, even MISC's beleaguered offshore segment seems to be recovering on a "renewed surge in upstream investments driven by strong growth in deep-water spending by oil companies".

This in turn is expected to increase the number of floating production system contract awards in the next few years, which MISC's Offshore business unit hopes to gain from. Before these possible contracts kick in however, segment revenue fell 22.9% to RM260.2m and profit fell 16.4% to RM117m as demobilisation and other costs associated with assets coming off-hire were factored in.

Overall group revenue fell 3.7% to RM2.1bn and earnings fell 21.9% to RM266.1m in the third quarter.

Indian Oil starts sales of 0.5% sulphur content fuel oil in India

INDIAN Oil Corporation has started supplying 0.5% sulphur content fuel oil two months before the International Maritime Organization's 2020 sulphur cap begins.

The low sulphur fuel oil grade compliant with IMO global sulphur cap requirements is readily available at ports in Kandla, Cochin and Paradeep.

The first such supply was made on October 26 this year to the LPG tanker *Berlian Ekuator* at Kandla port, the state oil company said in a statement.

Meanwhile, bunker fuel deliveries at other Indian ports in Mumbai, Mangalore, Tuticorin, Chennai, Visakhapatnam, Paradip and Haldia will start by mid-November.

Indian Oil had earlier unveiled two new IMO 2020 compliant marine fuel grades as well as a range of

marine lubricants specifically formulated and compliant with IMO 2020 low sulphur marine fuel specifications in Mumbai.

The LSFO 0.5% S grade is produced from sweet crude oil grades with kinematic viscosity in the range of 220-270 cSt and complies with ISO 8217:2017 RMG380 standard, it said.

This fuel addresses all quality considerations detailed by the International Organization of Standardisation in its recently released ISO 23263:2019 document including the Spot Test for Compatibility, the refiner added.

Lloyd's List previously reported that Indian Oil Corporation's Gujarat oil refinery will be ready to produce 700,000 tonnes per year of low-sulphur marine fuel starting in October.

IN OTHER NEWS

Moore Maritime Index introduced by global network

MOORE, the international accountancy and advisory network, has launched a new tool available online to enable

shipowners, managers and others to analyse vessel operating costs and revenues.

The Moore Maritime Index (MMI) provides information on more

than 1,500 vessels across more than 20 vessel types and the network is aiming to expand what it says already offers a large global fleet sample, says the company formerly known as

Moore Stephens until it rebranded in September

On top of data such as crew costs, wages, provisions, store costs, repair and maintenance and other costs, the index provides exclusive information relating to vessels' net income as well as drydocking and special survey expenses.

D'Amico bullish on product tankers amid lower loss

D'AMICO International Shipping, an Italian product tanker owner, says it is bullish about the sector as it narrowed losses in the third quarter.

"We maintain a very positive outlook for the product tanker industry," said chief executive Paolo d'Amico. "Fundamentals are very solid, with an orderbook at record low levels and a growing demand for seaborne transportation of refined products."

In addition, the new International Maritime Organization regulations are expected to further "stimulate refining activity and demand for our vessels," he said, adding that demand growth is seen at about 6% in 2020.

ADNOC signs LNG deals with BP and Total

ABU Dhabi National Oil Company has signed two liquefied natural gas offtake agreements with BP and Total as part of a bid to hunt out new export markets beyond Japan.

The agreements will book out the majority of LNG produced through to the first quarter of 2022 from the facilities pumping out about 6m tonnes per annum from the facilities at Das Island, ADNOC LNG said in a statement.

"With these new supply agreements, ADNOC LNG has

shown that it can react quickly and decisively to changing market conditions while ensuring the security and quality of delivery," chief executive Fatema Al Nuaimi said.

Skuld seeks 'firmer' renewal pricing as combined ratio hits 114%

MARINE insurer Skuld has said it will increase deductibles and seek firmer pricing on next year's renewal round, but members will avoid a general increase.

"After benign premium movements over a number of years, current premium rates are not sustainable and do not adequately support either attritional or large claims exposures," the P&I club said in a statement on its website.

The Norway-based company's decision puts it in line with its International Group peers, with all clubs declaring their hand so far seeking more premium income one way or another.

RCL takes third-quarter hit on plunging freight rates

INTRA-Asia carrier RCL's third-quarter results give an indication of how conditions are panning out in the feeder business, as it saw freight rates plunge despite a 9% rise in liftings.

Freight income fell 8%, or Baht364m (\$12m), during the period and the average freight rate was 15% lower in the third quarter from the previous corresponding period and 7% lower than the preceding quarter, Thailand-based RCL said in a press release.

Ironically, while the line said that the intra-Asia trade showed the most promising potential growth, it also noted that this in turn had attracted many new players keen on gaining market share "resulting in strong competition

in this quarter, depressing the freight immensely".

Thailand to open up bids for first FSRU

THAILAND'S liquefied natural gas market is set to become more diversified with state-run Electricity Generating Authority of Thailand preparing to develop its first floating storage regasification unit.

Local media reports say the Baht24.5bn (\$809.5m) project is set to be tendered out by the first quarter of 2020 and become operational by 2024. The project has been talked about since 2017.

The Electricity Generating Authority of Thailand is slated to become the second importer of LNG for power generation, breaking the de facto monopoly of national oil PTT, as the Thai government seeks to liberalise the energy sector.

Hapag-Lloyd names new chief financial officer

HAPAG-Lloyd, the German container line, has appointed Mark Frese as its chief financial officer to replace Nicolas Burr who is standing down at the start of 2020.

Mr Frese, 55, who will take up the role on March 1, joins the company from Ceconomy, a digital retail platform, where he was CFO. He was formerly at Metro and Kaufhof Holdings.

"We will be gaining a very accomplished and highly skilled expert with extensive experience and knowledge of the financial sector," said Hapag-Lloyd chairman Michael Behrendt in a statement. "The supervisory board is convinced that, in its new composition, the executive board will remain excellently positioned to lead Hapag-Lloyd to continued future success."

Classified notices

IN THE SUPREME COURT OF GIBRALTAR

ADMIRALTY JURISDICTION

AJ No. 004 of 2019

Admiralty Action in REM against:

the Motor Vessel "SPICA"

PROMONTORIA BIG BEN DESIGNATED ACTIVITY COMPANY

Claimant

-and-

THE OWNERS AND/OR CHARTERERS OF THE SHIP M/V "SPICA"

Defendant

Notice is hereby given as follows:

1. The vessel herein, namely "M/V Spica", has been ordered to be sold by order of the 8th October 2019, of the Honourable Mr Justice Restano, Puisne Judge.
2. Proceeds of sale have been deposited and paid into Court.
3. The order of priority of the claims against the proceeds of sale will not be determined until after the expiration of the period of 60 days from today's date.
4. Any person with a claim against the ship, or the proceeds of sale thereof, on which he intends to proceed to Judgment shall do so before the expiration of the period above described.

Dated the 14th day of November 2019.



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