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Ethane to feed China's gas shipbuilding ambition

CHINA IS PLANNING an expansion in shipbuilding capacity backed by a boost in potential new ethane carriers for its yards to close the gap on South Korea and Japan in constructing gas ships.

ABS, which will be involved in classing some of the vessels, estimated that between five to ten ethane carriers ranging from 90,000 cu m to 150,000 cu m in capacity will be placed with Chinese yards annually for up to five years.

ABS vice-president Peter Fitzpatrick said the capacity build-up that would ensue in China could emerge as "one wildcard" in the global liquefied natural gas shipbuilding market.

Hudong-Zhonghua, part of newly-merged China State Shipbuilding Corp, is widely considered as the only yard in China to have built the capabilities to deliver ocean-going LNG carriers.

The shipyard had already developed a series of solutions for mid-to-large sized ethane carriers awarded by ABS and China Classification Society, according to its general manager Chen Jun.

"Our ethane carriers are ready for the market," Mr Chen told a Marintec China seminar in Shanghai.

His company has also presented a string of designs of LNG carriers of 174,000 cu m-230,000 cu m — including the Arc7 ice-class — some of which have received approval in principle by ABS.

Similar efforts are being made by its sister yards.

Lloyd's List understands that Jiangnan Shipyard, another CSSC unit, has signed a letter of intent with Pacific Gas, the Hong Kong-based gas shipping unit of Chinese owner Shandong Shipping, for a pair of dual-fuel 91,000 cu m ethane carriers, which fall under the $30bn shipbuilding orders announced by the parent at Marintec China. The owner is in talks with a number of foreign lenders to finance the newbuildings.

However, Mr Fitzpatrick pointed to a window of opportunity for other Chinese yards to scale the gas shipbuilding value chain through winning ethane carrier orders.

These yards stand to gain exposure to cryogenic technology by building ethane carriers, which would help them to break into LNG shipbuilding, he explained.

Storage and transportation of ethane across oceans — as in the case of LNG — call for cargoes to be chilled using cryogenic processes. This is one area where most Chinese yards would be looking to close the gap on their rivals in South Korea and Japan.

ABS has already granted approval in principal about three months ago to a very large ethane carrier design developed by Jiangnan Shipyard.

However, negotiations for these newbuilding ethane carrier orders are still pending approval from China's National Development and Reform Commission, which has been held back by the still ongoing US-China trade talks, Mr Fitzpatrick said without naming the counterparties involved.

The US and China, the world's two largest economies, have yet to resolve a drawn-out trade spat standing in the way of bilateral energy and commodity trade flows.

Drewry's senior research analyst Aman Sud noted that such trade tension has also hurt downstream petrochemical demand in China and Asia, which would not help promote ethane trade volumes. But he is optimistic that this will recover once trade tension between the two superpowers is resolved.

Drewry previously projected that China's plan to double its ethylene capacity by another 13m to 14m tonnes per annum over the next two years will create demand for 15m to 20m tonnes in annual demand for ethane.

Mr Sud qualified that by saying nine out of the 12 ethylene expansion projects in China have been put on hold over concerns that ethane may make the list of goods subject to retaliatory tariffs.

China has already slapped a 25% tariff on LNG imports from the US.

Poten & Partners head of Asia Pacific Sophie Tan suggested that the removal of this tariff along with the end of the trade dispute may spur Chinese national oil companies to buy more US LNG.

But they will seek mitigation against risks of a continuing dispute and are after a very good bargain.

"We would expect any negotiations to be centred on prices that are a touch lower than the lowest priced contracts because of the oversupply especially from mid-2020s," Ms Tan said. "Chinese shipyards have a proven track record in building LNG carriers and Chinese content in shipping has been a feature of their LNG supply negotiations.

WHAT TO WATCH

Salvage industry said to be in 'decline phase'

THE salvage industry appears to be undergoing a significant fall in revenue-generating activity, with major corporates are set to quit the business, an industry conference has heard.

The basic underlying dynamic at work is the reduction in income generation opportunities for salvors as shipping becomes progressively safer, with casualties tending to become more complex and more costly.

As a result, there has been a decline in the use of the Lloyd's Open Form and the rise of alternative agreements.

Nicola Pryce-Roberts, a senior lecturer in maritime business and law at Southampton Solent University, said she had been unable to secure detailed financial statements from salvage companies, leaving her unable to state definitively that profits are falling across the sector.

However, standard academic models developed from observation of other industries suggest that salvage has entered a decline phase, characterised by declining profits, decreased outputs, inability to renew, competitive decline, lack of innovation, less efficiency, and a fall in the rate of employment growth.

The models would lead to predictions some companies will seek to exit salvage, while others seek defensive mergers, reduce investment through greater resort to leasing, and diversify activities and income generation.

"On the basis of the research I have done, I can definitely say the salvage industry is definitely in the decline phase," Ms Pryce-Roberts told KNect365's Salvage & Wreck Removal 2019 conference in London.

That doesn't mean all companies are simultaneously in decline, and even as some players head for the exit door, others will reinvent themselves, develop and grow, she added.

It is not clear whether changes to remuneration arrangements such as SCOPIC would stem the decline. While such moves may open up the path to further income, they could equally exacerbate churn.

Therefore the question is, which companies will develop and grow and which will leave?

Bigger, more corporate companies often face parent company boards that tend to respond to shareholder pressure by cutting and running. Smaller family companies, by contrast, have the autonomy to decide to stay the course.

Perhaps a new approach to remuneration is required, with coastal states, society, and all beneficiaries of shipping activities chipping in more.

In response, Roger Evans, secretary-general of the International Salvage Union, pointed to similar predictions of inexorable decline 30 years ago. The industry is still here, he noted.

He also argued that the LOF system had been devised by insurers, who should therefore make more use of it.

"The guys who drafted it have the ethical obligation to adhere to it," he said.

George Tsavirlis of Tsavirlis Salvage Group observed philosophically: "Decline can be the end of the beginning or the beginning of the end. In our case, I suggest it is the end of the beginning.

"Salvage has never been glamorous. It may be part of the shipping industry, which sounds glamorous, but it isn't."

ISU accepts realities of salvage sector

THE International Salvage Union is responding to the realities of its business environment as it continues to move its focus away from the Lloyd's Open Form.

Speaking at an event in London, president Richard Janssen said that following from the union's work last year to reposition the industry to no longer dwell on the past of tugs on station, and the pursuit of LOF above other considerations, it would meet face the realities of the current environment.

"Our members are part of the owners' and underwriters' risk management chain, and the ISU strives to be credible and trusted," he said. "We continue to promote the value of our members who enable world trade by providing services which save life, protect the environment, mitigate risk and reduce loss."

Defending the record of the salvage industry, Mr Janssen, who is also managing director of Smit Salvage, said a survey commissioned by the ISU showed overall satisfaction with the union among 100 respondents was 7.44 out of 10.

"The responses show that ISU is considered credible and trustworthy, is thought to participate in appropriate forums and promotes the industry," he said.

For the salvage sector as a whole, the highest scores were for the industry being competent, reliable and safe.

But there were concerns in the results about the trustworthiness and value for money of professional salvors.

"Our interpretation of the results suggests we need to increase our interaction with owners and insurers about their present and upcoming challenges and how salvors can support them in that," said Mr Janssen. "We must also continue to drive to ensure high ethical and operations standards, but then again, it takes two to tango."

Part of the repositioning of the industry was to recognise that many of the union's members had chosen to diversify and offer other services in addition to their salvage work, he added.

"But we will keep making the case for the high standards and technical excellence of the professional salvor."

OPINION

Lloyd's List Gothenburg summit will map a volatile 2020

THE Executive Meeting, a fixture in global shipping since the early 1990s, will be themed on Untested Waters Ahead: Navigating political risks, sanctions, trade distortions and environmental demands.

Hosted by Lloyd's List Intelligence, the day's programme will include geopolitics, sanctions implications, the impact on trade patterns of shifting political balance, energy realignment, technological advances and fleet and fuel developments.

LLI head of consulting Chris Pålsson said: "All the signs are there that 2020 will likely be a pivotal year for the direction of shipping, with the added challenge that business leaders should expect the unexpected.

"Our programme and speakers will give attendees the facts, trends and scenarios they will need to help them plan the best way forward for their businesses in untested waters."

Among organisations and companies speaking will be Unctad, the UN's Geneva-headquartered trade and investment arm, ABB, APM Terminals, BIMCO, Business Sweden, Kongsberg-Rolls-Royce, Kuehne + Nagel, Stena Bulk and Shell.

Mr Pålsson said he and Lloyd's List group colleagues — including director Niklas Bengtsson, chief correspondent Richard Clayton and markets editor Michelle Wiese Bockmann — will share outlook findings extracted from unique LLI data and forecasting.

The presentations will include a five-year outlook for new ship ordering and deliveries.

"The world as we know it is rapidly changing. The potential impact on trade from the changes of direction of political development is substantial, particularly in the medium to long term," said Mr Pålsson. "Our Executive Meeting will take some of the planning fear out the minds of our delegates."

Speakers will include:

• Kai Miller, manager seafreight, Kuehne + Nagel;

• Luisa Rodriguez, economic affairs officer, Unctad;

• Lena Sellgren, chief economist, Business Sweden;

• Claire Wright, business economics manager, Shell.

The Executive Meeting will be held at the Museum of World Culture in Gothenburg, Sweden, on January 16, 2020.

Attendance is limited. Delegate pricing of €595 will be discounted for early-bird registration before 31 December. Discount for block booking is also offered.

ANALYSIS

Top 10 in marine insurance 2019

JON Hancock takes top slot among this year's global insurance power brokers following his cracking down on underperforming marine syndicates as part of a major shake-up of Lloyd's portfolio

01 / Jon Hancock, Lloyd's

A STRONG case can be made that Jon Hancock has had more impact than anyone in the world of marine insurance over the past year or so, thanks to his role in persuading at least a dozen unprofitable marine syndicates to consider their options (or else).

Many regard the cull as painful but necessary, not least because it has firmed up pricing for those who have stayed the course. In any event, it is not over yet. "I suspect there is more to come," one of our sources told us.

Appropriately enough, director of performance management Mr Hancock actually started as a marine underwriter in the Liverpool office of RSA, and spent more than 25 years with that company.

He took on his present job — with responsibility for performance management, capital setting and risk management in the Lloyd's market — in December 2016.

02 / Andrew Yeoman, Concirrus
INSURTECH is something of a buzzword in marine insurance right now, and Andy Yeoman's Concirrus has emerged from the starting blocks as a clear leader in the space.

The Quest platform operated by the chief executive's company provides proprietary behavioural data and predictive models that are said to outperform traditional risk assessment and underwriting techniques.

And, for an increasing number of believers in senior positions, that is more than marketing hype.

Customers include Willis Re and — since last August — leading P&I club Skuld.

Another indication of Concirrus's current standing in the marine insurance niche is the appointment of former Munich Re kingpin Dieter Berg as a non-executive director.

03/ Marcus Baker, Marsh-JLT Specialty
MARCUS Baker earns his place on any marine insurance top 10 on account of his job as head of global marine at one of the world's biggest brokers in the niche.

The merger of Marsh's parent company, Marsh & McLennan Companies, with Jardine Lloyd Thompson — which was formally completed earlier this year — guarantees his continued presence.

Mr Baker started his career at J&H after graduating in the early 1980s and joined Marsh when it acquired his employer 25 years ago. He has been there ever since.

A notable enthusiast for digitalisation, he is likely to ensure that Marsh-JLT remains at the forefront of the technology developments that are having an ever-increasing impact on the discipline.

04 / Richard Turner, RSA Luxembourg and IUMI
INDUSTRY veteran Richard Turner has relocated from his native Essex to Luxembourg, from where he manages RSA's global specialty business in Europe as chief executive.

Yet if that role were not high-profile enough, he is possibly even better known as president of the International Union of Marine Insurance since 2018.

Mr Turner's 35-year career has largely specialised in marine, starting out as a hull underwriter before running RSA's marine market operations first in London, than in Europe and ultimately worldwide.

05 / Patrizia Kern-Ferretti, Swiss Re
SWISS RE'S head of marine Patrizia Kern-Ferretti is another IUMI stalwart and sits on that organisation's executive committee.

However, she has come to the notice of the industry this year for her role in her employer's decision to stop underwriting marine cover in London and centralise the function in the Italian city of Genoa instead.

The move followed a first-half loss of $403m at Swiss Re Corporate Solutions, which has made addressing profitability imperative.

In the internet era, the switch should make very little difference for the customers. The question is, will it mark the start of a gradual drift of marine business away from the UK capital?

Ms Kern-Ferretti is also credited with Swiss Re's introduction of a new model for cargo insurance, based on behavioural analytics.

06 / Heather Clarkson, Ed
HEATHER Clarkson is another woman at the top of the marine broking tree, after global wholesale insurance and reinsurance broker Ed last year poached her from her job as head of hull at Aon Risk Services to be its head of marine business.

She also has 20 years at Marsh on her CV, including a stint in Montreal, and has also worked for Millers.

Ed is a Lloyd's broker and its range of marine coverage is deliberately broad, ranging from hull and machinery and protection and indemnity to bespoke specialist products for individual clients, including political risks, contract frustration, business interruption, counterparty insolvency and revenue protection.

07 / Nick Shaw, International Group
FORMER lawyer Nick Shaw took over from Andrew Bardot as chief executive of the International Group of P&I Clubs earlier this year and is "doing a rather good job of it", we are reliably informed.

Mr Shaw is from a shipping family. Indeed, his father was at one stage chair of Furness Withy, a famous British shipping company of yore.

After a teenage passage as a supernumerary on a boxship to South America, he was hooked and decided to study at shipping law at Southampton University.

On graduation, he had his first-ever job interview, which landed him a trainee place at Richards Butler, subsequently swallowed up by Reed Smith.

His second-ever job interview last year saw him offered his current job.

08 / Helle Hammer, Cefor
CEFOR, the Nordic Association of Marine Insurers, is the main representative body for what is the largest single marine market outside London.

Managing director Helle Hammer has been running the show since 2007.

Her CV includes early jobs in politics and the civil service, as well as a stint working in Houston for a state-owned investment institution.

Shipping posts have included various roles at the Norwegian Shipowners' Association, Det Norske Veritas and Oslo's prestigious Shippingklubben shipping club.

She is also active in IUMI.

09 / Tim Turner, Beazley
BEAZLEY participates in the hull insurance of something like 20% of the world's ocean-going trading tonnage, so the position of head of marine is a big job that was, until recently, filled by Clive Washbourn, one of the rock stars of marine underwriting.

Mr Washbourn stepped down in February this year for unspecified personal reasons, with the company expressing the hope that he will return at some point.

Meanwhile, Tim Turner has stepped into his shoes, giving him responsibility for around 16% of Beazley's entire gross written premiums.

Mr Turner has been with Beazley since 1998 and sits on its security and underwriting committees. He joined its executive committee in December 2018.

10 /Rama Chandran, QBE
ASIA is of growing importance in hull insurance and at the forefront of the sector in that region is Rama Chandran, head of marine at QBE.

Mr Chandran started his career as chief engineer on tankers. He came ashore to join Ritchie & Bisset (Far East) as a surveyor and, in 13 years with that firm, rose to managing director.

There followed spells as a marine underwriter at Swiss Re, head of marine at Asia Capital Re and class underwriter at Argo before taking his current job in 2015.

The Top 10 in marine insurance list is collated by the Lloyd's List editorial team and considers a mixture of traditional power-brokers in an insular niche, and those doing noteworthy things within it.

MARKETS

Vale expects to restore full iron ore production by 2022

VALE, Brazil's main miner, expects to restore full volumes of iron ore in 2022.

It is anticipating output of up to 400m tonnes in 2022, a level it had hoped to achieve this year.

The miner was forced to curtail output by about 93m tonnes in the aftermath of the Brumadinho tailings dam disaster in January that claimed 270 lives, 250 of which were Vale workers.

It had to revise down its estimates for this year to between 307m and 312m tonnes, and expects to ramp up to a range between 340m and 355m tonnes in 2020, Vale said at an investor day in London on Wednesday.

Output is expected to reach 375m to 395m tonnes in 2021, according to its estimates.

It expects freight costs to drop to $16.30 per tonne in a number of years from the current $18 per tonne, according to head of ferrous minerals Marcello Spinelli, as it adds 82m tonnes of new shipping capacity through the delivery of second-generation valemaxes and guaibamax vessels.

At least 95% of the contracted vessels will have scrubbers fitted by 2022, he said.

The company is also planning to expand its port in Malaysia.

Earlier in the week, Vale said it had to temporarily suspend operations at the Laranjeiras dam for one to two months for an inspection after it detected a small crack. The halt will affect about 1.5m tonnes of iron ore per month.

It added that production in the first quarter is expected at 68m to 73m tonnes, "due to weather-related seasonality, the gradual and safe return of operations and in line with the margin over volume strategy".

Box shipping outlook remains challenging

THE trade war between the US and China and continuing overcapacity are likely to mean 2019 will be remembered as an "extremely dull" year for container shipping.

Early indicators form US inventory-to-sales ratios showed there was no front loading of volumes this year ahead of the next round of tariffs on December 15, he said.

"Global demand growth of 1% for the first three quarters of the year is unlikely to turn around for the fourth quarter," BIMCO chief shipping analyst Peter Sand said in an outlook webinar. "Fourth-quarter demand from front loading inflated volumes last year so the full year total is likely to be lower than it is today."

The trade war is continuing to have a negative effect on box shipping.

"Whichever way you look at it, 2019 did not deliver on demand," Mr Sand said. "Looking at 2020, imports into developing markets could improve, but what matters most for container shipping is imports into developed countries, but this is still very much entangled in the trade war."

The International Monetary Fund is forecasting a 3.4% growth in 2020, but this was unlikely to be the full picture, as the future always looked brighter from a distance, Mr Sand said.

Moreover, there would be a "double-whammy" as the multiplier effect was also deteriorating.

"It is a massive challenge, to say the least," said Mr Sand. "But below the headline, we see very different developments. There is strong demand going into Europe from Asia, which is the most positive story in terms of demand growth for 2019, up by 3.7% in the first three quarters."

This, however, had to be tempered with the reality of freight rates, which had failed to rise in line with demand.

"The China Containerised Freight Index, the best proxy for liner profitability, followed the usual seasonal pattern going into April, but by summer the peak season never really materialised," Mr Sand said.

"While the CCFI was slightly up in November, rates remained 4% lower than the same time last year. Over the year, average freight rates for 2019 compared with 2018 on the Asia-Europe trade were down 4.7%, despite a demand growth of 3.7%."

The reason for this was ongoing overcapacity on the trade lane, he said.

"The inflow of ultra-large containerships being fed into the one trade which is growing has resulted in negative freight rate growth."

BIMCO expects final containership fleet growth to finish the year at 3.7%, down from last year, but still to high given volume growth of just 1%.

"That is a deterioration of the fundamental balance," Mr Sand said.

"Going into 2020 our growth expectations are around 3%, and we certainly need a reversal of fortunes in the trade war in order to bring around a stronger market in 2020. Right now it is not on the cards."

IN OTHER NEWS

Pirates abduct seafarers from tanker off Nigeria

ARMED pirates have abducted 19 seafarers from a Navios Maritime Holdings-owned tanker off Nigeria.

The attackers boarded the Hong-Kong flagged 296,988 dwt *Nave Constellation* late on December 3 after it had departed Bonny Offshore Terminal, Lloyd's List Intelligence reported.

Seven more crew members remained on board following the attack. Of the abducted seafarers, 18 were from India and one was from Turkey.

American Club says marine insurance outlook uncertain

THE American Club forecasts stronger returns on its investments will help offset a loss-making year, with the end-of-year 2019 deficit shrinking to $15m.

Chief executive Joseph Hughes said the protection and indemnity mutual association had seen a 27% fall in claims erosion over the past five years.

Speaking at Trinity House in London this week, he said that as a result, combined ratios for American Club had not been "particularly brilliant" over that period.

Kitack Lim reappointed IMO chief for second term

INTERNATIONAL Maritime Organization secretary-general Kitack Lim is to serve another four years at the helm of the global maritime regulator.

The IMO Assembly approved Mr Lim's reappointment on Wednesday. Mr Lim, who hails from South Korea and has a seafaring background, will lead the IMO until the end of 2023. His first term began in 2016.

Approval by the assembly was largely a formality, after the IMO Council — the 40-member state body that governs the organisation — endorsed Mr Lim for a second term late last year. Mr Lim did not face any opposition on his reappointment at that council meeting.

CMA CGM and Total sign LNG supply deal

CMA CGM and Total have signed a liquefied natural gas supply deal to supply fuel for the carrier's fleet of 15,000 teu LNG-powered vessels when they are delivered from 2021.

Under the agreement, the French oil major will provide bunkering of these containerships using an LNG bunker vessel at the port of Marseille-Fos and a complementary bunkering solution in Singapore.

"LNG is the only energy currently available and reliable to significantly reduce our carbon footprint," said CMA CGM chief executive Rodolphe Saadé.

US sanctions six tankers linked to PDSA

THE US has imposed further sanctions on Venezuela, identifying six oil tankers that deliver petroleum products from the South American nation to Cuba as "blocked property".

US Secretary of State Mike Pompeo said the vessels were being used by Venezuelan President Nicolás Maduro to "ship a vital natural resource to Cuba in exchange for Cuban security and intelligence services that preserve his influence in Venezuela".

The Office of Foreign Assets Control named six crude or product tankers it said were "linked" to Venezuela's state-owned oil company Petróleos de Venezuela SA: 99,450 dwt Icaro, 47,144 dwt Luisa Caceres de Arismendi, 47,144 dwt Manuela Saenz, 104,544 dwt Paramaconi, 104,280 dwt Terepaima and 104,280 dwt Yare.

Port of Virginia dredging project starts

DREDGING at the Port of Virginia to take its channel depths to 55 ft by 2024 has started, according to port officials.

Virginia Port Authority chief executive John Reinhart said the $350m project, which began on December 2, will set up Virginia "to be the premier gateway for trade on the east coast". Completion is due by 2024.

"When the work is complete, Virginia will be the only east coast port with the capability to handle the biggest container ships afloat today," Mr Reinhart said. "Our trade with Asia is expanding and the ships working the Asia-US east coast trade are growing to accommodate the volumes.

Bunker tool seeks to standardise low-sulphur charges

DREWRY has published its first low-sulphur reference bunker index tracker as the container shipping sector switches to bunkering low-sulphur fuel ahead of next month's IMO 2020 deadline.

Drewry noted that in recent months, both shippers and forwarders had expressed confusion and concern about the timing and transparency of the new charges being introduced by carriers as they transition from

IFO 380 to the new, low-sulphur fuel standard.

Working with the European Shippers' Council, it has defined and published a simplified bunker adjustment factor indexing mechanism and bunker charge guide to help shippers monitor and control bunker charges.

Unifeeder buys majority stake in Feedertech Group

UNIFEEDER, the European feeder network and shortsea unit of DP World, has acquired a 77% stake in the Feedertech Group.

The Singapore-based feeder and shortsea operator operates two companies: Feedertech, which is a feedering service, and Perma, a regional shortsea network.

Both operate in the same market and connect the fast-growing trade route of Asia-Middle East via the Indian subcontinent. The group generates annual revenue of close to $200m from a diversified customer mix, calls at 50 ports and transports over 600,000 teu annually.

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