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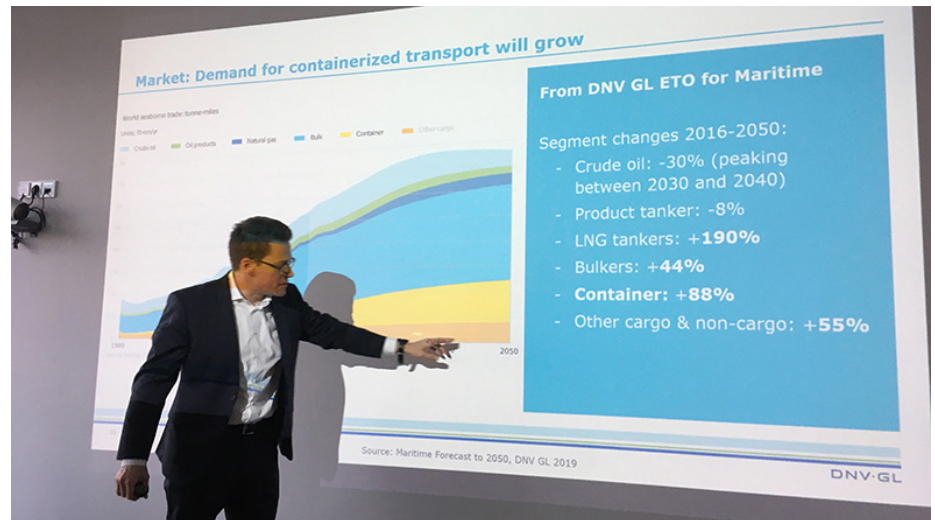
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LNG seaborne trade soars as crude tonne miles set to plunge 30% by 2050



LIQUEFIED NATURAL GAS and containerised trade are the biggest long-term winners in shipping under classification society DNV GL's analysis of seaborne trade through to 2050.

Tonne miles for LNG tankers will expand by 190% by 2050 from 2016 levels, while container trade will grow 88% over the same period, according to Rasmus Stute, director of the Hamburg-based Containership Excellence Sector.

He told a DNV GL briefing in Hamburg this week that seaborne trade demand would grow by 26% over the next 10 years, reaching 78.7 gt by nautical miles by 2030.

While containerised and LNG transport tonne miles will rise substantially, the biggest loser in the shipping sector is refined products and crude oil. Carriage of oil will drop by 30% over the next three decades while shipment of refined products declines 8%.

DNV GL, which classes about 20% of the global fleet, believes that seaborne crude oil transport will peak between 2030 and 2040 before volumes carried multiplied by distance travelled swiftly plunge by nearly a third.

Demand for bulk carriers is estimated to rise 44% over the outlook period.

LNG was forecast to overtake oil as the world's primary energy source by 2026. The classification society also forecast LNG to be the dominant ship fuel by 2050. However high-sulphur fuel oil and marine

gasoils are still going to provide 80% of energy for ship propulsion by 2030, illustrating difficulties in decarbonising over the next decade. Even by 2050 the oil-based marine fuels will still provide just under 10% of ship fuels.

DNV GL is betting that ammonia will be the fuel of the future. It predicts this green fuel will have the second-largest share by 2050. However the technology allowing the supply of ammonia on a commercial scale will only be seen viable and in greater supply after 2040.

Torgeir Sterri, west Europe regional manager for

maritime, told the briefing that overall seaborne trade was 1.7% lower in 2019 than the prior year. The tanker sector benefiting the most under these conditions.

He also provided the latest newbuilding figures for this year, showing that ordering levels were the lowest since 2016. Some 35.2m gt was ordered in 2019, including 10.5m gt in tankers, 8.2m gt in bulkers, and 7.4m gt for containerships during the first 11 months. Gas carriers measured 4.6m gt.

Contracting levels are estimated to increase over the next three years.

WHAT TO WATCH

South Korea frustrates OECD's efforts in new shipbuilding competition regime

A GROUP of shipbuilding nations under the Organisation for Economic Co-operation and Development have failed to introduce a new competition regime after South Korea voted against it.

Inclusion of the instrument — mainly consisting of disciplines to regulate government subsidies and ship price as well as a dispute settlement system — was discussed at an OECD Working Party on Shipbuilding (WP6) held in Paris last Friday, according to a press release.

South Korea was the only one of the member states, which also include the European Union and Japan, at that gathering that have rejected the proposal.

“Korea disagreed with the inclusion of the pricing discipline and a part of the dispute settlement system, and did not show any compromise,” said the release.

The objection had led to a suspension of the motion until substantial changes of WP6 members’ positions, it added.

The WP6 has been trying to explore a legally binding instrument since April 2017 to address some of the key challenges in shipbuilding, such as overcapacity and price-cutting orders.

In addition to the member states, the working group also wants to include non-OECD countries — especially China, the world’s largest shipbuilding nation — in the agreement.

However, South Korea, a major rival of China, has been resistant to the proposed new regime, while being criticised by the EU and Japan of overly subsidising the country’s shipbuilding sector, highlighted by a massive bailout to the then embattled Daewoo Shipbuilding & Marine Engineering in 2017.

During the latest session, Japan, the EU, Turkey and Norway had encouraged South Korea to change its position, but the latter insisted that it would only discuss pricing disciplines with Chinese participation in the discussion, according to the release.

“It is regrettable that the discussion was suspended and WP6 could not meet the expectation of the industry side,” said a Japanese government official under the condition of anonymity, as the person was not authorised to speak to press.

“The shipbuilding market has problems of excess capacity and low pricing,” the official said. “It is important to remove public support measures and to withdraw from the market based on the principle of the market.”

The remarks echo some of the views from a recent JECKU summit attended by top shipbuilding executives from Japan, the EU, China, South Korea and the US.

The conference, held in Italy in October, called for a joint effort by all shipbuilding economies to solve core issues of excess capacity and low profitability,

and hence creating framework conditions that allow industry to forcefully tackle maritime sustainability, according to the JECKU chairman's note 2019.

The Japanese official added that it was necessary to continue to take action to ensure a level playing field

for the global shipbuilding business under all frameworks including the OECD.

After the halt of the instrument discussion, Japan has made another proposal including cost analysis, which was agreed by the member states and will start preparation in 2020.

ANALYSIS

Yard Talk | How to endure a lengthy winter?

THE shipbuilding industry is embarking on another big wave of consolidation in the three largest shipbuilding nations—China, South Korea and Japan—at the same time.

The latest update was about Mitsubishi Heavy Industries pondering the sale of its Koyagi plant to domestic rival Oshima Shipbuilding.

The news came shortly after Imabari Shipbuilding and Japan Marine United said they were close to reaching a tie-up deal.

When Japan starts to see its yards consolidate, you will know how dreadful the market is. Because its shipbuilding sector is least intervened by government power among the three countries.

As a result, perhaps, Japanese yards have also borne the brunt of an industry downturn as investor's appetite for fresh tonnage wanes.

Their orderbook by the end of November shrank 31% from 2018 to 11.8m compensated gross tonnage, according to Clarksons' data. Competitors in China and South Korea took a hit of 15% and 9%, respectively, over the same period to 26.3m cgt and 20.7m cgt.

That has also reduced yards' capability to cover future workload, with the Japanese backlog just enough to sustain 1.5 years. By comparison, China has 2.4 years and South Korea 2.2 years.

"This is very worrying for shipbuilders, because if you do not get orders quite quickly, you'll start to get gaps in your orderbook and make big losses," said Martin Stopford, president of Clarkson Research.

Now Seoul is keen to deliver the merger between Hyundai Heavy Industries and Daewoo Shipbuilding & Marine Engineering, despite mounting regulatory headwinds. The European Commission has just launched an in-depth

investigation into the deal for anti-trust reasons, a concern earlier shared by the Singaporean competition authority.

Beijing recently established the new China State Shipbuilding Corp to integrate the business of the former CSSC and its northern cousin China Shipbuilding Industry Corp.

The risks of foreign regulatory scrutiny facing the Chinese deal are not yet clear. One company executive recently claimed the hurdles were less than its South Korean counterpart.

A European Commission spokesperson told Lloyd's List that the authority had not been notified by CSSC about the merger deal, adding "It is for the companies to assess if they need to notify a transaction to the EC."

Also, chatter during the recent Marintec event in Shanghai, where the new CSSC staged a spectacular show of its fresh orders and designs, suggested that Beijing ultimately wants China to only have two state-owned shipbuilding groups. That has made people wonder what the future will hold for the shipyards under the wings of Cosco Shipping and China Merchants.

After all, while pressure from regulators may force big companies to modify their merger and acquisition plans to alleviate monopoly concerns, it is unlikely to stop shipbuilders from consolidating further.

That is because the upstream sector—shipping—is in the hands of fewer players, and it is only a matter of time for that trend to trickle down.

The consolidation of shipbuilders will perk up ship prices through hopefully trimming excess capacity. But at the same time, it will deter speculative orders, backing a stable, healthy freight market that eventually benefit shipowners.

The move may also, as Lloyd's Register chief executive Alastair Marsh has pointed out, lead to a more efficient partnership between yards and class societies on developing new technologies and vessels—at least in the case of CSSC and LR.

Some of the innovative solutions can be used to help shipping hit the 2050 decarbonisation target. Yet industry experts expect the mass production of

carbon-zero merchant vessels to be still five to 10 years away.

It is probably also the amount of time that shipbuilders must bide before the next newbuilding boom arrives. Before that, they will likely have a lengthy slow season to endure, and consolation is both the solution to and the result of it.

MARKETS

US amends rules to allow sale of 0.5% sulphur marine fuel

US OIL refineries will be allowed to distribute and sell shipowners marine fuels with a sulphur content of up to 0.5% instead of only 0.1% after a change in regulations by the country's energy regulators.

The Environmental Protection Agency announced a "technical correction" to the diesel fuel regulations to allow fuel suppliers to distribute distillate diesel fuel that complies with the IMO 2020 0.5% standard.

The impending IMO 2020 limit of 0.5% sulphur is not as low as the current 0.1% requirement of the US emissions control area that stretches 200 nautical miles off the country's coastlines.

But fuels burned outside the ECA zone with a sulphur content of between 0.1% and 0.5% had not been cleared for sale or distribution under US law until the change announced by the EPA. Before the change, refiners could sell only fuel with a sulphur content of 0.1% or lower.

While IMO-compliant 0.5% fuel may now be sold and distributed under the rule change, EPA said "the affected fuel may not be used in the US' emission control areas".

The change came about because US refiners could have missed out on a segment of global marine fuel sales, while shipowners could have been faced with the higher cost of purchasing expensive fuels they do

not need or of having to sail longer distances to buy the lower-cost fuel they do require.

EPA said that removing the restriction will provide "greater flexibility" for US fuel suppliers participating in the global marine fuel market.

It also said that the change "could reduce fuel costs" for shipowners as the vessel operator would not be faced with purchasing more expensive ECA fuel or going to another country to purchase fuel.

Recent testimony by the head of the US Energy Information Administration predicted that IMO 2020 will have a generally positive effect on the country's oil producers and refiners.

The EPA's tweaking of the regulations to allow sales and distribution of the higher sulphur fuel will likely add to that effect, while still complying with its own ECA requirements as well as those of IMO 2020.

"These targeted regulatory corrections will clear the way for US refiners to provide cleaner marine fuel for ships that sail across the globe," said EPA administrator Andrew Wheeler.

"Hitting this key deadline is vital to meeting the terms of this important treaty that protects air quality and human health both at home and abroad," he said.

Freight growth undermined by falling trade-to-GDP ratio

A FALLING trade-to-GDP ratio because of slowing globalisation and increasing protectionist measures

looks set to affect container shipping demand for years to come, according to BIMCO.

Peter Sand, the shipping industry association's chief shipping analyst, described the falling world trade-to-GDP ratio as "one of the most worrying trends that has developed recently".

He said: "The raised barriers to trade are here to stay as we enter a new decade, with the shipping industry stuck with the consequences."

He added that the US-China trade war was the clearest example of these extra barriers to trade.

BIMCO expects the trade war to continue to plague shipping between the US and China in 2020, he said. "Unfortunately, these are not the only countries engaging in tariff wars. The European Union also faces additional tariffs from the US, and we see trade tensions between Japan and South Korea."

He said the effects of "the worsening of the fundamental shipping market balances this year" will be felt again in 2020, with BIMCO continuing to "warn that the worsening balance between the supply of ships and the demand will be detrimental to shipowners' ability to pass on the additional costs associated with compliance of the new IMO 2020 sulphur cap".

Reflecting on the container shipping market in 2019, he highlighted that "imports of laden containers to the US west coast declined in 2019, for the first time since 2011", and added: "There has been no visible frontloading of goods in 2019, and with further tariffs having been narrowly avoided in December, BIMCO does not expect any frontloading boost to come in 2020. Rather, the trade war, as it currently stands, will continue to drag trade volumes as well as freight rates down."

IN OTHER NEWS

Philippines LNG project requests temporary suspension

ONE of several liquefied natural gas terminal projects in the Philippines has been put on ice after Phoenix Petroleum Philippines and China National Offshore Oil Corp Gas and Power Group, the partners in the Tanglawan LNG project, asked the Department of Energy to suspend its proposal, local media reported.

Energy secretary Alfonso Cusi was cited as saying that the request was prompted by the recent agreement Phoenix Petroleum parent Udenna Corp sealed to acquire Chevron's stake in the Malampaya gas-to-power project in offshore northwest Palawan.

Dennis Uy-led Udenna agreed to take over Chevron's 45% stake in the project in November. Another 45% is owned by project developer and operator Shell Philippines Exploration and the remaining 10% is owned by Philippine National Oil Company unit PNOG Exploration.

DryLog acquires 50% of ArcelorMittal shipping subsidiary

DRYLOG, the vehicle for the dry bulk shipping activities of Peter G. Livanos and family, has unveiled a new joint venture with the steel and mining giant ArcelorMittal.

Global Chartering Ltd (GCL) has been created through DryLog's acquisition of a 50% stake in ArcelorMittal's wholly-owned GCL shipping subsidiary.

GCL has been transporting about 20m tonnes per year out of ArcelorMittal's annual seaborne transportation requirements of more than 80m tonnes of cargo.

Switzerland heads to court over ABC tanker arrest

SWITZERLAND is suing Nigeria at the Hamburg-based International Tribunal for the Law of the Sea, seeking the return of an ABC Maritime-managed tanker that has been held in the African country for almost two years.

ITLOS earlier this year ordered the provisional release of *San*

Padre Pio and its crew, on payment of a \$14m bond. However, tracking data from Lloyd's List Intelligence appears to show the vessel anchored 1.5 nm off Bonny.

In January 2018, the Nigerian authorities accused *San Padre Pio* of violating Nigerian territorial waters and smuggling diesel through ship-to-ship transfer of gasoil.

Jera takes second Angelicoussis LNG carrier on 12-year charter

JERA, the joint venture of Tokyo Electric Power Group and the Chubu Electric Power Group, has chartered a second liquefied natural gas carrier from the Angelicoussis Shipping Group gas-shipping arm Maran Gas Maritime.

The 12-year charter is set to start in the fourth quarter of 2021 after delivery of the 174,000 cu m vessel from Daewoo Shipbuilding & Marine Engineering.

The new charter was announced on Wednesday by Jera as the first

Maran vessel taken by the Japanese charterer is on its maiden voyage. Earlier this year, Jera – which in the past had rarely chartered non Japanese-owned ships for long periods – inked 12-year charters for one newbuilding each from Maran and from GasLog.

The GasLog newbuilding is due in April 2020, while the *Maran Gas Andros* was delivered last month and is understood to be on its way to Freeport, Texas, to load its first cargo.

China's Binhai LNG terminal uses \$500m AIIB loan

BEIJING-backed Asian Infrastructure Investment Bank has extended a \$500m loan to finance a liquefied natural gas import terminal in Tianjin.

The terminal being developed by Beijing Gas at a projected cost of more than \$1.9bn, will serve as storage for emergency gas reserves as buffer for the Beijing-Tianjin-Hebei region.

The BTH region is one of China's most important economic engines and accounted for 10% of the country's gross domestic product in 2017.

Britannia boosts Denmark presence

B DENMARK P&I, Britannia's exclusive correspondent in Denmark, will become a full branch office of the International Group affiliate from January 1.

Trading under the name TR(B) Denmark, it will continue to be

headed by Michael Boje-Larsen, a lawyer with considerable experience in maritime law, including P&I and freight, demurrage and defence cover.

He will be supported by Rishi Choudhury, an associate director of Britannia P&I, an FD&D specialist who has been working with the club since 2006. Further expansion of the team is planned for early 2020.

CMA CGM appoints sustainability chief

CMA CGM is setting up a new sustainability division and has hired Guilhem Isaac Georges to lead it. The French carrier announced on Wednesday that it has hired Mr Georges as company sustainability director to head its new department on sustainable development and environment.

Mr Georges joins CMA CGM from French recycling firm Citeo where he had been public affairs director since 2017. He had previously worked as a senior political adviser at the French environment, energy and sea ministry from 2015.

He has worked on sustainability-related issues since 2006, when as deputy chief of staff for the president of the Midi Pyrénées region, he was in charge of sustainable development and European affairs. He was then sustainable development adviser within the Régions de France association between 2011 and 2015.

Capital Product Partners acquires boxship trio from Capital Maritime

CAPITAL Product Partners has agreed to acquire three containerships that begins a promised move to rebuild its fleet after spinning off its tanker fleet into Diamond S Shipping earlier this year.

The trio of 10,000 teu boxships are dropdowns from sponsor Capital Maritime & Trading and are all time chartered to Hapag Lloyd until 2024.

The 2011-built vessels are earning \$27,000 per day, but the daily rate will increase to \$28,000 from October next year in the case of *Aristomenis* and from July 2021 for the other two vessels, *Athos* and *Athenian*.

Families of Sanchi victims file lawsuit in US against NITC

FAMILIES of the victims of the *Sanchi* tanker casualty in January 2018 have filed a lawsuit against the National Iranian Tanker Co in the US.

The claim, which was filed in a district court in Washington, extends to current and former Iranian politicians, according to the law firm representing the families.

The families claim the crew members are still alive and have been kept captive by Iranian authorities for unknown reasons. They allege they have received phone calls from the seafarers since the casualty.

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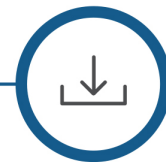
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