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Don't mess with Chinese inspectors on the sulphur cap

THREE WEEKS SINCE the implementation of the International Maritime Organization's sulphur cap, five violations have been reported in China.

They were announced by maritime authorities at the ports of Qingdao, Dalian and Ningbo, with the two latest from Xiamen and Weihai.

The Chinese inspectors are obviously very diligent and appear keen to showcase their efforts, as few infringements have been noted elsewhere.

One common feature in these found cases is a rather small excess sulphur content, ranging from 0.546% to 0.68%, suggesting none of the involved the vessels were using high-sulphur fuel oil at the time.

Causes were said by officials to have been improper blending of the fuels or an incomplete switch to compliant fuels. The Xiamen Maritime Safety Administration offered the most detailed explanation in its case.

It said the ship caught had switched to very low sulphur fuel from December 27, 2019 but some HSFO residuals remained stuck in the pipe, which led to a resulting 0.68% sulphur content.

But overall, the limited reports about violations shows the transition to IMO 2020 is smoother than expected, at least from the vessel compliance perspective.

What has drawn more attention and also gone beyond expectation is the high premium price of VLSFO.

The average price at top global ports stood at $651.50 per tonne, at last count by Ship & Bunker, compared to $369 of HSFO IFO 380.

The huge extra bunker costs have apparently caused a spasm of cash crunch to some ship operators with less deep pockets, highlighted by the recent payment issues encountered by Singapore-based box shipping carrier Pacific International Lines.

As the time goes by more VLSFO production will come online. That can help to reduce the spread while the tax rebate reportedly approved by Beijing for local refineries will facilitate that trend.

The new tax regime is expected to boost China's VLSFO output and slash its imports of bunker fuels that have been the primary source of supply at Chinese ports for ocean-going vessels.

At the same time, vessels that have fitted exhaust gas scrubbers are reaping the benefits of better earnings.

Cleaves Securities earlier put rates for a scrubber-fitted very large crude carrier at $117,000 per day versus $101,000 per day of a non-scrubber sister ship, before the average market slumped this week.

Fearnleys noted in a report this week that a scrubber-fitted capesize dry bulker presently earned an extra of $8,000-$10,000 per day against a non-scrubber one.

But not everything is on the bright side.

While the environmental concerns over scrubbers have been widely debated, the use of the equipment is also burdened with many "maintenance costs" that don't get mentioned often, according to industry sources.

Scrubber components need to sustain corrosive products at high temperature, with the wear and tear requiring great monitoring, according to Milutin Gojkovic, a liner shipping and bunker expert who previously worked for a major European carrier.

Additional electric power is also needed to run the system, which consists of pumps, separators, dosing units, control processors and sensors among other devices, Capt Gojkovic added.

"Some scrubber units may produce back pressure," he said. "So the engine needs to use more power to overcome it."

Overrun of installation costs is another headache, as yard slots have become increasingly tight.

One shipping executive whose company completed a scrubber retrofit on one of its capesize dry bulkers in November said the final cost charged by the shipyard in China was about 30% higher than the quoted price, with the job finished three-four days later than scheduled.

"The situation is much worse now compared to two months ago," the person said.

Nevertheless, all vessels fitted with open-loop scrubbers must change to burning VLSFO when entering the waters of an increasing number of jurisdictions that have banned the discharge of the equipment's wash water.

Be careful not to mishandle the fuel switch and exceed the 0.5% sulphur limit, especially in China. The inspectors there are not be messed with.

WHAT TO WATCH

Benefits to LNG from Sino-US trade pact remain unclear

WHEN it comes to weighing the subsidiary effects of any trade pact, especially between two super-sized economies, the devil has always been in the detail.

Some shipping analysts have lapped up news of a breakthrough Phase One trade deal between the US and China to tout potential upside for the liquefied natural gas shipping market.

There are obvious reasons for cheer in a prospective deal between the US and China, which are separated by thousands of nautical miles, as the fastest growing exporter and importer of the commodity.

It is quite probable that LNG's share of China's pledged $52.4bn in incremental energy imports from the US would be significant.

Still, as Sophie Tan of Poten & Partners has pointed out, it is too soon to cheer as both sides have yet to spell out how the overall target value for energy trade may be allocated across different products — crude oil, liquefied natural gas, ethane, liquefied petroleum gas and coal to name a few.

Plus, the Phase One trade deal does not include the removal of a 25% tariff China has imposed on LNG imports from the US.

A separate 5% tariff on crude trade between the US and China is also still in force.

This tariff, if not removed, does not support the economic viability of LNG trades between the US and China.

At the height of trade tensions between the superpowers back in May, Rystad Energy had warned that the tariff has rendered US LNG exports to China uncompetitive, relative to those from rival exporting countries.

This view takes into consideration the vast ocean separating the two economies that drives up the costs of transporting cargoes from the US to China.

By Poten & Partners' calculation, the current cost of shipping US LNG to China for each round trip amounts to roughly $1.80 per million British thermal unit on a 174,000 cu m MEGI or X-DF LNG carrier. This is double the shipping cost between Australia and China, Ms Tan noted.

In the light of the dramatically higher shipping cost, the removal of the punitive 25% tariff is necessary, especially in an oversupplied market, to help the cause of any US LNG exporters.

LNG futures are trending at record lows, slipping to under $4 per million British thermal unit for cargoes settling in April to June of this year.

This does not help bolster the sell-side bargaining power in either the spot market or negotiations for long-term offtake, especially for suppliers based out of the US.

Wood Mackenzie Asia-Pacific energy vice-chairman Gavin Thompson has said that the Chinese national oil companies "will be reluctant to commit to large-scale purchases" from the US if the 25% tariff is not removed.

A supply glut in the LNG market is also expected to hold back any buyer — Chinese or otherwise — from penning long-term offtake agreements unless granted very favourable terms.

Ms Tan also flagged the observation that talks on offtake agreements between both sides are for delivery from the mid-2020s onwards.

Still, there is room for spot trades between the two countries if buyers and sellers can find common ground.

Ms Tan said: "China has the capacity to buy US LNG on the spot or short-term basis for the next two years to meet the target ($52.4bn incremental energy trade)."

Wood Mackenzie estimated that Chinese buyers need to purchase 17m tonnes to meet domestic demand in 2020 and another 23m tonnes for the next year.

With so many variables in play, it is hardly any wonder that even the shipping analysts who are optimistic about the Phase One trade deal's prospects, are at best only cautiously so.

Drewry's senior analyst Aman Sud acknowledged that the 25% tariff will still restrict the LNG trade growth between the US and China in a highly competitive market that is seeing LNG trading at low prices.

That said, he expresses hope that Phase 2 trade talks will next focus on resolving the tariffs later this year, which will deliver more benefits for LNG trade.

Mr Sud suggested that for now, the Phase 1 trade deal "will bring Chinese and US LNG companies together" possibly leading to more Chinese funding in upcoming US liquefaction projects.

ANALYSIS

Shipowners reject VLSFO blends ban

MOVES to ban certain very low sulphur fuel oil blends and introduce a mandatory switch to distillates in the Arctic Sea are facing an industry backlash and warnings it could thwart compliance with the 0.5% sulphur cap.

Four non-governmental organisations have put a proposal to the environmental regulators at the International Maritime Organization that there ought to be a prohibition on VLSFO blends that increase black carbon emissions. They also want an immediate switch to distillates in the Arctic Sea, banning the use of heavy fuel oil.

Although environmental NGOs have long wanted a switch to distillates in the Arctic Sea, these latest calls have their origins in a study submitted by Finland and Germany to the IMO. The study links VLSFO blends to higher black carbon emissions compared with conventional heavy fuel oil and distillates.

BIMCO deputy secretary general Lars Robert Pedersen said that a ban on VLSFO blends would have a severe impact relating to compliance with the 2020 sulphur cap.

The IMO's 2016 decisions to not delay the implementation date of the 0.5% sulphur limit was taken based on a study that found that fuel oil would be available for ships to comply by January 1, 2020, he said.

The available fuel oils were predominantly blends of residual components and other refinery streams now generally referred to as VLSFO.

"Suggesting that such fuels should now be prohibited invalidates the basis of the 2016 decision and would seriously undermine the ability of ships to comply with the 2020 0.50% sulphur limit," said Mr Pedersen.

He also questioned the implications of the study submitted by Finland and Sweden, which focuses on highly aromatic fuels, and noted there is no uniformity on VLSFO blends being aromatic or paraffinic.

"While the results may be perfectly correct for the fuels tested, we note that VLSFO supplied globally in compliance with the 2020 sulphur cap varies significantly in composition regionally because of a variety of blend components used," he said.

The study also focuses on a four-stroke medium speed engine, an important factor according to Mr Pedersen, who said the vast majority of fuel oil used by ships is burned in large-bore two-stroke engines.

The four-stroke medium speed engines are also much more sensitive to a fuel's combustion characteristics and aromatic fuels generally exhibit a much poorer combustion characteristic than paraffinic ones, he said.

"Assessment of real world VLSFO burned in large-bore 2-stroke engines is thus needed before conclusions as to any additional impact from the recent shift from HSFO to VLSFO can be drawn," Mr Pedersen said.

The International Chamber of Shipping on its side argued that the NGOs have had a flawed understanding of the very study they are standing on to call for VLSFO blend ban.

ICS technical director John Bradshaw acknowledged that it identifies fuel aromatic and ignition properties as a key determinant of black carbon emissions.

"This is consistent with older measurement campaigns which found that switching from HFO to distillate could not be assumed to reduce emissions of BC and that in some cases and at some load points BC emissions were higher when operating on distillate than for HFO," Mr Bradshaw told Lloyd's List.

A different study submitted by Finland to the IMO in late 2017 based on measurements on four 4-stroke marine engines found that average black carbon emissions were low when using residuals at engine loads between 40% and 75%.

It also suggested that a switch to distillates in modern electrically controlled diesel engines did not reduce the average BC emissions at those same engine loads.

"However, for an old mechanically controlled laboratory engine a significant reduction in the average BC emissions was observed, when residual fuel was changed to distillate fuel at 75% engine load," that study said.

Mr Bradshaw agreed that black carbon emissions are sensitive to aromatic content and fuel ignition and combustion properties, as suggested by another study submitted to the IMO by engine manufacturing association EUROMOT.

But he argued that these qualities are not dependent on whether the fuel is a distillate, low sulphur blend or HFO and said it is "erroneous" to suggest that BC is simply determined by fuel grade.

"Fuel switching to distillates will not necessarily reduce BC emissions and may in some cases increase emissions," he said.

Instead of any prohibition on fuel, he supports the proposal by Germany and Finland, as well as EUROMOT, to address fuel aromatic content in the specification of marine fuels, known as ISO 8217.

"We should be led by data and analysis and also avoid conflating non-related issues in order to support arguments to ban certain types of fuel," Mr Bradshaw said.

MARKETS

Trade tensions cast shadow over container trade growth

CONTAINER port throughput is forecast to increase by 3.3% in 2020, down 0.7 percentage points from earlier estimates, but still ahead of the estimated growth of just 2.3% last year.

An end to the US-China trade dispute had the potential to give the global economy a boost, but that remained only a "tantalising possibility", said Drewry container research manager Simon Heaney.

The recently signed Phase One agreement was a "step in the right direction" that removed one layer of uncertainty.

"But, as with previous truces, the foundations are flimsy. There is still a reasonably high chance that hostilities will be resumed," Mr Heaney said.

Further risks were emerging on the transatlantic trade, too, with the US threatening additional duties on cars and components shipped from Europe.

"Carriers should still prepare for a bumpy ride in 2020 and not assume that the previous China-centric trade flows will resume now that a resolution to the trade war is in sight," Mr Heaney said.

"Having been down this road before, shippers will rightly be wary and are likely to continue examining contingency plans that will require more diverse shipping networks."

IN OTHER NEWS

Cautious welcome for US-China trade deal

US logistics operators and shippers have welcomed the Phase One trade agreement between the US and China signed on Thursday but they have warned that further work needs to be done to ease trade tensions between the two nations.

US president Donald Trump — who has made trade on a level playing field with China one of his centrepiece policies — called the agreement "transformative" for the US economy, while China labelled it a "win-win" deal for both countries.

China has pledged to boost US imports by $200bn above 2017 levels and the US has agreed to halve 15% tariffs imposed on a wide range of consumer goods in September 2019 and cancelled another round that was set to take effect last month (December), while others remain in effect.

China Merchant brings strategic investors to Brazil box terminal

CHINA Merchant Port Holdings has sold a 22.55% stake in its TCP container terminal in Brazil to two Chinese state funds as the company seeks to optimise its business portfolio.

The two strategic investors are the China-Portugal Co-operation Development Fund and the China-LAC Co-operation Fund, according to a press release put out by the Hong Kong-listed port operator, also known as CMPort.

The former was backed by policy lender the China Development Bank and the Macau Industrial and Commercial Development Fund, with total assets of $1bn under management. The latter was founded by the Export-Import Bank of China and Chinese State Administration of Foreign Exchange with a focus on the Caribbean and Latin America Region.

Freight association calls for Brexit clarity

BRITISH International Freight Association president Sir Peter Bottomley has called for greater clarity over how the final agreement on the UK's departure from the European Union will affect forwarders.

Speaking at the association's annual awards ceremony in London, Sir Peter, a Conservative Party member of parliament, said that last year had been eventful but had ended more quietly than anyone could have expected.

"I said a year ago that the one set of people you could trust throughout all the uncertainties would be the freight forwarders," he said. "Keep calm and deliver the goods is a relevant slogan."

Hapag-Lloyd to take slots on 2M services

HAPAG-Lloyd has signed a space charter agreement with 2M, the Maersk and MSC alliance, on the Asia-North Europe trade, starting in March.

The German box carrier, which is also a member of The Alliance, says that the additional tie-up will strengthen its product portfolio by opening up access to selected services of 2M.

"The addition of these services will enable Hapag-Lloyd to offer an even higher frequency of weekly departures and more routing options as well as to directly serve additional ports with high schedule reliability," a spokesperson for Hapag-Lloyd said.

Safe Bulkers signs sale and leaseback deal for eight ships

SAFE Bulkers, the Greece and Cyprus-based bulk carrier owner, has entered into a sale and leaseback transaction for eight vessels to refinance $105.2m in loans coming due in 2023 and 2025.

On paying off the company's current outstanding loan, the transaction would provide additional liquidity of $53.1m. The company did not disclose the buyers.

Under the arrangement, two ships were leased back under six-year bareboat charters while the other six were under eight-year bareboat fixtures.

Samsung could get $318m from Pacific Offshore drill ship dispute

SAMSUNG Heavy Industries could receive $318m in compensation from its drill ship construction dispute with Pacific Drilling, Yonhap reported, citing industry insiders.

A London arbitration tribunal ruled in favour of Samsung in the case of the contract cancellation of the $517m Pacific Zonda drill ship for Pacific Drilling.
Samsung Heavy Industries won an order from Pacific Drilling to build a drill ship in 2013 but in October 2015, the latter notified Samsung that it would cancel the order, claiming that the shipbuilder was delaying construction and was not likely to meet the delivery deadline. The case then went to arbitration in London.

P&O Ferries switches North Sea ratings from Portuguese to ITF contract Filipinos

P&O Ferries has confirmed plans to drop Portuguese ratings from its North Sea vessels Pride of York and Pride of Hull next week and replace them with Filipino crews.

The decision has sparked protests from transport union RMT, which maintains that the seafarers will be paid less than the national minimum wage applicable to shoreside jobs and will not be eligible for pensions.

In addition, passenger safety will be compromised on routes to Zeebrugge and Rotterdam because of obligatory tours of six months, it charges.

Classified notices follow