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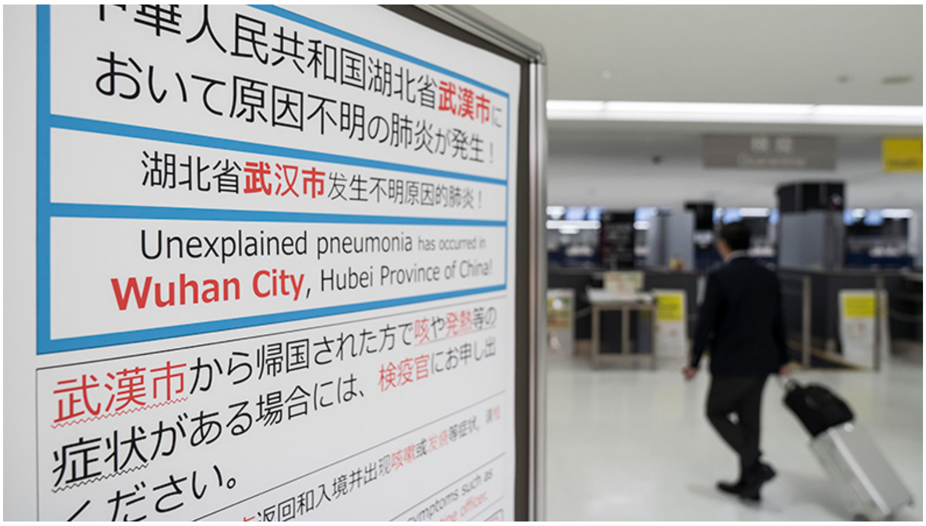
Box shipping monitoring coronavirus outbreak



WHILE IT IS too early to tell what the outcome of the latest serious health event in China will be, it is certain that the coronavirus outbreak will have an effect on container shipping.

As well as the virtual quarantine of Hubei in Wuhan province, the Chinese government has extended the annual Lunar New Year holiday by an additional three days to the end of this week.

According to reports, the government of Shanghai has also ordered non-essential businesses remain closed until February 14.

The number of people killed in China by the new coronavirus has risen to 81, with almost 3,000 confirmed ill, according to the BBC. At least 44 cases have been confirmed abroad, including in Thailand, the US and Australia.

"The extension of the Lunar New Year holidays by one week is going to play havoc with the container trades," one industry source told Lloyd's List.

"Dealing with reduced volumes during Lunar New Year is relatively simple, and has been done for years, but an extended period of very low volumes, and possibly a limited catch up once everyone gets back to work, will be a problem."

Carriers, however, remain relatively unconcerned or consider it too early to tell what impact the coronavirus outbreak will have.

"At the moment, we don't see any huge effect, but we are looking at whatever comes up," a spokesman for Hapag-Lloyd told Lloyd's List.

"We don't see a lot of challenges, but we would be able react fast if the situation changes."

Hapag-Lloyd's preparations are largely to do with crewing issues and "hygienic factors" around port access.

"We don't yet see a huge effect on the maritime industry," the spokesman said. "It is still early, so it remains to be seen what the full impact might be. At the moment, it is too early to judge. Everybody is alert to the problem, but we should not over-react to it."

Sea-Intelligence chief executive Alan Murphy warned, however, that if China's factories and ports remained shut down, there would be a significant impact on container trades in the region.

"If nothing goes out of China, then the vessels can't sail 30% full," he said. "I imagine carriers would lay up vessels until things start moving again. They might send some out, but you'd have a sailing every week and the rates will be through the roof.

"The cargo that comes out of other countries in Asia will have to cover the costs. There is no way it is not a disaster if there is no Chinese cargo. For shippers, this is just a nightmare."

Writing on LinkedIn today, Cosco Shipping Dalian Investment chairman and Lloyd's List editorial board member Simon Young said the experience of the SARS outbreak 15 years ago showed that many sectors, including transportation, warehousing, postal and express delivery would be affected by the latest outbreak.

Container terminals on the US west coast would be the most likely to be affected by coronavirus, as the short passage time between China and the US means there is the risk that crew with illness who are contagious but not yet showing symptoms will be in contact with US port workers.

Nevertheless, a spokesman for the Port of Oakland said that at present there were no contingency plans in place to deal with coronavirus.

Coronavirus could raise charterparty issues

THE coronavirus outbreak has important implications for the interpretation of charterparties, particularly whether vessels are deemed off-hire or not, according to marine insurance and shipping law sources.

Other obvious issues arising include the danger to seafarers of calling in the infected area, and the potential for port authorities to institute reporting and quarantine requirements.

Contracts provide the starting point for dealing with matters arising from charterparties, such as unsafe ports, off-hire and force majeure.

P&I club Steamship Mutual highlights clause 15 of the standard NYPE 46 contract, setting out the reasons for which a vessel can be deemed off-hire, which include "deficiency of men" or "any other cause preventing the full working of the vessel".

Such wording could be taken to mean that ships delayed due to quarantine restrictions are off-hire, although there is scope for argument where quarantine can be regarded as an inevitable result of following charterers' orders. The outcome will depend on the facts and the exact wording of the charterparty.

A briefing from law firm Hill Dickinson points out that employers have a duty of care towards the crew under their employment contracts, and a breach of such a duty may lead to exposure to a variety of claims.

Under voyage charters, a deviation for the safety of the crew will be at the shipowner's expense, as no additional freight may be payable unless, under the Hague or Hague-Visby Rules, a 'reasonable deviation' defence is successfully raised.

Port operators have confirmed to Lloyd's List that discussions have taken place with carriers on the coronavirus issue. But transit times — typically four weeks from China to Europe and two weeks from China to US west coast — exceed the gestation period, which should mean that victims will be known prior to arrival in port, facilitating any necessary medical steps.

Many countries have statutory requirements for masters to declare infected crew members prior to arrival in port.

WHAT TO WATCH

Banks pump tanker stocks after bumper December

NEW York investment bank Jefferies has upgraded 2020 estimates for crude tanker earnings by $5,000 daily for the largest ships, citing rising crude oil exports from the Atlantic Basin, geopolitical tensions and delayed scrubber retrofits.

Jefferies forecasts very large crude carrier earnings for a non-eco ship at $50,000 daily in 2020, up from its prior estimate of $45,000 six weeks ago. So-called eco-type VLCCs, which are generally younger and more efficient, will earn $55,000 daily, according to its fourth-quarter preview published on Monday. Daily first-quarter earnings were estimated to average $80,000.

Suezmax rates were revised higher by $3,000 daily, to $32,000 daily, with 2020 averages for aframax tankers trading in the dirty market forecast at $27,500, up from prior estimates of $25,000.

"We believe 2020 will be a very strong year for crude tankers as multiple demand drivers coupled with manageable fleet growth should help continue to support rates," the report said.

"Refinery capacity throughput should increase substantially this year as multiple capacity expansion projects are completed in the Middle East and in Asia and refinery maintenance downtime should be much more in line with historical norms compared to 2019 when refiners prolonged refinery maintenance ahead of IMO 2020."

Norwegian investment bank Cleaves Securities also remained bullish, saying implied demand growth of 12.4 percent in 2019 was the highest on records going back to 1998. This year tanker demand growth was forecast at 5.7 percent, with VLCC earnings averaging $53,000 daily, up 28 percent on 2019.

"With a very sobering level of newbuilding contracting during 2019 despite stellar earnings, a historically low orderbook is still one of the main reasons why we are highly positive towards the outlook for tankers," the report said. "We expect that uncertainty over future regulations and technology could keep ordering below modelled levels going forward as well."

Cleaves estimates the orderbook at 8.7 percent of the current trading fleet, the lowest in 22 years, with high levels of scrapping estimated this year as IMO 2020 regulations remove older tonnage from the market.

Strong oil supply growth in the Atlantic versus large oil demand growth in the Far East will be highly beneficial for tonne-miles this year, the report added.

"Adding scrubber premiums above our previous forecast and continuously rising asset prices, the outlook for both earnings and share prices looks very positive," it said. Uncertainty over future regulations and technology could weigh on ordering.

ANALYSIS

Cosco tankers resume Atlantic Basin trading

THREE Cosco-operated very large crude carriers loaded crude from Angola over the past three days, the first cargoes tracked from West Africa on vessels owned by the tanker division since US sanctions were imposed on two subsidiaries last September.

The *Xin Wei Yang*, *Xin Run Yang*, and *Xin An Yang* loaded at the Xikomba, Djeno, Malonga, Pazflor and Dalia terminals from January 22, according to data from Lloyd's List Intelligence. They are now headed to China. Each VLCC can hold 2m barrels of crude.

The 49 VLCCs and 25 suezmax tankers in the Cosco Shipping Energy Transportation fleet have not traded in the Atlantic basin since September 25 when America's Office of Foreign Assets Control blacklisted two subsidiaries for shipping Iranian crude in violation of unilateral sanctions.

Not all Cosco tankers and gas carriers were directly linked to sanctioned entities but wary charterers in Europe and north American shunned all tonnage owned by the Chinese-owned shipping giant as they grappled with the trading and commercial implications of the ban.

The trading restrictions removed tonnage from the market, changed trade flows and underpinned a nascent recovery in vessel earnings that has provided a floor to spot rates over the seasonally weakest first quarter.

Movements of Cosco's VLCC fleet are now closely scrutinised with spot rates expected to fall lower if additional Cosco tankers begin to trade more widely.

Post sanctions, and once voyages already under way were completed, Cosco withdrew its entire crude tanker fleet from the Atlantic basin to Middle East Gulf-China routes.

A series of VLCCs which were technically managed and directly linked to one of the sanctioned subsidiaries, Cosco Shipping (Dalian) Tanker Co Ltd, remain at anchor off the Chinese and Malaysian coasts and aren't trading. These include 19 VLCCs with the prefix "Cos" to their name.

A fourth VLCC, *Xin Xia Yang*, is seen in ballast and sailing past Madagascar in the Indian ocean, signalling Covenas, Colombia, as the next destination. Another VLCC, *Xin Yue Yang*, loaded at Covenas on January 22 and is destined for Singapore.

China's abrupt curtailing of Iranian crude imports over the past three months fed market rumours last week suggesting Ofac would consider watering down or removing the Cosco sanctions.

Chinese imports were at 160,000 barrels per day in December, compared with an average of 290,000 over 2019, and 620,000 bpd for the prior 12-month period, Lloyd's List Intelligence data show.

Only one crude tanker with Iranian crude has been tracked arriving in China so far in 2020, the National Iranian Tanker Co-owned *Horse*, which has yet to discharge at Huizhou terminal, vessel-tracking data show.

Backhaul rates show weak enforcement of bunker surcharges

RISING spot rates on headhaul routes from China are more likely to have been due to pre-Chinese New Year demand than carrier success in implementing low-sulphur bunker surcharges, according to analysts at Sea-Intelligence.

While spot rates in early January were higher than the average rates across December, indicating initial success with implementing bunker adjustment factors, Sea-Intelligence points out that January rates remain lower than the average across the whole of 2019, and the uplift reflects the usual seasonal swings ahead of the Chinese New Year.

"Our argument is that the rate increases seen, are materially no different than what could have been seasonally expected in the period from the lull before Christmas and leading up to the peak before Chinese New Year," Sea-Intelligence said.

"Looking at the recent increases from this perspective, it is clear that there is not much scope to say that carriers have been all that successful in pushing through the IMO 2020 baf."

It added that it was "extremely rare" that there was not a seasonal rate increase from pre-Christmas into Chinese New Year.

"Associating the increase purely with a (partially) successful baf increase is merely an accounting and communication exercise, and not a measure of anything meaningful."

To test its theory that the uplift was seasonally demand driven, Sea-Intelligence compared rates on the backhaul on three major backhaul trades, where the seasonal demand is not in play.

On the transatlantic, there had been no change in rate levels, indicating that no baf increase had been implemented.

A short spike in rates on the US west coast-Asia trade lane at the beginning of January quickly fell back to the average level seen in the July-December period, again indicating no success in implementing bafs.

Only on the Europe-Asia trade was there a noticeable uplift in rates, which rose from a low of $550 per feu in the second quarter of 2019 to $670 per feu now.

"This is, of course, an increase of some $120 per feu, but clearly most of this has taken place gradually during 2019 and hence cannot in any way be ascribed to the IMO 2020 baf," Sea-Intelligence said.

"The price did show a jump of approximately $50 per feu, switching from December 2019 into January 2020, which could rightfully be ascribed as an IMO 2020 BAF increase."

While any increases on the backhaul trades could be ascribed to surcharges rather than Chinese New Year demand, the data showed "limited success" in pushing these through, Sea-Intelligence said.

"This is a worrying sign for the carriers' ability to get full compensation for the very real added costs, that come as a consequence of IMO 2020."

MARKETS

Libya crude exports stall as port blockade enters second week

THREE shipments of crude have sailed from Libyan ports since January 18, as most terminals remain closed, according to vessel-tracking data.

Two aframax tankers, *Rava* and *Energy Triumph*, departed from Zawia and Tobruk ports respectively. A third tanker, the 84,999 dwt *Santa Cruz I* left the Mellitah terminal on January 23. A further 12 tankers are now waiting at anchor at the country's eight ports, including five at Es Sider, the country's largest exporting terminal.

Some 940,000 barrels per day of crude has been removed from the market while Libyan exports remain paralysed for a second consecutive week as eastern military commander General Haftar Khalifa maintains his blockade on ports under his control.

Some 45 aframax and suezmax tankers shipped crude from Libya in December and 39 in November, data show.

Exports had been recovering from the North African country, a significant supplier of crude to Spanish, Italian and French refineries in the Mediterranean, tracking above 1m bpd in the first half of January. Libya exported some 980,000 bpd last month.

Libya's National Oil Co declared force majeure on January 18 at Marsa Brega, Ras Lanuf, Marsa el Hariga (Tobruk), and Sidra (Es Sider) ports which it said were closed.

The terminals are responsible for some 33m tonnes of crude from the 50m shipped on some 588 tankers in 2019, data show. The NOC said lost crude production would be 800,000 bpd, worth $55m daily.

Oil and gas revenues are distributed via the central bank to the UN-backed and internationally recognised government of Tripoli and Gen Haftar's rival administration in the east which controls those ports now closed.

Energy Triumph and *Rava* sailed from ports not controlled by Gen Haftar, who commands the Libyan National Army, also seeking to control the country's largest oilfields in the western area of the country.

IN OTHER NEWS

Bunker One agrees Vertex Energy deal

BUNKER One says the industry's willingness to collaborate on the introduction of the new sulphur cap rules has been "outstanding" after it sealed a supply and offtake deal with Texan refiner Vertex Energy.

The Danish bunker supplier, part of Bunker Holding Group, bought 2.9m Vertex Energy shares for $5m under the deal, which gives it the exclusive right to buy all the fuel produced at Vertex's refinery in Marrero, Louisiana until December 2029.

Carlos Torres, Bunker One's global head of physical operations, said the deal would help ensure reliable supplies as customers switched to very low sulphur fuel oil in line with the 0.5% sulphur cap, which came into force on January 1.

Scorpio Bulkers installs eight scrubbers

SCORPIO Bulkers, a US-listed owner and operator of bulk carriers, has installed scrubbers on eight of its vessels so far out of a total of 40.

It expects to complete six more installations during the first quarter, with 14 due in the period between April and June, it said in a statement. Six further installations are expected in the third quarter, with four due in the final quarter of 2020, and two in the first quarter of 2021.

The company reported a net profit of $15.1m in the fourth quarter versus a net loss of $7.4m a year earlier. The results included a writedown of $25.2m for four ultramaxes held for sale.

Capital and Star Bulk join Norwegian ammonia project

TWO Greece-based shipping groups have joined a Norwegian-led project to test operating vessels on an ammonia-powered fuel cell.

Capital-Executive Ship Management, part of the Capital Maritime & Trading group and manager of the Nasdaq-listed Capital Product Partners fleet, and Star Bulk Ship Management, an affiliate of Nasdaq-listed Star Bulk Carriers, have both confirmed involvement.

The ShipFC consortium last month won EU approval for €10m ($11m) in funding for the €23m project, which envisages the first-ever installation of an ammonia-powered fuel cell on board a vessel by 2023.

Performance expects tanker plunge to lift share price

PERFORMANCE Shipping, the Nasdaq-listed owner previously known as Diana Containerships, is on the verge of exiting the container sector after striking a deal to sell its last but one boxship.

The Greece-based owner, which last year diversified strongly into aframax tankers, is selling its 12-year-old post-panamax *Rotterdam* for $18.5m. The 6,494 teu boxship is expected to leave the fleet at latest by May 15.

The sale will leave a single panamax from a container vessel fleet that in the past ran to about 15 vessels.

Edge Maritime buys trio of older suezmaxes

A NEW Greece-based shipping company has bought three suezmax tankers within days of being established.

Edge Maritime has emerged as the buyer of two German-owned tankers as well as a Sovcomflot vessel.

Various brokers ascribed an en bloc price of $40m to $43m to *Cape Bellavista*, built by Hyundai Heavy Industries in 2002, and *Cape Baxley*, built by Hyundai Samho in 2003.

IMO and Wista formalise co-operation

THE International Maritime Organization and the Women's International Shipping & Trading Association have cemented ties with a memorandum of understanding for technical co-operation.

Following on from the last year's maritime theme Empowering Women in the Maritime Community comes the focus on sustainability and how a diverse and inclusive workforce will ensure continuity. But more action was needed to redress the imbalance inherent in the sector.

Wista, which has 50 associations around the world, has had consultative status at the IMO since 2018, giving it an opportunity to promote diversity, inclusion and women's empowerment within the 174-member UN agency.

New eBill of Lading promises greater security

A NEW blockchain-based electronic bill of lading is the first to enable transfer between parties without the use of any central register, according to Israel-based fintech start-up Wave.

One of the top ten container carriers has already adopted the product and a second is set to do so before the end of the year, according to the company's general counsel Boaz Lessem, although he declined to name them on grounds of client confidentiality.

While a number of similar products are on the market, the company maintains that Wave represents a breakthrough in terms of ease of use and security for users.

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The inaugural **Qatar Maritime & Logistics Summit**, under the patronage of Prime Minister Sheikh Abdulla Bin Nasser Bin Khalifa Al-Thani, will complement the nation's bold Qatar National Vision 2030 initiative. The summit will showcase Qatar's maritime progress, including Hamad Port's rapid rise as a global trade gateway, and promote new investments and partnerships.

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- Capt. Abdulla Al-Khanji, CEO, Mwani Qatar
- Chris Palsson, director, Lloyd's List Intelligence
- Andrea Di Lillo, OPEX Global Business Development Director, Bureau Veritas
- Arun Sharma, Exec Chairman IR Class/Chairman IACS
- Romain Martimort, regional manager, CMA CGM
- Neville Bissett, CEO, Q Terminals
- Capt. Abdulaziz Al-Yafei, Executive VP, Operations, Mwani Qatar
- Ranjeev Menon, CEO, Gulf Warehousing Company
- Lim Meng Hui, CEO, Qatar Free Zones Authority
- Richard Clayton, Chief Correspondent, Lloyd's List