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LEAD STORY:
Converted VLOCs exit fleet as Brazil said to step up checks

WHAT TO WATCH:
Dry bulk market faces uncertainty

Box shipping feels coronavirus impact

OPINION:
The transition to autonomy must be handled sensitively

US-China 'managed trade deal' is net positive for shipping

ANALYSIS:
Shipping overcoming obstacles to digitalisation

IN OTHER NEWS:
Costamare acquires four panamaxes as earnings soar

International Seaways agrees refinancing deal

PetroChina leads Singapore bunker suppliers

Converted VLOCs exit fleet as Brazil said to step up checks

VERY LARGE ORE carriers converted from crude tankers that were built in the 1990s are starting to actively exit the dry bulk fleet.

The vessels, which have been employed on the Brazil to China route, are at the end of their long-term contracts, with little opportunity for further trading, given their age, and amid current dismal market conditions.

There are 33 such vessels currently left in the fleet, down from 44 in May, according to shipping association BIMCO. The vessels were converted from very large crude carriers between 2007 and 2011.

At least five were said to have been scrapped so far this year, with more disposals to follow.

Cash buyer GMS noted in a weekly report that Berge Bulk's converted ore carrier Berge Hua Shan had arrived at a scrapyard in Bangladesh on January 21.

Lloyd's List Intelligence shows a second Berge Bulk vessel — *Berge Elbrus* — is at anchor in Chittagong, Bangladesh, having sailed from Singapore on January 12.

The company declined to comment on the status of its fleet.

According to reports, about 10 Polaris Shipping vessels may be heading to the breakers as the company continues to receive its batch of newbuilding guaibamaxes, fixed on long-term contracts with Brazil's miner Vale.

Vale did not respond to a request for comment, nor did Polaris.

Polaris' 263,097 dwt *Stellar Journey* arrived at the breakers in Bangladesh on January 9, according to Lloyd's List Intelligence. Its status is now showing as dead.

Polaris currently has five vessels in temporary lay-up, floating empty near Singapore and Malaysia, Lloyd's List Intelligence data shows.

The vessels are *Stellar Ocean, Stellar Hermes, Stellar Knight, Stellar Pioneer and Stellar Liberty*.

Given the low volumes of iron ore coming out of Brazil, employment for these vessels is limited.

So far this year, only two of six VLOCs have sailed from Brazilian ports, according to geospatial analysis carried out by Lloyd's List. That compares with 19 in the fourth quarter of last year, 11 of which were Polaris vessels built before 2006, and 17 in the previous three months.

Brazil port state control is said to be carrying out extra checks on converted VLOCs as a safety measure following heavy rains in the iron ore rich Minas Gerais region of the country. That is leading to delays.

One market source noted that the rainfall, the heaviest in decades, was akin to the type of record precipitation that preceded the *Bulk Jupiter* tragedy off Malaysia in 2015.

A year ago, Vale's Brumadinho tailings dam collapsed, leading to hundreds of deaths, a change in management, and huge fines.

The incident resulted in safety inspections of several mining complexes, with a number being forced to temporarily halt operations by authorities, leading to a fall in iron ore production and export volumes.

In April 2017, Polaris' *Stellar Daisy* sank in high seas en route to China, leaving 22 seafarers dead.

The tragedy, which made headlines, led to increased safety inspections of all such converted vessels.

WHAT TO WATCH

Dry bulk market faces uncertainty

THE dry bulk market is in dire straits amid concerns about potential low iron ore exports from Brazil and the coronavirus in China, which may affect imports.

Heavy rains in the iron ore-rich Belo Horizonte region of Brazil are raising fears about Vale's ability to ramp up output as per its guidance following the deadly Brumadinho dam disaster a year ago.

Vale said it activated level 2 of its emergency action plan at the Sul Inferior dam in Minas Gerais after recent heavy rains eroded part of the inner reservoir structure. The miner added that the structure remained stable.

In addition, an extended holiday break for Chinese New Year was likely to crimp demand.

There has been a huge impact on sentiment and demand, said a European charterer, who noted that lower coal volumes from Australia were also a factor in the softening market.

Widespread bush fires in eastern Australia have reportedly been having an impact on coal operations. That may well continue into the second quarter.

Jefferies analyst Randy Giveans said he expected rates to remain under pressure owing to seasonal factors such as a slowdown around Chinese New Year.

"Economic activity in China tends to pick up after the lunar new year, although this may be negatively impacted by the spread of coronavirus in Asia," he said.

"While we believe the Chinese will continue to prefer high-quality imported iron ore and coal, there is uncertainty around how quickly Vale will be able to increase its iron ore production during ongoing safety investigations of its operations."

The average weighted capesize time charter on the Baltic Exchange slumped to $4,631 per day at the close on Tuesday, the lowest since April. That compares with $11,976 on January 2 and $12,523 a year ago.

All segments noted a decline, leading the Baltic Dry Index to slump to 539 points, the lowest since April 2016.

Handysizes fared the best of all the segments, assessed at $6,295 per day on the Baltic Exchange.

Box shipping feels coronavirus impact

THE impact on shipping of the coronavirus outbreak is beginning to be felt in the container sector, with reports of equipment build-ups in Shanghai and early indications of increased lay-ups.

A container availability index for Shanghai registered 0.58 for 40 ft high-cubes, 0.46 for 40 ft dry containers and 0.62 for 20 ft dry containers. Under the the index, operated by the repositioning service Container x-Change, a value over 0.5 indicates a surplus of containers.

"Such major unpredicted world events often have a huge impact on shipping and container logistics," Container x-Change said. "Downsides from decreased vessel demand far outweigh positives from fleet inefficiencies, particularly in cases when an epidemic epicentre is China."

For carriers, this would lead to lower utilisation rates and higher costs, it said. Companies were concerned about the potential inability of Chinese employees to work at factories, refineries and terminals due to quarantine restrictions.

A recent reduction in the idle fleet was likely to be reversed in the coming weeks, as a large number of blanked sailings are implemented from the end of January to coincide with the Chinese New Year holidays, according to Alphaliner.

"With Chinese authorities extending the holidays until February 2 in a bid to contain the spread of the new coronavirus in China, further blank sailings could be announced in anticipation of a slow recovery in cargo volumes," it said.

Weak demand over the holiday period had already seen several ships of 10,000 teu-20,000 teu that had recently completed scrubber installations sitting idle as they waited to be phased back in to service.

Figures from Lloyd's List Intelligence put idle capacity in the global fleet this week at 758,198 teu, representing 3.4% of total capacity. That compared with 637,555, or 2.8%, a week ago.

China's Ministry of Transport has instructed all local administrations to give priority to those ships carrying coronavirus-related materials and provisions, according to local sources.

Cosco Shipping Dalian Investment chairman Simon Young said the 20,038 teu Cosco Sagittarius was given berthing priority at Ningbo yesterday as there were two boxes of raw materials for producing body protection suits.

"All green lights were given to the express delivery of the two boxes directly to the manufacturer," he said.

OPINION

The transition to autonomy must be handled sensitively

THE transition from fully manned ships to remotely controlled, then autonomous ships will be complex, messy and painful, *writes Richard Clayton*.

Nevertheless, as with the move from sail to steam during the latter half of the 19th century, this change is necessary if shipping is to meet its environmental targets.

This was the message from a conference held at the International Maritime Organization in London this week on AI in the maritime environment. While some companies have started to invest in autonomous technology and will be leading the innovation in the 2020s and 2030s, others will be following very conservatively.

The laggards have not yet embraced the need for digitalisation in any practical way. They are likely to do the minimum necessary.

Which surely means that the transition will see shipping exhibiting a range of autonomous capabilities competing for business.

The complexity comes from professional services trying to accommodate different requirements for cargo handling, bunker supply, and agency services as well as understand the legal considerations of 50-year-old charterparties attempting to deal with a need to "exercise due diligence" to make a vessel seaworthy.

And then there is the whole issue of training a new cadre of deck and engine officers.

Some will have a traditional level of responsibility with the benefits of upgraded ship-shore connectivity, others might be members of a skeleton crew on board to meet a legal or regulatory expectation.

There is also a balance to be maintained between recognising the positive narrative of a cleaner, greener maritime industry and embracing the challenge of rebuilding the human element.

Jobs will undoubtedly be lost, training will probably fail to provide enough of the right skills at the right time in the right places, safety errors will be made because responsibilities have not been understood.

This is the pain the industry must expect to endure. It should be tackled early on by educating the entire maritime industry in why change is necessary. That mustn't be left to the technology teams: that is not their skill.

Complex, yes. Messy, certainly. Painful, probably. However, the success of digital shipping will depend on how sensitively this third pain point is handled.

If we get the human resourcing wrong, or overlook the discomfort it could bring, the transition will be much more challenging than it ought to be.

US-China 'managed trade deal' is net positive for shipping

WHILE US president Donald Trump has inevitably described his Phase One trade deal with China as 'win-win', his political opponents see the scale of the concessions he has made as substantial in relation to concrete gains, other than the obvious need to get something wrapped up prior to his re-election bid.

Because tensions between the two countries over the last few years have been bad news for shipping across most sectors, hopes will be high that the deal, unveiled earlier this month, will provide a boost to the industry's fortunes in 2020.

China's president Xi Jinping, for his part, is facing multiple crises at home, including coronavirus, internal criticism over human rights in Xinjiang, unrest in Hong Kong, an unfavourable election result in Taiwan and a corporate debt bubble. He will presumably welcome any happier distractions.

This is not an end to the conflict, then, but at best merely a truce, albeit one that gives the two sides a workable basis from which to come to more comprehensive terms.

The trade war of the last two years has been characterised by repeated rounds of tariffs imposed by the US against China, prompting China to hit back with counter-tariffs, cumulatively covering over 90% of total US exports to China in value terms.

Phase One offers a framework for the cessation of what might have degenerated into an endless round of tit-for-tat retaliatory moves. In that sense, it is rather a managed trade deal than a free trade deal, built on mercantilist assumptions and confined to just 96 pages including annexes, rather than the telephone directory-sized tomes that are more typical of the genre.

Under the latest plan, China has committed to purchasing $63.9bn more manufactured, agriculture and energy goods from the US this year compared to a 2017 baseline, and $98.2bn more in 2021 than in 2017.

While the overall headline figure value of the deal comes in at $200bn, the remainder is made up of services and will therefore will not concern shipping too much either way. Feedback suggests that the tech sector in particular is less than overjoyed at the outcome.

In return, the US will halve tariffs on Chinese imports in place since September 2019, from 15% to 7.5%. China will also avoid additional taxes on $160bn of its exports that had previously been due for implementation.

Should all of this actually materialise, such developments will likely do much to reverse the downturn in US-China trade and make for a clear increase in tonne-mile demands, according to analysts such as BIMCO's inhouse economist Peter Sand.

However, much of what we will witness will be by way trade diversion rather than trade creation, he notes, with the US exporting more to China instead of other nations, and China sourcing goods from the US rather than elsewhere.

US seaborne exports to China of the goods on which China has imposed tariffs fell by 37.6% in the first 11 months of 2019 compared to the same period of 2017.

However, total US seaborne exports of the tariffed goods have actually risen in the same period, as exports to the rest of the world more than take up the slack.

Shipbroker Gibson has hailed Phase One as positive for tankers, as both China's appetite for crude oil and the US' ability to supply continue to rise. If China were to buy an additional 420,000 barrels per day of US crude this year and an additional 775,000 bpd in 2021, this alone would take up half the energy commitment.

The situation is less clear for LNG. Despite China's theoretical commitment to buy more from the US, a 25% tariff remains sternly in place. With LNG prices at an all-time low, that is not necessary a dealbreaker, but it's hardly a help. Meanwhile, Australia, Qatar, Malaysia and Russia are set to remain China's preferred sources.

On the dry bulk front, one commodity to watch will be soyabeans, an important trade for panamaxes and supramaxes and perhaps the commodity worst hit by the trade war in volume terms, having faced tariffs since July 2018.

Precisely because of the high volumes involved, the trade has a significant influence on total volumes of tariffed goods, so China's Phase One pledge to buy more soyabeans from the US is especially significant.

However, Mr Sand notes that demand will be hit following an outbreak of African Swine Flu and a subsequent cull of pigs, so there is no guarantee that the level of imports will recover to where it was prior to the trade war.

Some analysts are also predicting a boost for Chinese imports of US metallurgical coal, although the extent of the fillip seems hard to quantify at this stage.

Whatever happens next, the US-China trade war is not yet over, and officials on both sides have expressed readiness to start talks on Phase Two. Perhaps it's best not to throw away the cold cures just yet.

ANALYSIS

Shipping overcoming obstacles to digitalisation

THE essence of autonomy in maritime is not about the ship, "but the interaction between people and technology," according to former ship's engineer Bernard Twomey.

Speaking at a conference focusing on artificial intelligence in maritime, he said the level of technology being fitted into vessels now exceeds any seafarer training.

Delegates heard that while the technical challenges of digital shipping are solvable in the short term, there are significant concerns about regulation, future skills training, liability and cost.

However, the greatest concern is that the more connected ships, terminals and ports become, the more vulnerable they are to attack.

There are several cases on record, including navigation systems being infected by malware when software vendors use infected USB sticks; examples of external manipulation of GPS co-ordinates; and ransomware causing the partial blackout of a cruise ship.

Threat actors, whether working for a nation state or working alone, have become more sophisticated.

"The threat is developing so rapidly that you can never keep up," warned Kelly Malynn, head of risk management at insurance company Beazley Group.

A combination of increased digitalisation, increased interconnectivity, and an increase in threat actors has pushed cyber attacks into the upper ranking of potential catastrophes.

However, for Phaedra Gibson, head of training, defence and security at BMT Group, an engineering, science and risk management consultancy, it is important to bring a cross-sectoral approach to the management of cyber risk.

In addition to the technology, there must be input from psychological and behavioural expertise, she told the event organised by BAU Global, a network of higher education institutions that recently took a controlling interest in UK-based MLA College in Plymouth.

When it comes to digital technology, "just because we can, doesn't mean we should", she added.

Ms Gibson made a strong case for a fresh approach to training in the light of shipping's digital journey.

"It's important to understand what I mean by training," she said, listing organisational change, a competency framework, thought leadership, coaching and mentoring, future skills, pan-sectoral training and, crucially, competency assurance.

She urged a positive attitude to digitalisation, in spite of the many obstacles identified by all speakers and in the face of an international media looking for bad news. "Unless we [the industry] control the narrative, the media will pick up all the negative stories."

Mr Twomey, who is now with the department of computer science at the University of York, said that "the technology now being put into ships is far more advanced than any seafarer training available. [Nevertheless], artificial intelligence is happening today".

IN OTHER NEWS

Costamare acquires four panamaxes as earnings soar

COSTAMARE reported increased earnings for last year's final quarter as it continued its fleet renewal with four panamax acquisitions.

Three 4,258 teu sisterships were acquired from German owner and manager Oltmann Schiffarhts in December after a sister vessel was acquired from the same fleet earlier this month.

The vessels — *Vela*, *JPO Virgo*, *Vulpecula* and *Volans* — were all built by Zhejiang Shipbuilding in Ningbo, China, in 2009-2010.

International Seaways agrees refinancing deal

INTERNATIONAL Seaways has secured $390m in new financing in a bespoke deal whereby the loans are linked to fleet emissions performance.

The US-based owner of more than 40 tankers said that $340m of the $390m will be attached to a sustainability-linked pricing mechanism that has been certified by an independent firm as complying with sustainability-linked loan principles.

"The adjustment in pricing will be linked to the carbon efficiency of the INSW fleet as it relates to reductions in CO_2 emissions year-over-year, such that it aligns with the International Maritime Organization's 50% industry reduction target in GHG emissions by 2050," the company said in a statement.

PetroChina leads Singapore bunker suppliers

PETROCHINA was the largest bunker fuel provider in Singapore last year, jumping from third in 2018, according to the Maritime and Port Authority.

Ocean Bunkering Services dropped to third from first in 2018, while Sentek Marine and Trading climbed to second.

Aside from the supply of oil products, PetroChina is also involved in the production and supply of natural gas.

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Speakers include:

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- 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
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- 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