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Should shipowners be investing in zero-carbon fuel production?



SHIPPING COMPANIES MAY have to become more than just committed consumers and invest in the upstream production of zero-carbon fuels such as green ammonia and hydrogen to kickstart their supply.

The highly publicised targets set by the International Maritime Organization to slash shipping's total annual greenhouse gas emissions by at least 50% by 2050 compared with 2008 were partly meant to signal to investors, fuel providers, manufacturers and others that completely new marine technologies and fuels have to come to the fore

A new study revealed last week that from 2030 to 2050 between \$1trn-\$1.4trn, or an average of \$50bn-\$70bn annually, in investments would be needed to slash emissions by at least 50% by 2050. Between \$1.4trn and \$1.9trn would be needed to eradicate emissions.

Ships ultimately only have to comply with rules for their own emissions. But that discussion has elevated the issue of a "green supply chain", where a fuel's emissions are actually non-existent across their lifecycle, from their production to their consumption.

Fuels are genuinely zero carbon if they are also produced from renewable sources or with emissions-capturing technologies, one argument goes.

Renewable Hydrogen, a firm seeking to develop zero carbon fuel exports out of Australia, is targeting land upon which it wants to develop green hydrogen production in Northern Tasmania, one of the places that enjoys ready access to baseload green electricity and is adjacent to deepwater ports.

“The IMO initial strategy has been a sea change in everybody’s thinking here,” said Brett Cooper, chairman of Renewable Hydrogen.

Mr Cooper believes that if supply chain participants come together fairly quickly, there could be meaningful production plant up and running within two to three years, producing about 100,000 tonnes a year of green hydrogen. That plant could expand to 1m tonnes soon after.

The idea is to then export the product for different purposes, including as liquid ammonia to power vessels.

“We think there is a real opportunity for this to emerge in Singapore because it is the largest bunker fuel hub in the world,” Mr Cooper said.

Before getting there, however, luring in these supply chain participants demonstrates the challenges with setting up the supply chain of the zero carbon fuel.

Australia, the world’s largest coal and second largest liquefied natural gas exporter, has a strong state-sponsored push to develop a hydrogen industry in the hopes of yielding another profitable exporting source.

In November 2019, the Australian federal government published a lengthy national hydrogen strategy. Its state governments have also published their own.

“A cautiously optimistic scenario could see an Australian hydrogen industry generate about 7,600 jobs and add about AU\$11bn (\$7.37bn) a year in additional GDP by 2050. If global markets develop faster, it could mean another 10,000 jobs and at least AU\$26bn a year in GDP,” the federal study said.

It also acknowledged the role renewable hydrogen can play in the production of ammonia and, in turn, the role ammonia can play as a carrier of hydrogen.

“There are currently no commercially available ships to transport liquefied hydrogen, but ammonia is already commonly transported in tankers. It can be used as a carrier of hydrogen [just as hydrogen is a carrier of energy]. It is easier to transport and store, can be used as a fuel and can be separated back to hydrogen and nitrogen when needed,” the report said.

Mr Cooper believes that in the quest to build this industry, the country could learn from its past with LNG, where offtake customers, such as Mitsubishi, invested in upstream operations.

The natural investors or co-investors in green ammonia production plants in Australia would be the companies that are likely to use the energy in the receiving countries, he believes.

“With ammonia, we could see some of the key operators and investors in the marine space maybe investing even upstream in these production plants — because they have an opportunity here to effectively invest in their fuel supply chain,” he said.

Financiers are looking at projects such as Northern Tasmania with interest but have not yet committed, Mr Cooper said. And while funding of the industry will change as time passes, a lot of funding will initially be necessary, which is why downstream players, the end users of this ammonia, will be important.

“If they put up some equity and guarantee a certain level of offtake then the financiers will be able to come in, because the market for large for green ammonia for bunker does not exist at the moment,” he said.

A senior ship financing source agreed that equity from a partner, such as a shipping company, during the construction period of facilities such as port terminals is crucial to mitigate the potential risks lenders believe they face with a new project.

“If you are a bank, you will need a strong sponsor. If it is a new renewables [project], these projects are not done 100% by one company. More often, there are local partners,” the source said.

Maersk has been one of the shipping companies that has taken a lead role in the public debate about reducing emissions.

A spokesperson for Maersk highlighted that the firm has been manufacturing fuels to cover a small part of its own consumption for some years. It is engaging with a broad number of partners to support the development of viable solutions to reduce the carbon footprint of shipping, including zero-carbon fuels.

“In the normal course of business, Maersk’s strategy is to continuously review and optimise its existing portfolio as well as explore new investment opportunities. If any relevant business case arises we will thoroughly examine it on a case-by-case basis,” the company said.

However, exploring whole new business areas is not something the company is considering at the moment.

The production and export of green hydrogen and ammonia is a new venture. It will incur high capital costs for those who decide to invest.

Mr Cooper believes that aside from the involvement of committed offtakers, the use of financial engineering tools, such as green bonds, may be necessary.

“The physical engineers could do their bit and make everything cheaper, but financiers can make it cheaper by harnessing financial instruments that have not hitherto been used in the industry,” he said.

In the future, single funding structures, including the production plant in Australia, bunkering infrastructure and even the ships themselves that can run on the green ammonia, could emerge.

“This could all be wrapped up into a single fuel supply chain that could attract the type of funding the banks behind the Poseidon Principles are looking for. They are looking for scale,” Mr Cooper said.

He acknowledged that the fuel price would be considerably higher in the early days and

government support may be needed. However, he believes progress in technology will help reduce the cost of renewable energy production, such as green ammonia. In the long term, this move forward in technology would cut the ultimate cost.

New fuels also face substantial questions about their safety implications. Ammonia, in particular, faces a real toxicity problem that leaves many questioning its potential.

Globally, the shipping industry is undertaking efforts to advance the deployment of ammonia as a ship fuel, and potentially assess and address the various safety concerns.

MISC, Lloyd’s Register and others are collaborating on a project to develop an ammonia-fuelled tanker. MAN Energy solutions, ABS and partners will work towards building a 2,700 teu ammonia-fuelled feedership.

These projects are crucial to showcase the potential of new fuels — as well as their shortcomings. But ultimately, substantial investment in the physical supply chain will be necessary if they are to become viable alternatives for ships.

WHAT TO WATCH

Baltic Capesize Index drops to all-time low

IT HAS been an ugly new year for the capesize segment, with the market not just facing a double whammy from higher fuel bills and a dearth of fresh cargoes but also defending against coronavirus risk.

Marking one of the most volatile periods in history, the Baltic Capesize Index dropped to an astonishing and unprecedented level of -20 points at the close on Friday from just one point the day before — the lowest ever. The average weighted time charter on the Baltic Exchange reached \$3,973 per day, down from \$4,081 per day at the close on Thursday — levels far below breakeven.

According to a market participant, all optimism seems to have been stripped from the market.

Lower than anticipated iron ore cargoes from the Atlantic as a result of unprecedented rains in the Minas Gerais state of Brazil and continued operational issues experienced by some producers has plagued the market.

Minas Gerais, a major ore producing region, has reportedly experienced the heaviest 24 hours of rainfall in 110 years.

Over the first four weeks of 2020, Braemar ACM recorded 82 vessels loading iron ore in Brazil, down 41% on the previous four weeks. In terms of volumes, shipments are down by 34% to just over 18m tonnes.

However, the entire market seems to be in a state of induced coma, as cargo disruptions from Australia coupled with ample vessel availability also pushed rates down.

A conveyor belt fire at Cape Lambert has temporarily taken some tonnes offline, and two cyclones so far in January have disrupted loading schedules.

Data from Braemar shows that the shortfall in cargo from Australia is about 10m tonnes greater than Brazil.

Over the first four weeks of the year, very large ore carrier fixtures, which are mostly non-spot, were down by 21%, while volumes on all other vessels were down by 44%, it noted.

“While weaker demand has weighed on rates, shippers have been able to fix largely on a voyage basis, with very few trip charter fixtures reported so far this year. As such, capesize owners in the spot market have, for now at least, picked up most of the increased bunker bill due to International Maritime Organization 2020.”

Still, with fuel prices historically high, more tonnage is seen to be idling in the Pacific as

Refiners and industry hit back at accusations of VLSFO impact on black carbon emissions

REFINERIES, bunker suppliers, classification societies and others are questioning the scientific basis of accusations that very low sulphur fuel oil blends lead to higher black carbon emissions than high sulphur fuel oils.

In two separate letters to the Clean Arctic Alliance, an umbrella of NGOs supporting a ban on the use of heavy fuel oil in the Arctic Sea, various industry groups and lobbies are questioning the claim that will be discussed at an IMO sub-committee in late February.

The dispute stems from a study submitted by Germany and Finland to the IMO, which found the adverse impact VLSFO blends can have, based on a high aromatic content. The issue has raised questions about whether regulators and the industry holistically assessed the potential side effects of the 0.5% sulphur cap.

Four NGOs have demanded the IMO ban those VLSFO blends that increase black carbon emissions. Shipowning groups have already publicly opposed this ban.

Last week, the Clean Arctic Alliance penned a letter to 11 industry groups that had published last year a guidance on the use of 0.5% fuels, asking them whether they knew about the high aromatic content of the fuels and their impact on black carbon emissions, as Germany and Finland study showed.

“We write to you because it’s hard to see how experts in marine fuels like yourselves could not have been aware of the elevated aromatics in these new fuels and of the link between aromatics in fuels and black

an alternative to locking in loss-making employment.

Adding to the uncertainty is the outbreak of coronavirus in China — a black swan event that is likely to weigh on Chinese demand for iron ore and coal, which makes up almost 60% of the capesize trade.

According to the Baltic Exchange, it was the backhaul route that was pulling the entire index down, assessed at -\$11,275 per day. Some capesize routes however were in positive territory, with the northwest Europe-Mediterranean trip to China and Japan valued at \$20,335 per day.

carbon emissions, and we believe an explanation from industry and refiners is urgently needed,” they said.

Concawe, the scientific division of the European Refining Association, chose to respond individually in a strongly worded letter that outright refutes assertions of study the CAA is using to make its case.

The organisation argued that the fuels tested in this study “are not representative of average expected quality of MF [VLSFOs] produced by refineries around the world”.

Concawe’s claim partly rests on two other studies by CE Delft and Ensys Energy from 2016 for the IMO that showed they expect 0.5% fuel oils to be more paraffinic rather than aromatic. They also rejected the idea that the 0.5% fuels would be more aromatic than the 3.5% fuels.

“The study referred to by the Clean Arctic Alliance does not present any evidence that the test fuels are typical fuels on the market, it should therefore not serve as evidence to sustain their claims, and it seems premature to draw any valid and meaningful conclusions,” Concawe said in the letter.

Nine of the other bodies, which include influential groups like the International Association of Classification Societies and the International Bunkering Industry Association, responded to the CAA in a joint letter seen by Lloyd’s List.

They clarified that their guidance targeted the safe handling and use of the new fuels and did not consider other potential issues.

But their anticipation for the composition of these compliant 0.5% blends echo that of Concawe.

“We expected there to be a greater tendency for 0.50% sulphur fuels to be more paraffinic – not aromatic – in nature. The information available since the introduction of the 0.50% sulphur limit on 1 January 2020, suggests our expectations have been generally correct,” they wrote.

Prospect of sanctions removal boosts Cosco tanker units

STOCK market investors are excited by speculations over a possible lifting of US sanctions on tanker units of China Cosco Shipping Corp.

Cosco Shipping Energy Transportation – the listed parent of one of the backlisted firms Cosco Shipping Tanker (Dalian) – saw its share price jump 11.4% in Hong Kong on Friday to HK\$3.42 (\$0.44). The price increase exceeded 18% at its peak earlier in the day.

Trading of its Shanghai-listed stock is being halted because of the Chinese New Year holidays.

Reuters cited anonymous sources from oil and energy firms in China and London as saying they were given indications that the US would likely remove the sanctions within days on the Cosco units that were accused of being involved in shipping Iranian oils.

A CSET executive told Lloyd’s List that the US authorities had been “positive” about taking Dalian Tanker off the sanctions list, with the company trying hard to prove its innocence of the accusation that it helped smuggle Iranian oils.

Dalian Tanker used to own 100% of Cosco Shipping Tanker (Dalian) Seaman & Ship Management Co, another sanctioned unit, before disposing of the subsidiary to an affiliate, Cosco Shipping Investment Dalian, in June last year.

The shipmanagement firm was shown as the manager of the tankers owned by Kunlun Shipping and reportedly used to shuttle oil from Iran to Asia through under-the-radar, ship-to-ship transfer. Both companies were designated in September for “knowingly engaging in a significant transaction for

The nine bodies said the IMO should consider all of the submissions on the black carbon emissions.

“The upcoming IMO Pollution Prevention and Response Sub-Committee is the most effective forum to progress that debate. It would not be appropriate for us to pre-empt the conclusions from that discussion,” they said.

The only organisation not to respond to the CAA was the International Union of Marine Insurance.

the transport of oil from Iran”, according to a statement from the US Department of State.

Dalian Tanker was implicated because of its control over the shipmanager and “had knowledge of its sanctionable conduct”, the statement said at the time.

However, the company had provided counterarguments since then and “the feedback from the US side has been positive,” said the CSET executive.

“But nothing has been firmed up yet about the change of the sanction status.” the person added. “Hopefully we’ll receive a definitive answer by February 4 .”

The announcement of the Phase One trade agreement between the US and China in mid-December had raised the prospects of lifting the sanctions.

But later in the month Washington instead renewed an earlier waiver that allows companies to wind down their business with Dalian Tanker, which owns a fleet of 43 oil tankers, including 26 very large crude carriers. The licence will expire on February 4, 2020.

The CSET executive said most of these vessels remained on standby at the anchorage, which is in line with what the vessel tracking data from Lloyd’s List Intelligence shows. The lack of activity suggests that charterers are still hesitant about hiring the ships.

Movements of the sanctioned VLCC fleet are now being closely scrutinised, with spot rates expected to fall lower if the additional Cosco Shipping tankers begin to re-enter the market.

OPINION

The Interview: Despina Theodosiou

DESPINA Theodosiou's dedication to gender equality in the maritime sector is bearing fruit.

Her perseverance has seen the Women's International Shipping & Trading Association, which she leads, grow to 50 countries.

Last year alone, four new National Women's Associations, as they are known, joined the group, while a fifth — South Africa — was reformed and welcomed back.

Wista's reach is far-ranging, with Romania the latest to join in December, following sign-ups from Colombia, Mexico and Bangladesh.

Ms Theodosiou, who was re-elected in November as president of Wista for a second two-year term, is helping to build the organisation into a body that has a relevant voice.

The 38-year-old is adamant that more can be done to address the gender imbalance in the industry.

"We are of the conviction that gender diversity is key to providing a sustainable future for our industry," says Ms Theodosiou, the daughter of a captain who has been working in shipping for 16 years.

"After the huge drive in awareness we achieved in 2019, the pressure is on to ensure that the change continues and a new normal emerges."

The various initiatives to include more women in the industry are gaining momentum, with an emphasis too on attracting the younger generation to a sector that has largely been male-dominated.

"This is an exciting and momentous time in our industry, and I am humbled and grateful to be a part of it," she continues.

There are many different roles within maritime, not just seafaring, that could make a good career for someone coming into the sector.

"We need to showcase to young girls and their parents that a maritime career is a rewarding one, that after they graduate from maritime academies, and from their shipping-related studies, they will find doors open to companies who are looking for the best talent, regardless of gender," Ms Theodosiou says.

Wista, in collaboration with the Institute of Chartered Shipbrokers, offers scholarships to women over a 10-year period. The programme, which is in its third year, is currently helping five females from different countries to achieve their goals.

Ms Theodosiou has won many awards but she does not just bask in the glory; she strives for more, because more can be done.

"There are still preconceptions and prejudices, which often become hurdles to women who want careers in shipping, trading, and logistics," she says. "We are overcoming them, slowly but steadily."

"We see more women coming into the frontline, acting as role models for the younger generations," she notes. "We also see open-minded men and women in the industry who understand that diverse businesses have a greater chance at success."

Ms Theodosiou has been described as a rising star, a powerhouse, a problem-solver with a sharp mind. She is also humble and gracious about her work as an ambassador for equal rights.

While networking and travelling, Ms Theodosiou co-runs Tototheo Maritime, a Cyprus-based technology systems company specialising in services with the goal of optimising vessel and fleet performance, with her husband Socrates.

She won the International Personality of the Year award at the Lloyd's List Greek ceremony held in Athens in December and appeared in the Lloyd's List Top 100 influencers in shipping last year.

It was through her hard work and that of her teams that Wista received consultative status at the International Maritime Organization last year, a breakthrough, giving it access to the 174-member states of the UN agency.

Earlier this month, Wista and the IMO cemented ties, formalising their co-operation with a memorandum of understanding.

The two bodies aim to collect and analyse data on the number of women working in the sector globally and develop a database of female experts to tap into.

The IMO's theme for last year was "Empowering Women in the Maritime Community" and Wista's theme for this year centres around sustainability and continuity driving growth.

Many more tie-ups have been sealed while Ms Theodosiou has been at the helm of the group, which has more than 3,000 members.

In November, an MoU was signed with the World Ocean Council, while it is actively involved with the International Chamber of Shipping's diversity panels to the extent that Ms Theodosiou chairs the Women in Shipping panel.

Other collaborations include pledges with BIMCO, Intertanko and Nor-Shipping. As testament to the progress made so far, commodities trading giant

Qatar shows power of shipping's digital transition

SAFE and sustainable shipping is often seen as a 'best kept secret'. But the thousands of people who work in vessel operations, cargo handling, and supply chain logistics all know how vital this industry is to any nation.

The expansion of an economy depends on efficient connectivity between the many stakeholders. All the speakers at the Lloyd's List Qatar Maritime and Logistics Summit on February 18 acknowledge that connectivity is key to successful digitalisation in shipping.

The specific elements of digitalisation – including data collection and analysis, data-driven decision making, and advanced cyber security – are critical to improved safety and sustainable transportation. And therefore, critical to economic growth.

From the welcome address by the Qatar Minister of Transport and Communications, HE Jassim Saif Ahmed Al Sulaiti, to senior leadership at Mwani Qatar, Milaha, Nakilat, and Q Terminals, the digital economy takes centre stage. There's a good reason for this.

Cargill has said it would not attend events with male-only speakers.

Wista has also co-published a booklet on better working conditions for women in employment on board ships.

"Our industry is moving with the times. Things have started to shift towards more diverse, inclusive, and tolerant working environments," Ms Theodosiou points out. "Today, women have a growing voice in the shipping industry" and Wista ensures that women are not only part of the solution to the challenges faced, but are also part of the future.

Wista's motto is "women who move the world". Ms Theodosiou is certainly one of them.

Qatar's economic expansion has been highly dependent on oil and gas extraction, which today accounts for 50% of gross domestic product and 85% of export earnings. Proven reserves suggest this dependency is unsustainable, so Qatar has moved to transform itself into a centre of logistics excellence.

That transition, as embraced by the National Vision, will be addressed by Summit speakers in liner shipping, LNG shipping, next-generation logistics, and training.

This Summit takes place at a time when Qatar is putting in place the final pieces of an economic strategy for the next two decades. The financial resources are available to support the transition, the government is fully supportive, and there are opportunities for overseas businesses to get involved.

The event, being held in Doha, Qatar, on February 18, will offer significant networking time and will be followed by a hosted tour of the impressive new Hamad Port.

ANALYSIS

The trade war and the climate change agenda are shifting trade

THE MARITIME industry is passing through a period of severe disruption, including trade wars and climate change, which is bringing significant challenges to continued growth, delegates to the 13th annual conference of the American Association of Port Authorities have been told.

Kimberly A Reed, newly appointed as president and chairman of the Export-Import Bank of the United States, underscored one challenge to growth as she described Washington's determination to confront China over trade interests around the world.

"Economic security is national security, and EXIM will not sit idly while China uses unfair trade practices around the world, often at the expense of American workers," she told delegates at the 'Shifting Trade' conference held in Tampa, Florida, on January 28-29.

Ms Reed referred to China's Belt and Road Initiative as a "debt trap" and said Washington sees the Chinese infrastructure programme as a "source of concern" and a "source of focus". She referred to BRI as a matter of US "national security".

She gave an update on the bank's seven-year reauthorisation, signed into law last month by President Donald Trump.

She said it provides certainty and stability to US workers and businesses, including the maritime industry. It shows that the lender is "fully open" for business and gives a clear direction to focus on the economic and national security challenges from China.

Jeffrey G Weiss, a partner in Venable LLP and former assistant general counsel for the Office of the US Trade Representative, explained that the Trump administration sees trade as part of national security.

He said the Trump administration "wants supply chains to shift out of China" as a matter of policy. It is using the imposition of tariffs toward that end, marking a new departure in US trade negotiation policy.

"There has been a radical shift, a paradigm shift, in US trade policy," he said, noting that it

now links national security issues with trade tariffs.

Mr Weiss explained this "paradigm shift" was no longer a policy that was exclusive to the Trump administration. The Trump blueprint is now an approach that will continue regardless of which party holds power in the future.

He said the future would be "a lot more unstable than what we're used to. I don't see us going back, even with a change of administration". He said "tariffs get headlines" and the belief in the efficacy of tariffs is held not only by Mr Trump but also by "other politicians" too.

Barry Worthington, executive director of the US Energy Association, referred to the boom in exports of liquefied natural gas as a "miracle" that has "completely turned around the situation" faced by the US just 10 years ago in the great recession.

But he also warned that exports of LNG have been hurt by the trade war, noting that China imposed retaliatory tariffs of 25% on US exports of LNG and has not lifted those tariffs under the recently signed Phase One agreement.

Mr Worthington said China's policy is unwise as the country needs LNG to replace coal in power generation. In particular, China needs to reduce its chronic issues with air pollution.

On the specific point of shifting trade patterns, he said that China's policy of reduced imports of LNG has threatened a number of proposed US export facilities, potentially undermining the country's economic "miracle".

US ports have benefitted greatly from increased trade, especially with the expansion of the Panama Canal.

Vijay Agrawal, vice-president, Americas ports and marine, transportation at infrastructure firm AECOM, drew attention to growth rates of US ports in containerised shipping over the past 10 years, especially in the Gulf coast and southeast region.

He said that although throughput is declining in ports in the northeast and along the Pacific coast, it

is rising in the southeast and along the Gulf coast. He foresees throughput of 21m to 29m teu by 2029 in those regions, nearly doubling from the 15.5m teu seen in 2019.

Growth of that sort will be highly dependent on the continued reliability of the Panama Canal — probably the greatest change maker in shifting trade in recent times. But the Canal itself is now under threat from several quarters.

As with many other sectors of the maritime industry, the Panama Canal has been subject to the effects of the trade war between the US and China. It has witnessed a reduced numbers of containerships and LNG carriers over the past 18 months.

But a more permanent threat to the Canal's finances will follow if the Trump policy of forcing companies out of China succeeds, according to Dr Ricaurte Vásquez Morales, administrator of the Panama Canal Authority.

Dr Vásquez said increased trade out of Southeast Asia — and out of India especially — would likely take the shorter route to the west through the competing Suez Canal.

Still, by far the worse threat comes from climate change, which already is having an adverse effect from the increasingly uncertain supply of fresh water needed to operate the locks of the Panama Canal.

Dr Vásquez drew attention to the continuing drought experienced in his country, which has led to fluctuations in the fresh water supply available for the locks in the Canal.

He said Panama has seen “20% less precipitation in the last year than in the previous 70 years” but also

that the country has seen “sudden storms”, which bring too much water to be retained for use in the Canal.

In a word, Dr Vásquez said the dynamics of water needed for the operation of the Panama Canal is “not a given any more” — words described as “chilling” by AAPA president and chief executive Christopher J. Connor.

Reduced throughput along the Panama Canal would indeed have a dramatic effect on global trade, to say nothing of the US and its southeastern region, now poised to double container throughput in the coming decade.

In his opening comments, Paul Anderson, president and chief executive of Port Tampa Bay, spoke of the transformative effect — the “dream” — that expansion of the Panama Canal had on so many ports along the Gulf coast and southeast years ago.

“What would be the impact?” Mr Anderson said that was the big question back then as ports in the region began to consider investments that would eventually come to some \$200bn as Panama's plans began to unfold.

Ports like Tampa Bay, Houston, Savannah and others invested heavily in new cranes, docks and dredging to attract the envisioned business. Those investments have begun to pay since then, as evidenced by the growth in imports and exports throughout the region.

But they now face a potential “chill” as the Panama Canal, the prized all-water route to and from East Asia, is looking at the adverse prospect of unreliable water levels for the foreseeable future — to say nothing of shifting trade due to equally unreliable trade wars.

MARKETS

China's oil and gas demand to slow in February

FIRST-QUARTER growth for the global oil and gas trade is expected to slow, with China's demand set to weaken as the country struggles to contain the contagion from the Wuhan virus outbreak.

Analysts have trimmed forecasts for both oil and gas demand in view of the curtailing effect on industrial expansion in China and the restricted travel in the country and elsewhere.

Wood Mackenzie forecasts China's oil demand may shrink in excess of 250,000 barrels per day in the first three months of this year.

It has also cut its first quarter global oil demand forecast by 500,000 barrels per day.

Drawing on observations from the 2003 SARS outbreak, WoodMac suggested that jet fuel demand could be most severely hit and, to a lesser degree, demand for gasoline and diesel.

Combined demand for jet fuel, gasoline and diesel or gasoil is expected to fall by 100,000 b/d in the first quarter, the energy and commodity research agency suggested.

One major indicator on the radar is China's industrial activity, which would shape demand levels for road diesel and natural gas. Reuters reported that China's Purchasing Managers' Index, often seen as a leading indicator of factory activity, fell to 50 in January from 50.2 in December.

"If the severe transport restrictions such as those implemented in Wuhan [the city from which the coronavirus originated] linger, they would restrain the affected local economy.

"Clusters of automotive manufacturing and high-tech industries are located in Wuhan, while Hubei, the city's home province, accounts for over 4% of China's GDP," WoodMac consultant Lei Yujiao remarked.

China allows trading companies to declare force majeure due to coronavirus

CHINA has given its companies a reprieve amid the coronavirus crisis, with authorities offering force majeure certificates to companies struggling to cope with the impact of the outbreak on their business with overseas partners.

Reuters reported that the move by the China Council for The Promotion of International Trade was announced late on Thursday as the World Health Organisation declared a global health emergency and the death toll rose above 200 in China.

"Some Chinese companies have suffered severe impacts on goods and logistics and may not be able to fulfil their contracts amid the coronavirus," the CCPIT said in a statement. The international trade

The analytics division of S&P Global Platts has already revised downwards its projections for China's liquefied natural gas imports for February.

This revision factors in delays to the restart of industrial activity post-Lunar New Year in China.

An extension of such reduced activity until the end of February would force Platts Analytics to slash its monthly forecast for China's LNG imports by 5% to 7%, or 11m cu m to 15m cu m per day, global LNG director Ciaran Roe said.

That would bring Platts' February forecast down from the current 222m cu m per day to 207m cu m per day, or just 7m cu m per day higher compared with China's LNG imports for the same month last year.

Slowing LNG demand in China is bad news for the gas market, because the country has accounted for the bulk of incremental LNG trade volume in recent years.

Platts recently rolled out weekly forecasts for the Japan Korea Marker benchmark price assessment for spot physical LNG cargoes traded in Asia.

While the updated forecast has yet to be published, the Platts-assessed JKM price fell to \$3.859 per million British thermal unit, down by 9 cents and fast approaching the historic low of \$3.65 per mmBtu.

promotion agency is officially accredited with China's Commerce Ministry.

The agency said companies that can provide legitimate documents, including proof of delays or cancellation of transportation, exports contracts and customs declaration, to its online system would be granted force majeure certificates. The agency says on its website that its certification is recognized and accepted overseas.

Ratings agency Fitch meanwhile said in a note that it expects non-life insurers to have more claims from business interruption insurance due to the virus outbreak because many manufacturing factories and shops have been closed.

Corroborating forecasts of falling jet fuel demand, Fitch additionally said it expected drops in air travel due to restrictions, such as city-wide quarantines

and the suspension of flights to and from China by international airlines.

Coronavirus poses a risk to iron ore and coal shipments

THE coronavirus crisis is going to lead to a difficult quarter for the dry bulk market as activities in steel, iron ore and coal are all affected by the outbreak.

China, the world's largest producer and consumer of most metals, has extended its holidays and expanded lockdown measures to contain the spread of the virus.

Wuhan, the epicentre of the outbreak, is the capital of Hubei province — an important logistical hub for China due to its proximity to the Yangtze River.

Though the greatest impact from this event will be on travel, steel production is likely to be affected as Wuhan is the home for some of the largest steel producers, whose mills are supplied with raw materials via the Yangtze.

Delays to the restart of most of the mills after the holiday period because of logistical bottlenecks and travel restrictions on workers returning from their hometowns are expected to further tighten the demand for iron ore and coal, weakening demand for vessels.

However, inventories of the steelmaking feedstock at Chinese mills are expected to satisfy demand through mid-February, thanks to ample stockpiling ahead of the holidays. Iron ore stocks at Chinese ports have accumulated during the holidays, suggesting sufficient supply for steel mills replenishing their stocks after returning from the holidays.

“While it is impossible to accurately predict the scale of this unfolding health crisis, the virus is a new wildcard for bulks demand,” Wood Mackenzie said in a report.

The travel bans have also affected construction industry, which accounts for two-thirds of Chinese steel demand, and the implications of these delays are stark.

Meanwhile, thermal coal imports are also likely to slow for a time and already there are reports of Indonesian coal producers being asked to delay loadings, Wood Mackenzie noted. “As the largest supplier of coal to China, Indonesia has the most to lose if the situation worsens and electricity demand weakens.”

US forecast to become net energy exporter

THE US will become a net energy exporter this year for the first time since records began in 1953, and remain one for at least the next two decades, the US Energy Information Administration forecast in its annual energy outlook this week.

Production of crude oil and natural gas plant liquids rises over the next five years to outstrip falling consumption, keeping seaborne exports rising, according to the EIA.

Crude oil production is forecast to plateau at 14m bpd by 2022, in its reference case scenario, and begins to decline in 2045.

Onshore tight oil development, rather than offshore expansion, accounts for 70% of cumulative growth, the report said. The development of tight oil resources, mostly in the Permian basin will supply 37% of production between 2020 and 2050, the EIA report concludes.

In 2019 US crude production reached 12.6m bpd in November, with exports at 3.3m bpd in October, the most recent figures available.

Net imports of crude oil are forecast to remain flat at 3.5m bpd until 2037, with a rise then seen to reflect the production plateau and subsequent decrease, according to the report.

The US is now one of the world's biggest exporters of refined products including gasoline, and middle distillates — which encompass gasoil, jet fuel and diesel — supplying West Africa, Europe, and South America with refined products.

Since an export ban was removed, over the past four years light, sweet crude has been shipped to new markets in Asia and Europe.

The EIA projected that US net exports of petroleum and product liquids would peak at more than 3.8m

bpd in the early 2030s, based on a reference oil price of \$105 a barrel. It could reach 8.9m bpd if a high oil price of \$183 a barrel was used.

Exports of diesel and residual oil, including very-low sulphur fuel oil, would rise to 2.5m barrels per day in 2020.

US refineries were “well-positioned to supply some of the increase in global demand for low-sulphur fuels” caused by IMO 2020, the EIA added. Refinery utilisation would remain near recent levels of 90 to 93% over the next 30 years, under the report’s reference-case scenario.

“The share of US refinery throughput that is exported increases in the [2020 outlook reference case] as domestic consumption of refined products decreases, leaving more petroleum product available

to export from 2020 to 2041,” the report said. “The trend reverses after 2041 when domestic consumption [especially of gasoline] gradually increases.”

The US completed three more LNG export facilities and started building another two in 2019. LNG exports would rise to nearly 6trn cubic feet until 2050, according to the projection. With the high oil price, it could export nearly 12trn cu ft.

“The greatest increase in US exports occurs in LNG by waterborne trade, growing to 2030 as additional LNG export terminals are constructed,” said EIA administrator Linda Capuano.

But the agency said US coal exports were not expected to increase because of competition from rival producers closer to consumers.

IN OTHER NEWS

Eastern Pacific bags a suezmaxes bargain at SWS

EASTERN Pacific Shipping has broken its recent run of LNG dual-fuelled orders by opting for two conventional suezmaxes at Shanghai Waigaoqiao Shipbuilding.

The brace of tankers is understood to be an opportunistic play taking advantage of two late cancellations at the yard and what Eastern Pacific insiders describe as “an incredibly good price”.

Eastern Pacific declined to confirm the contract price, but Lloyd’s List understands the deal was struck “in the low 50s”. Current broker estimates suggest that a newbuilding would cost \$61m, possibly up to \$70m for prompt delivery.

Asia-Europe carriers to double blanked sailings

BLANKED sailings on the Asia-Europe trade are expected to more than double in number over the course of the first quarter of 2020 against last year, as carriers scramble to scale back on

capacity in the slow post-Chinese New Year period.

However, even more sailings could be pulled due to the Coronavirus outbreak.

In a report published by Jacksonville-based BlueWater Reporting, as many as 58 voyages are due to blanked over the January-March period this year, up from 25 in the first quarter of 2019, a rise of 123% on-year. On the backhaul Europe-Asia trade the number of blank sailings is expected to rise from 25 to 49 voyages, according to the report.

Singapore bars visitors from China over health fears

SINGAPORE has barred entry to Chinese travellers and those who have been to mainland China in the past 14 days amid efforts to halt the spread of coronavirus.

The measures will come into force from Saturday and visa suspensions start immediately, the health ministry said. There are exemptions for residents and those with long-term passes, such as student visas.

“All new visitors with recent travel history to mainland China within the last 14 days will not be allowed entry into Singapore, or to transit through Singapore,” a statement said.

Trafigura emerges as buyer of Top Ships’ MR1 tankers

TRAFIGURA, a global commodities trader, has branched out into the handysize tanker segment with the purchase of two vessels in the secondhand market.

The medium range one product/chemical tankers were bought from Top Ships, Lloyd’s List understands. The deal closed this month with the delivery of the vessels to the new owner.

The vessels, which were sold for a total of \$43m, are the 39,200 dwt *Eco Fleet*, built in 2015, and the 2016-built *Eco Revolution*.

Japanese lines optimistic on outlook for tanker markets

OVERCOMING the initial issues from their joint-venture container shipping business ONE, the main Japanese lines are on track for a profitable year in the fiscal year

ending March 31, 2019 with NYK Line the most upbeat and predicting a 12% rise in net profit to ¥29bn (\$266m).

NYK was particularly upbeat on prospects for its tankers, saying that the market for very large crude carriers was expected to be firm despite the usual slackening of winter demand in the last quarter of the fiscal year, as the US government sanctions on Chinese tanker companies and geopolitical risk would support rates. Reuters has however reported that the US is likely to lift sanctions on subsidiaries of China's Cosco Shipping Energy Transportation within days.

NYK was also bullish on prospects for its LPG carriers, with cargo volumes from the US expected to remain strong.

Concordia eyeing new tonnage amid bullish market

CONCORDIA Maritime is seeking to expand its fleet as it anticipates a strong market in 2020 following a taxing few years.

Kim Ullman, the tanker owner's chief executive, said the market in 2020 will generally be high, albeit with a certain degree of volatility.

"Overall the year is going to result in high freight rates," he told Lloyd's List, adding that vessel acquisitions are being considered to take advantage of the positive climate.

Driftwood LNG freed from legal tussle
US LNG developer Tellurian said that its rival Cheniere Energy has permanently dismissed all claims against its top executives, freeing up the former from any legal encumbrance to pursue its mega Driftwood export project in the state of Louisiana.

Cheniere, the largest exporter of liquefied natural gas in the US, had sued Tellurian chairman and chief executive Charif Souki last February, alleging he conspired to help finance a joint venture that led to the formation of Tellurian.

Mr Souki allegedly extended \$46m in loans to Parallax Enterprises back in 2015, when he was still Cheniere chief executive.

ONE lifts earnings outlook after third-quarter recovery

OCEAN Network Express has raised its full-year profit expectations after recording a third consecutive quarterly profit, despite a dip in liftings on its main trade lanes.

The Singapore-based carrier turned around a \$179m loss in the third quarter of 2018, its first year of operation, to a \$5m profit in the three months to December 2019. On the back of that, it has now raised its full-year profit outlook from \$60m to \$80m.

"Cargo movement has been almost in line with our forecast for east-west trade, north-south trade and intra-Asia trade until lunar new year in late January," the line said in an earnings statement.

Excelerate taps Marans new FSRU for Pakistan expansion

A VOPAK-backed joint venture has set out to expand the regasification capacity of Pakistan's first liquefied natural gas import terminal.

ENGRO Elengy Terminal, a joint venture between Engro Corp and Vopak, has signed a heads of agreement with Excelerate Energy for the supply of a newbuilding floating storage and regasification unit to replace an existing vessel at the EETL terminal in Port Qasim.

The 150,900 cu m FSRU *Exquisite* will be replaced by a 173,400 cu m unit to be delivered from South Korea's Daewoo Shipbuilding & Marine Engineering this April, Excelerate said in a statement.

Western Bulk cuts fleet amid weak market and Chile losses

WESTERN Bulk, an Oslo-based operator of bulkers, has had to cut down the size of its fleet due to a weak market. It also saw losses at its Chilean units.

"Throughout the fourth quarter, the size of the fleet was reduced to limit the risks related to the transition to the new IMO 2020 regulation, as well as an anticipation of a weak market in the first quarter of 2020," the company said in a statement.

It has also limited forward cargo and tonnage commitments, it added, with several redeliveries at the start of the year.

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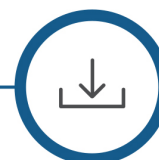
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