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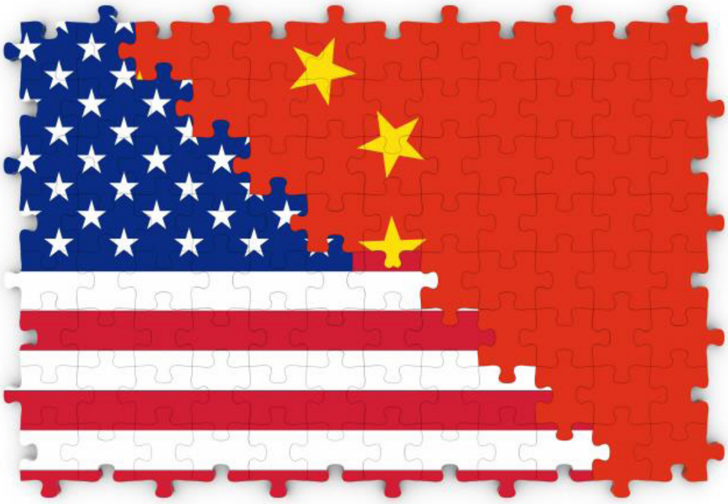
# China to halve tariffs on US goods amid coronavirus fears



CHINA IS TO halve additional tariffs levied on some $75bn of imports from the US following the signing of a phase one trade deal between the world's two largest economies.

China's finance ministry said in a statement that from February 14, tariffs levied on some goods will be cut to 5% from 10% and others lowered to 2.5% from 5%.

Tariffs on a further $35bn worth of US goods will remain.

The US tariffs were imposed in September as US president Donald Trump threatened to impose punitive taxes on all Chinese imports.

In a separate statement, the finance ministry said the tariffs reduction corresponded with the those announced by the US on Chinese goods, which were also scheduled for the same day.

The ministry added that the move was made to "advance the healthy and stable development of China-US trade".

China said that the next adjustment will depend on how Sino-US trade ties evolve, adding it hopes to work with Washington to eliminate all tariff increases.

Under the phase one agreement, the Trump administration scrapped tariffs initially set to take effect last December.

However, the deal forced China to purchase an additional $200bn of US-produced goods. That now looks impossible in the short term because of the coronavirus outbreak.

China economist at Capital Economics Julian Evans-Pritchard said the coronavirus may have played a role in Beijing's decision to cut tariffs permanently, rather than grant waivers or use other temporary measures.

"I do not see this as an attempt to boost growth directly," he said. "I see it as a measure to signal to the US that 'we are not going to be able to ramp up imports straight away but we are still on board with the deal'."

## WHAT TO WATCH

# Coronavirus: Carriers could feel impact for many months

THE fallout from the coronavirus outbreak will affect container lines far into the second quarter of the year, with additional blankings likely to be imposed before the situation returns to normal.

"It is too early to tell the real outcome yet, but I can see this going through into May at least," said Grace Liang, president of Orient Overseas Container Line.

Container growth is reportedly forecast to be reduced by 0.7% this year because of the outbreak based on the current level of disruption.

Ms Liang said the extended factory closures had already caused a significant number of blankings announced, but that more were likely to follow if output failed to return to its normal seasonal levels.

Moreover, any recovery would be affected by the line's ability to come back up to speed quickly when volumes returned.

"The question will be how quickly lines can get capacity back in service," she said on the sidelines of the Cargo Logistics Canada conference in Vancouver.

She warned that while carriers could cancel sailings to avoid voyages with low load factors, they were still accruing costs while not earning revenue.

"If you lay up a ship, you are still paying for it. If the ship is owned, there are finance charges, and if it is a chartered vessel there are the charter costs," she said.

She also pointed to a wider problem of overcapacity in the sector, saying that the volumes of scrapping needed to increase.

"We need to manage capacity," said Ms Liang. "We keep on talking about overcapacity, and certainly now as there is some delay in installing scrubbers it is taking the pressure off, but with the addition of new capacity coming in we need to be looking at more scrapping."

Carriers needed to match supply with demand if the industry was going to become more sustainable, she said.

But the most immediate impact the industry faced was the outbreak of the coronavirus.

"It is premature to forecast what will be the regional and global economic challenges. But Wuhan is a major manufacturing centre and a key hub for oil and gas, which is why we have seen volatility in the Baltic Dry Index and the price of oil."

But with a structural excess of capacity and new vessels still joining the fleet, 2020 would remain a challenging year for carriers, even without the impact of the coronavirus, she said.

Meanwhile, port operators on the receiving end of exports from China are already beginning to feel the effects of blanked sailings and are lowering throughput expectations for the year.

Prince Rupert Port Authority director Michael Inman said the port, which has shortest transit time from China to North America, did not expect volumes to grow this year.

"There were too many unknowns even before the virus outbreak," he told Lloyd's List. "Tariffs have already hit the volumes we are receiving but now we are seeing the blankings as well and we are losing a whole month of volumes."

Prince Rupert, which has direct rail links to the US Midwest, is heavily reliant on US-bound cargoes, with around 65% of its import volumes headed there.

# Bottiglieri said to be eyeing bulker sales

GIUSEPPE Bottiglieri Shipping, the Italian owner of predominantly dry bulk vessels that was rescued from bankruptcy by Bain Capital in 2018, is eyeing a possible sale of at least three of its bulkers.

According to Lloyd's List Intelligence, Bain instructed the company to dispose of the vessels, built in 2009 and 2010, in order to repay some of the restructured debt.

The company has 11 bulkers and four tankers in its fleet.

The vessels reported to be on the market are the post-panamaxes Paola Bottiglieri, Peppino Bottiglieri and Giovanni Bottiglieri.

According to online data provider VesselsValue, the three bulkers are worth $37m.

Managing director Mariella Bottiglieri and Bain Capital declined to comment on the potential sales.

Separately, vessels belonging to fellow Italian dry bulk and tanker operator Rizzo Bottiglieri de Carlini, which was declared bankrupt in early 2018, have largely been picked up by RB Shipping, led by the Reuben Brothers.

In a statement, RB said that the takeover of RBD Armatori was completed towards the end of January. The deal involved inheriting seven bulkers and one tanker. Five other tankers have been assigned to a major creditor controlled by private equity firm Pillarstone.

The ships have been placed into a new company RB RD, based in Naples, which is 75% owned by the billionaire brothers, and 25% by the Rizzo and de Carlini families.

## OPINION

# Coronavirus: Seafarers face increased physical and mental impact

MANY seafarers are going through a prolonged and arduous journey right now, *writes Cichen Shen*.

Amid the rampancy of the new coronavirus, they are banned from going ashore or receiving visitors. They have to remain on board even when their shift is over, with growing anxiety.

Recent moves taken by port authorities in countries such as the US, the Philippines and Australia, show earlier advice from the International Maritime Health Association has apparently been ignored.

That organisation, in a January 26 circular, advised against the restriction on embarkation/ disembarkation of seafarers in non-affected ports — although compared with that time, the number of infected people has jumped almost tenfold today.

Some of the crew on ships in China are having bigger troubles, with a shortage of provisions.

They are not allowed to order the goods by themselves now, as a result of anti-virus efforts by the Chinese government. Only qualified suppliers may provide such service, although with additional registration processes requested by local regulators, according to a recent notice from crew agency GAC.

And their capacities are further compromised by the lack of staff because of the extended Chinese New Year holidays and travel restrictions.

Some domestic trading vessels are running out of food, let alone face masks.

"Lots of reserves on board are in serious shortage, and we don't know when the situation will improve." said one Chinese shipowner.

The pressure will likely continue even though most Chinese cities are expected to resume work from next Monday. It is not easy for non-local workers to return from their hometowns or villages with the block on roads in the countryside and disruption in public transport. And when they are back, a quarantine period of 7-14 days at home required by their companies will stop them from performing their duty immediately.

More importantly, no one knows when the epidemic, which has infected more than 28,000 and killed 564 at last count, can be effectively contained.

An executive from a Chinese shipmanagement firm said his company was not expecting to change crew until mid-March "on the most optimistic projection".

The permission announced by the China Maritime Safety Administration yesterday to push back the inspections and certifications of vessels and seafarers seems to suggest the government is also preparing for a protracted battle against the virus.

The anxiety is not only creeping in on board ships.

To many seafarers on standby, the delay of embarkment equals to a layoff and the resulting halt of income.

"So what's happening now is those on board are eager to get off and those onshore also very much want to get on," the shipmanagement executive said. "Hopefully the disease can go away soon."

However, when the disease later turns into distressed economic and trade figures, a much bigger challenge will be posed to seafarers' wellbeing and employment prospects.

# When it comes to risk, focus on long-term threats, not spats and spikes

THE next 11 months are expected to be characterised by continuing political polarisation. Economic growth has turned to slowdown, trade networks are breaking apart, globalisation has lost its allure, *writes Richard Clayton*.

The two largest economies now account for 40% of global GDP; how well they work together will influence every trade agreement signed in the coming year.

There will be wars, skirmishes, media spats, fallings-out and even global health scares. These are the headlines. They affect charter market and fuel prices; they demand a response, a strategy, both a Plan A and a Plan B. However, are they what shipping should focus on in 2020?

Consider the World Economic Forum's Global Risks Report 2020, which formed the basis of conversations at the group's annual meeting in Davos last month.

It acknowledges the geopolitical and geo-economic turmoil but places these items squarely among the short-term threats. They must be accommodated; however, the big-ticket threats lie elsewhere.

Coronavirus aside, the real threats increasingly focus on climate issues. The report was drawn up from the responses of about 800 experts, who identified the five biggest threats in terms of likelihood as: extreme weather; climate action failure; natural disasters; biodiversity loss; and human-made environmental disasters.

In terms of impact, climate action failure will hit hardest. The problem for the WEF is that businesses are concentrating on working through the unsettled geopolitical landscape and have little appetite for tackling extreme weather events or biodiversity loss.

This is a mistake for two reasons. First, because the accumulated cost of inaction far outweighs the cost of action; and second, because stakeholders from investors, employees, customers and suppliers are steadily becoming aware of a company's sustainability agenda.

This matters to the schoolgirl in the classroom, so it should matter to the executives in the boardroom.

There are other concerns that will become mainstream in 2020. These include cyber security.

While digital technology has brought tremendous benefits — it is estimated that half the world's population is online — the lack of global governance and cyber insecurity must be tackled. The more data becomes available, the more vulnerable we are to the unscrupulous.

The WEF's risk report is not a forecast of what could happen; it's a perception of what might happen. As such, it draws heavily on what has happened in the recent past. Geopolitical turmoil over the past decade will continue.

This time, the survey respondents were asked whether they were born before or after the year 1980. Apparently, those aged 40 and younger are much more focused on threats to the environment. They will be the business leaders and managers at the end of the decade, so their views today will influence the businesses they run in 2030.

The WEF Risks Report might not be a forecast but it's certainly forward-looking.

ANALYSIS

# Coronavirus: Forwarders lack visibility as outbreak unfolds

UNCERTAINTY surrounding the coronavirus outbreak means forwarders have little visibility on how long the current disruption to air, ocean and rail freight flows to and from China is likely to last.

But they appear braced for a rise in freight rates when the situation does improve and an expected capacity squeeze kicks in.

Flemming Ole Nielsen, European vice-president at freight forwarder DSV Panalpina – which has 3,000 employees in China, including around 250 staff in Wuhan – said the extent of the drop in Chinese import and export volumes since the outbreak began was too early to estimate.

"Last week was closed down anyway due to Chinese New Year and this week would normally be a slow start after," he told Lloyd's List. "Several ocean carriers have announced blank sailings, but these were already announced before Chinese New Year. Rail is still the best alternative to air."

He said the available capacity was currently affected by train cancellations, though port terminals, airports and custom authorities are working normally.

Asked whether he anticipated a concerted switch from ocean to air freight when Chinese factories resume production, in order to meet contract obligations as well as customer demand, he said: "Yes, we do expect a significant rush on all transport modes, and air in particular. This will also be reflected in rates and surcharges."

In a Wuhan coronavirus impact update issued on February 5, Bolloré Logistics China informed its customers that work was scheduled to resume at most of the company's offices on February 10, and on February 14 for the Wuhan office.

Currently none of its employees and their close relatives in China have been suspected of carrying the virus, and it is sending protective and monitoring equipment to all its offices.

Ocean freight loading and unloading operations are taking place at Chinese ports, but barge services are subject to delays, Bolloré said.

Kuehne + Nagel said that in keeping with local government directives, the vast majority of its branches in mainland China would reopen on February 10, but Wuhan is scheduled to resume its operations on February 17.

Forwarder Agility, in a customer advisory, highlighted that "disruptions to inbound and outbound air and ocean cargo shipments, trucking and rail cargo services are likely to persist as the coronavirus crisis unfolds".

It said: "Agility is continuously monitoring developments and working with customers to expedite their shipments in the face of port/airport access delays, driver shortages, additional documentation requirements, by-appointment-only customs clearance, and other issues."

For Davies Turner, which offers air and ocean freight services to and from China, it was currently a case of "wait and see", a spokesperson for the UK-based forwarder said.

"We'll be in a better position to comment on how the situation is likely to play out after factories return to work on February 9 and there is a better idea of availability of the resources that are required to run international supply chains," he said.

DT also operates a weekly consolidated intermodal service from Wuhan to the UK, via rail to Duisburg in Germany and then trucked under bond to Rotterdam and by ferry to Purfleet in southeast England.

"This service would not have run during the Chinese New Year anyway and the shutdown has been extended," the firm said. "The next Express China Rail service is due to run on February 22 and will operate from Xian rather than Wuhan."

## MARKETS

# Coronavirus: Indonesians urged not to send crew to China

INDONESIA'S government is discouraging the shipping community from sending crew to countries afflicted by the novel coronavirus.

The country's directorate general for sea communications, or Seacom, issued a circular on Monday that called on all maritime players to reconsider sending seafarers to endemic countries or regions until the governments there declare these locations as free of the virus.

Mainly directed at those players licensed to man ships, this Seacom advisory stopped short of naming China and Hubei province — the epicentre for the coronavirus outbreak.

Indonesian shipowners are obliged to take in Seacom's advice though this is not seen as affecting exports of two key commodities.

Indonesia, as the world's largest producer of thermal coal and crude palm oil, counts China as its biggest market for exports of these commodities.

However, Nova Mugijanto, a shipowner who sits on the current committee of the Indonesian Shipowners' Association, pointed out that Indonesia's coal and CPO exports have been and are being fixed on a free-on-board basis.

Exports have thus far been shipped to China by foreign-flagged vessels, he noted.

Indonesia exported more than 71m tonnes of coal to China during the first half of last year, according to an Argus Media estimate.

China imported another 150,000 tonnes of CPO from Indonesia from January to August last year, the Jakarta Globe reported.

Indonesia has said it would stop importing livestock from China and has temporarily halted flights to and from China.

Meanwhile, Taiwan has banned all international cruiseships from docking amid rising fears of the outbreak after a cruiseship that had previously called at Keelung was subsequently found to have had cases of infection on board and was quarantined when it arrived in Japan.

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## IN OTHER NEWS

**MISC tanker unit wins Petrobras contracts worth $526m**

MISC's petroleum shipping unit AET has won a $525.6m contract from Petrobras to own and operate three new suezmax shuttle tankers in Brazilian and international waters.

The contract is expected to commence in 2022 and will add to AET's deals with Petrobras, with six suezmaxes already on time charter, the parent company said in a stock market announcement.

"These new vessels will be in addition to the six (four under construction) specialist DP2 suezmax-size shuttle tankers on time charter to Petrobras for operation in the Brazilian Basin," MISC said.

**Montreal sees fast growth without mega ships**

CONTAINER terminals should focus as much on how many containers they can load and offload rather than the absolute size of the ships they handle, according to Port of Montreal vice-president Tony Boemi.

Montreal, located 1,000 miles up the St Lawrence river from the Atlantic coast, and with a draught of only 11.3 m at chart datum, would not seem an obvious contender for a fast-growing port in the age of the mega ship, but first impressions can be deceptive.

"You need to look beyond the size of the ship alone," Mr Boemi told the Cargo Logistics Canada conference in Vancouver. "The big advantage we have in Montreal is that it is a very balanced port. In 2019, we were 52% import, 48% export. This is laden cargo, not empties. From a carrier perspective it is very attractive, because they can be profitable on both headhaul and backhaul."

**Steamship expects six-figure combined ratio**

STEAMSHIP Mutual's combined ratio is again set to top 100% and there will probably be upward pressure on pool claims, the International Group affiliate revealed in a circular.

CRs — as they are known in the insurance industry — are normally considered a yardstick of underwriting judgement, and mutuals generally aim to keep premium income in rough balance with payouts and operating costs.

But Steamship's CR hit 116% in 2019, one of the highest levels in the entire P&I sector, after having been as low as 76% just two years previously. The performance was one of the factors behind the decision to impose a 7.5% general increase later in the year, in line with the wider going rate.

**South Korea unveils $690m domestic shipbuilding package**

SOUTH Korea has unveiled a Won820bn ($690m) shipbuilding financial package in a move that will infuriate rival shipbuilding nation Japann because the latter last week filed fresh dispute proceedings at the World Trade Organisation regarding alleged shipbuilding subsidies.

Yonhap reported South Korea's Financial Services Commission as saying that the package was meant to help smaller shipping companies build 59 new vessels. This included 21 passenger boats and 38 cargo vessels.

The plan would allow a shipping company to receive financial assistance of up to 60% of building costs from banks, with the state-run Korea Ocean Business Corp guaranteeing more than 95% of the loans.

**DHT saves $14.6m by using scrubbers**

DHT Holdings, a US-listed owner of crude carriers, said almost half of its fleet are now fitted with scrubbers, with six more set to be installed.

The company said 12 of its vessels were scrubber-fitted, with the rest delayed because of strong market conditions. It has paid $47.7m related to the retrofit programme.

DHT has made 15 bunkering stops for high-sulphur fuel oil for the scrubber-fitted ships, making a total saving of $14.6m compared with if it had bunkered with compliant fuel, based on an average spread of $304 per tonne, it said.

**DNB reduces shipping portfolio**

DNB has continued to reduce lending to the shipping sector, slashing its shipping portfolio by around 18% in a year.

Norway's biggest bank disclosed on Thursday that its loans and commitments to shipping companies at the end of 2019 stood at NKr47.53bn ($5.15bn). This is a drop of NKr10.4bn from its shipping loans of NKr57.9bn at the end of 2018.

However, in a positive turn, DNB saw net impairment reversals of NKr171m in the fourth quarter of 2019.

**Capital Product Partners 'open' to diversifying outside boxships**

CAPITAL Product Partners, the Nasdaq-listed owner of 13 neo-panamax containerships and one capesize bulk carrier, is not ruling out diversifying into other sectors, including liquefied natural gas carriers, as it eyes fleet growth in the year ahead.

Capital Product's fleet, which was reduced with the spin-off its tankers into Diamond S Shipping a year ago, has grown in recent weeks with the acquisition from sponsor Capital Maritime & Trading of three new panamax boxships that were all delivered to the partnership last month.

In a presentation linked to its fourth-quarter earnings, it flagged as "potentially suitable" for drop-down to the partnership another $2.7bn of vessels controlled by the Capital group.

**IMO emissions policy chief Edmund Hughes steps down**

THE International Maritime Organization's emissions policy chief Edmund Hughes is stepping down.

Mr Hughes, who has been the head of the air pollution and energy efficiency of the global regulator since 2013, has overseen the adoption and implementation of some of the most consequential shipping emissions regulations.

He has been at the IMO's helm in implementing the 0.5% sulphur cap in 2020 and the energy efficiency design index, a tool that requires newbuild vessels to more efficient than their predecessors. Mr Hughes was also responsible for the landmark initial greenhouse gas strategy adopted in 2018.

**Evalend increases VLCC tally in South Korea**

EVALEND Shipping has added to its programme of very large crude carrier newbuildings at Hyundai Samho Heavy Industries with a fifth vessel, according to shipbrokers and other industry sources.

The latest 300,000 dwt tanker is scheduled for delivery in 2021. Allied Shipbroking in Athens put the price at $94.2m.

As with the previous newbuildings, the contract is understood to provide for installation of an exhaust gas cleaning system.

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