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Chinese owners and leasing banks dominate scrubber investment

CHINA COSCO SHIPPING has emerged as the biggest backer of scrubber technology, with 113 vessels totalling 17.9m dwt fitted, analysis shows.

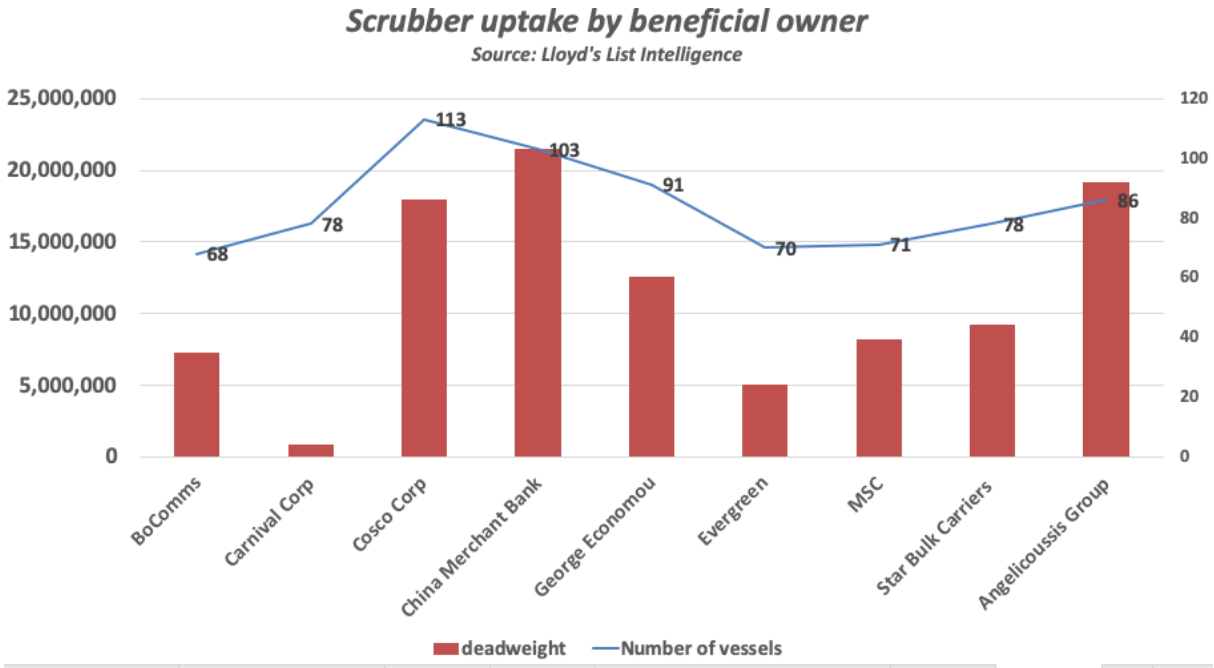
Along with China's financial leasing banks, the world's largest shipowner leads investment in the sulphur abatement technology, followed closely by container line Mediterranean Shipping, the Angelicoussis Group and George Economou.

Lloyd's List Intelligence has collated data on scrubber penetration for the global shipping fleet, showing at least 2,753 vessels totalling 328.7m dwt is now trading and have scrubbers installed. A further 580 newbuildings are on order or under construction and will have scrubbers fitted, data show.

As well as revealing the fleet composition of scrubber-fitted vessels, the data also outlines the companies with the biggest bets on the technology, which allows them to use cheaper, 3.5% fuel oil and remain compliant with new global regulations to lower sulphur emissions.

In the container sector — where some 12.7% of the fleet by deadweight tonnes have scrubbers fitted — Mediterranean Shipping Co has unsurprisingly largest volumes of scrubber-fitted tonnage.

Seventy-one vessels that it beneficially owns, including 13 passengerships, have scrubbers fitted. Total deadweight is 8.2m. This figure excludes other containerships that it operates under leaseback deals with Chinese banks. A further nine are with the Bank of Communications Financial Leasing and 10 with China Merchant Bank.



Taiwan's Evergreen has 70 containerships of 5m dwt, while AP Moller-Maersk Group, the beneficial owner for the world's largest container line, Maersk Group, has largely avoided the technology. Only 16 vessels of the 861-vessel fleet have the sulphur abatement technology. Thirteen are containerships, two crude tankers and the last a product tanker.

Chinese financial leasing houses are leading investment in scrubbers, which may indicate their tardiness in joining European banks that have signed up to the Poseidon Principles, which encourage green investment. There has been a rapid rise of the financial leasing structure over the past five years, particularly for top-tier shipowners. The bank funds the vessel with a leaseback deal structured so that the owner takes delivery, but with the leasing company still the beneficial owner.

China Merchant Bank is the beneficial owner of 103 ships, totalling 21.4m dwt. The Industrial and Commercial Bank also has 32 scrubber-fitted vessels on its books, for clients including Scorpio Tankers, BP Shipping and Vitol's shipping arm Mansel. The Bank of Communications Financial Leasing has 68 vessels of 7.3m deadweight,

Bank of Communications Financial Leasing has 68 vessels of 7.3m dwt, including 22 that are operated by oil trader Trafigura, which recently sold off these leasing obligations to Frontline and Scorpio Tankers.

Scorpio Tankers, which has long championed its support for scrubbers, has 78 product tankers at just over 5m dwt.

George Economou is the biggest backer among Greek shipowners with 42 on bulk carriers and 48 on crude and product carriers, totalling 12.5m dwt. In terms of deadweight, the Angelicoussis Group is larger, with 19.2m dwt on 86 ships. Greek shipowners strongly opposed the introduction of the sulphur cap on marine fuels. Star Bulk Carriers, started by ProkopiosTsirigaki and owned by Oaktree Capital, has 78 bulk carriers of 9.2m dwt fitted with scrubbers.

Penetration by sector is 16.4% for crude tankers, 7.5% for product tankers and 12.2% for bulk carriers, measured by deadweight tonnage, Lloyd's List Intelligence data shows.

From where marine fuel prices currently stand, those companies that have invested in the $2.5m-$3m cost of scrubbers are profiting from their decision, as higher fuel costs shrink earnings for those operating compliant, 0.5% low-sulphur fuel. In the world's biggest bunkering port of Singapore, very low sulphur fuel oil is trading at $518 per tonne, compared with $320 per tonne, according to reported prices.

The spread, or difference in price, between 0.5% and 3.5% fuel oil is currently enough to return the scrubber investment for a very large crude carrier in about 18 months, analysis shows. However the spread has narrowed considerably over January, lengthening payback times.

"If too many owners scramble to purchase scrubbers, then high-sulphur fuel oil could become scarce and narrow the spread again," said MorningStar Commodities Research in a February 3 report. "It is still early in the post-IMO 2020 scramble to predict long-term winners."

PIL transpacific exit raises vessel deployment questions

PACIFIC International Lines is to withdraw from the transpacific market, where it runs a series of large-sized boxships.

The move has raised questions about how the Singapore-based carrier, which was reportedly facing financial challenges, will deal with the related vessel assets.

The last sailing will be in March this year, said PIL in a release, and that the decision was "part of a wider strategic review of its business".

The company operates four services between China and the US west coast and a single service from Vietnam to Long Beach via China — trades that have been hit hard by the Beijing-Washington tariff war.

Carriers including Wan Hai Line and Cosco Shipping are vessel-sharing partners with PIL on some of the routes.

In 2015, PIL ordered a dozen 11,800 teu vessels financed by three Chinese bank-backed leasing houses.

They were delivered by China's Yangzijiang Shipbuilding in 2017-19, partly to replace a set of smaller old ships on the transpacific trade.

One of the ships is chartered out to Hapag-Lloyd while three units are chartered to Wan Hai, with another vessel operated on a 50:50 basis by the Taiwanese carrier and PIL, according to Alphaliner data.

The remaining seven ships are operated by PIL, with three units deployed on the transpacific trade, three on the Red Sea route and one in West Africa, the data shows.

It remains to be seen how PIL's withdrawal plan will affect these commercial arrangements as well as the deployment of the vessels — particularly those serving the China-US trade.

PIL said it would henceforth focus on further strengthening its position in the north-south trade such as Africa, Middle East/Red Sea, the Indian subcontinent, Latin America and Oceania.

Industry sources said in the past weeks that the shipping line had already been seeking buyers for several of its ships, including a pair of 11,800 teu units.

A PIL spokesperson said the company did not comment on market rumors.

The liner had one of its vessels arrested and released last month for what is understood to be an unpaid $6m bill to a bunker supplier.

A company spokesperson later said the detention was the result of "a misunderstanding which was quickly clarified and resolved".

Coronavirus: Sellers challenged to find new homes for diverted LNG cargoes

LIQUEFIED natural gas cargoes being turned away by China are struggling to find new buyers in an oversupplied market.

LNG shipments to China are expected to fall by 1.3m tonnes alone in February, equivalent to about 20 cargoes, which will be followed by smaller decreases in March and April, according to estimates from ship brokerage and advisory firm, Poten& Partners.

Reports suggested that China National Offshore Oil Corp has invoked force majeure on contracts with three suppliers, namely Shell, Total and Qatar Gas. Reuters reported after news broke on the force majeure move, that one of three tankers loaded with LNG in the Middle East, has been diverted from its original Far East destination to the South Hook terminal in the UK.

The news agency did not identify the diverted tanker but Lloyd's List Intelligence data showed the Nakilat-owned *Al Bahiya*, which called at Ras Laffan in late January, is nearing the South Hook terminal.

The 210,000 cu m *Al Bahiya* last called at CNOOC's Zhuhai terminal in July 2019.

South Hook is among six large-scale LNG terminals in Europe exempted from third-party access rules imposed by the European Union, allowing its operator more room to allocate the terminal capacity.

Still, LNG import terminals in Europe are being filled to the brim, having already taken in many cargoes diverted from Asia during a warmer winter season in the northern hemisphere.

One silver lining for LNG sellers, however, is that with prices for the commodity targeting record lows in Asia, this situation is encouraging fast-growing economies outside China to enter the spot market.

Indian importers have stepped up buying, picking up cargoes at around $2.50 per million British thermal units, a steep discount from the already low LNG prices, Poten& Partners said.

Low LNG prices would have motivated buyers in Japan and South Korea to seek spot cargoes, which helps to reduce the final weighted average prices of their baskets of imports comprising also supplies from legacy offtake contracts, another analyst added.

However, India remains hampered by its lack of regasification or receiving capacity.

Japan and South Korea also face infrastructure constraints. Storage tanks in the two countries, which still have some way to go in promoting multi-user access to such facilities, are full because of a warmer winter and stagnant demand, according to Poten& Partners.

These challenging conditions are fuelling opportunistic buying interest among traders looking to backfill their positions with distressed cargoes.

It is unsurprising that LNG sellers have resisted force majeure declarations from Chinese counterparts as these may force resales of cargoes at loss-making prices.

Citing unnamed sources, Poten& Partners reported that CNOOC's Tianjin terminal eventually took in a cargo from Total on which the Chinese national oil buyer originally sought to invoke force majeure. But in exchange for this, Total is said to be obliged to defer delivery of other cargoes contracted with CNOOC.

Two other Chinese NOCs, PetroChina and Sinopec, have also reached out to their suppliers for support towards similar arrangements.

Sinopec is understood to have reached an agreement with ExxonMobil to "adjust delivery of prompt cargoes" from Papua New Guinea.

PetroChina is said to have sought leeway for two contracts with Qatargas, according to Poten& Partners.

Platts suggested that CNOOC has not issued force majeure notifications to all its contracted suppliers — Woodside Energy appeared to be one such exception, according to the energy and commodity pricing agency.

Woodside chief executive Peter Coleman acknowledged nonetheless at a quarterlyresults briefing yesterday, that the coronavirus outbreak has slowed its efforts at securing offtake for and divesting equity interest in the Scarborough gas project.

The top Australian LNG producer and exporter has also postponed a final investment decision on its other major export project, Browse, by at least six months to late 2021.

Analysts estimate China's contracted LNG imports will amount to between 50m tonnes and 54m tonnes this year.

CNOOC, the country's largest LNG importer, has committed to more than 20m tonnes per annum in offtake under fob (free on board) and DES (delivered ex-ship) sales and purchase agreements, according to Platts.

ANALYSIS

Chinese LPG demand to fall by 3% due to coronavirus

CHINESE demand for liquefied petroleum gas could fall by as much as 3% in 2020 because of the economy's slowdown in response to the deadly coronavirus, now officially known as COVID-19, according to a report from Poten& Partners.

The decrease is driven by lower operating rates at propane dehydrogenation plants and declining demand from the residential and commercial sectors.

Poten expects LPG production to fall by about 11% in February from the levels seen in January as Chinese refineries cut refinery runs responding to an expected drop in demand of up to 15%. As a result, imports are forecast to fall by 27% for the month.

On an annual basis, LPG demand is expected to reach 62.5m tonnes a year for 2020, down 2.1m tonnes per year from the previous forecast.

Imports of LPG, meanwhile, are now forecast to drop by 1.6m tonnes per year to 24.7m tonnes a year in 2020. Yet, demand and imports will be higher than 2019 figures with the start-up of four new PDH plants, assuming the impact of the COVID-19 outbreak is not prolonged.

However, Poten expects consumption from PDH plants and residential and commercial demand to recover in the second quarter of the year.

The shipping market may also see an impact because of extended voyages, quarantine requirements and other compliance issues.

"If cargoes are deferred or delayed going into China, it may temporarily tighten the shipping market," it said. But with an extended slump, the tonnage supply would increase, upsetting freight rates.

Major chemical companies such as Oriental and Wanhua with integrated downstream units are expected to continue operating their PDH units at normal rates, Poten said pointing out that some non-integrated PDH plants, however, are lowering operating rates amid weaker downstream demand and supply chain constraints.

Some plants are also delaying restarts following scheduled maintenance.

Major importers such as Oriental, China Gas, Jinshan and Jovo are in the market trying to resell their cargoes amid lower expected demand. Some importers are also requesting deferrals.

So far there are no confirmed deferrals, but still, "if prices are depressed further, some of the cargoes will most likely will be sold to buyers in other countries like Indonesia, Japan, South Korea and India," it added.

MARKETS

Bleak dry bulk market shows sign of life

WHILE the current dry bulk picture looks bleak, there are a few bright spots, according to shipbroker Howe Robinson.

It expects better market conditions in the second half of the year.

The coronavirus outbreak and its impact on demand for imported raw materials into China is uncertain, the brokerage's head of dry cargo department Guy Hindley said at a gathering in London.

But, compared with SARS, which lasted six months and knocked China's GDP by 2% to 9%, the present crisis "is not as deadly but it has the capacity to be much more disruptive" because of supply chain and logistics issues, he said.

"China will do whatever necessary to bounce back economically from the current crisis and may bring in further measures to stimulate the economy," he added.

"There may be continued bumps ahead but we take heart that as yet there has not been a collapse in commodity prices such that happened in 2015 to prompt the exceptionally negative fundamentals of 2016."

The brokerage estimates net fleet growth at 3.4% this year, down from 4.1% in 2019.

According to its head of dry bulk research Janina Lam, the biggest supply increase comes from the largest vessel segments, while handysizes are projected to shrink by 1.3%.

Scrapping could also prove beneficial to the market, with 65m dwt identified as potential candidates as the vessels are more than 20 years old.

However, as of the start of the year, 838 vessels, or 85m dwt, were on the orderbook, deliverable out to 2023.

This year, 31.5m tonnes in the capesize, very large ore carrier segment are due to be delivered, bar any slippages, with a further 31.2m tonnes scheduled to deliver in the other segments. The figures are higher than last year.

The demand picture is mixed, with overall growth of 2.3% this year, according to Howe Robinson.

Risk factors lie with iron ore, whose share in steel production in China is falling as the country increases use of scrap metal in arc furnaces.

Despite that, the brokerage expects iron ore trade to grow by 1.2% this year after a contraction last year.

Grains meanwhile are projected to grow by 2.7%, with minor bulks at 2.5% and coal at 1.6% in 2020, according to Howe Robinson.

Lots of investments in coal-fired power generation in Asia, namely Vietnam and India, will support Pacific trades, MrHindley said, but Atlantic sippers will lose market share as demand in Europe continues to wane.

Cross-basin trades will be subdued, negative for tonne-mile demand, he said.

Bauxite drives minor bulk trades, with growth pegged at 10%, thanks to Guinea production.

IN OTHER NEWS

Posidonia eyes record-breaking exhibition

THIS year's Posidonia 2020 exhibition in Greece is set to be the largest in the 50-year history of the biennial maritime event, organisers have said.

The exhibition was "on track" to set new records in terms of both exhibitor numbers and floor space at the Athens Metropolitan Expo centre.

The strong numbers come despite uncertainty in the shipping markets and the coronavirus outbreak originating in China.

ICS urges Panama Canal to delay new charges

THE International Chamber of Shipping has urged the Panama Canal Authority to delay planned toll increases aimed at limiting traffic through the canal, claiming costs to shippers could rise by 30%.

A $10,000 "freshwater surcharge" for any vessel more than 125 ft long applies from February 15 alongside a variable surcharge, to be based on the level of Gatun Lake at the time of transit. Other rates are set to rise from April 1 and the number of slots will be cut from 32 to 27 because of water-saving measures.

On Thursday, the ICS said the new charges had surprised the industry as it struggled to deal with the coronavirus outbreak and sulphur cap rules.

Negative BCI is merely a technicality

THE current negative Baltic Capesize Index streak is being seen as a technical anomaly.

"The negative BCI is a technicality reflecting the way the index is constructed," said Cass Business School professor of shipping trade and finance Nikos Nomikos. To construct the BCI, the Baltic Exchange uses different multipliers, which may turn the index negative, as is the case with the current assessment. According to a London-based Forward Freight Agreements broker, it is an "interesting anomaly".

The BCI, which dropped into negative territory for the first time on January 31, was assessed on Friday at a historical low of -294 points. That comes as a result of the C16 route, the revised backhaul, which dropped even deeper into the red at -$12,800 per day.

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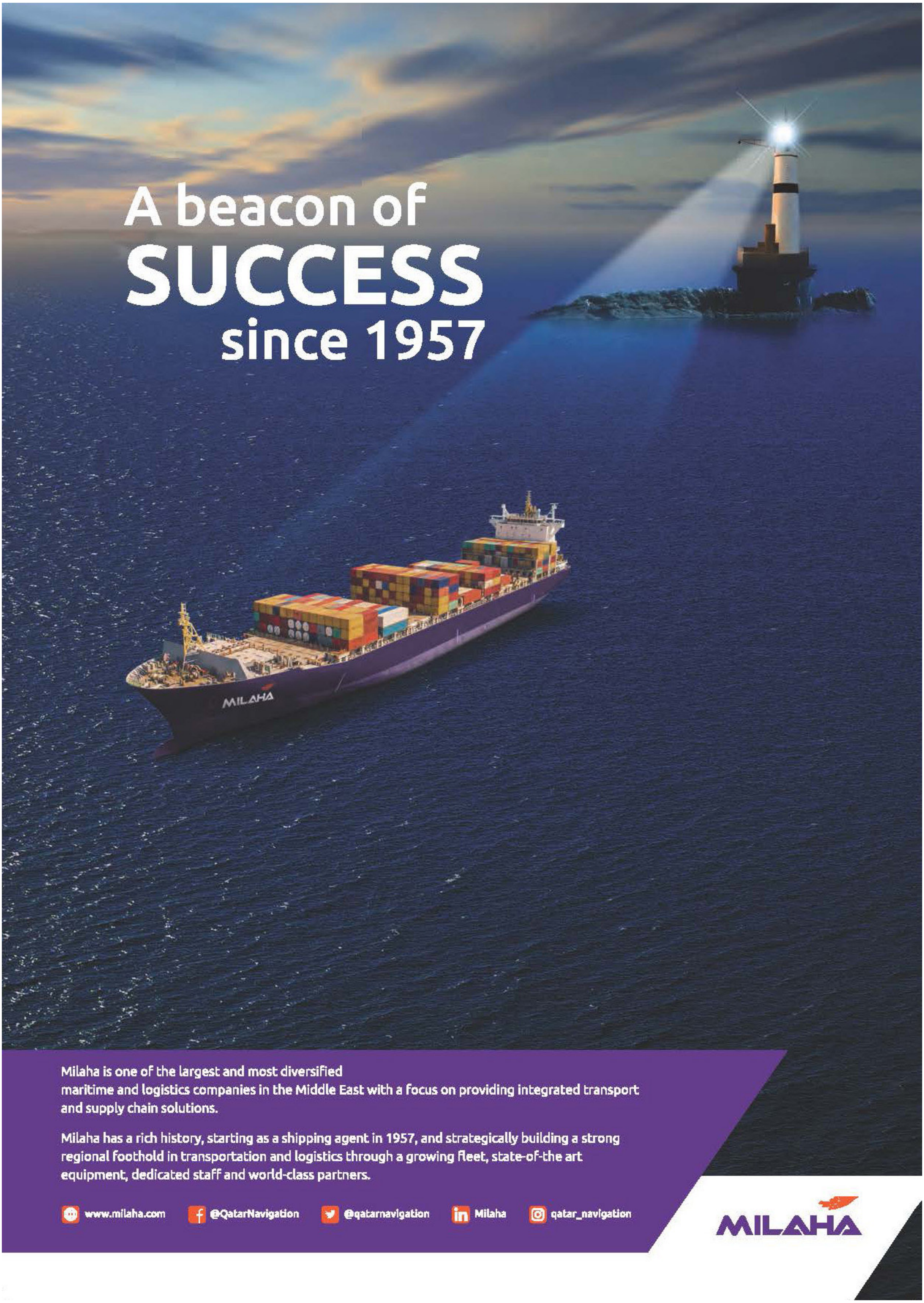
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