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Ecsa urges EU to pay attention to spike in sale and leaseback deals with China

THE European Union should seriously examine the increasing ownership of the EU fleet from China that is happening through sale and leaseback deals, according to European Community Shipowners' Associations secretary-general Martin Dorsman.

The EU today controls just below 39.5% of the global fleet in terms of tonnage, a metric that encompasses ownership, operation and management of the vessels, according to data published by Oxford Economics on Monday.

Greek companies alone account for over half of this control. Oxford Economics associate director Rob Harbron noted that the UK is also one of the greatest contributors and warned the full impact of Brexit on these figures will depend on the country's future relationship with the EU, which is set to be finalised by the end of 2020.

The EU's share of the global fleet has declined gradually since 2008 when it controlled just below 42.5%, but its gross tonnage in absolute terms has been increasing since 2010.

These numbers, however, may not be capturing ongoing shifts in the nature of the control.

During European Shipping Week in Brussels, Mr Dorsman warned that the ongoing prevalence of sale and leaseback deals between European owners and Chinese leasing houses means the levels of EU fleet control are keeping relatively steady, but ownership is leaving the EU.

The EU needs to foster a favourable business climate for shipping companies and must pay closer attention to China taking ownership of its fleet, according to Mr Dorsman.

"China has a geopolitical agenda. China has a big interest in manufacturing, sea transport, and port terminals in Europe in Africa. Shipping is part of the geopolitical agenda," he said during an event on Monday.

With still a considerable share of the fleet under its control, Europe needs to be aware that shipping is a strategic asset, albeit one that is currently under severe pressure.

"But it is under pressure and we must realise what the ambition of China is. And I think that as Europe we have to find the right answer to it," he said.

The EU shipping industry directly contributed €54bn ($58.5bn) to the bloc's gross domestic product and employed 685,000 people in 2018, according to Oxford Economics. Out of those employees 83% were seafarers, with almost two thirds of the crew coming from outside the EU.

When considering the indirect and induced impacts, shipping's gross added value to the EU in 2018 was €149bn. The sector also supported 2m jobs when accounting for those in shipping's supply chain and workers' spending.

WHAT TO WATCH

Tanker at centre of Venezuela power struggle over crude cargo sails

A SUEZMAX tanker trapped in Venezuela for 13 months after being caught up in protracted legal action in the US appears to have discharged its cargo of crude oil and sailed from Jose terminal.

The 1996-built *Gerd Knutsen* loaded 1m barrels of crude in January 2019, shortly before US sanctions on Venezuela were extended to incorporate its national oil company, PDVSA.

The cargo had been sold to Citgo Petroleum Corp, the Venezuelan-government owned, US-based owner of three refineries and major fuel retailer.

Since then, the tanker and the crude oil cargo have been at the centre of complex, ongoing legal battles for control of Citgo between ousted directors appointed by Venezuelan president Nicolas Maduro and current directors led by US-endorsed opposition leader Juan Guaido.

“After the US recognised Juan Guaido as the interim president of Venezuela and put full-on sanctions on PDVSA, the Maduro regime would not let the tanker leave its waters,” said Russ Dalen, from Miami-based Caracas Capital in a note to investors on February 13.

“So the *Gerd Knutsen* sat collecting barnacles in the Gulf of Paria until November, when the Maduro regime decided it was going to board the [tanker] and force her to give back its $57m cargo.

“This prompted the Guaido Board of Directors of Citgo to sue for an emergency restraining order on the former Maduro directors in Delaware.”

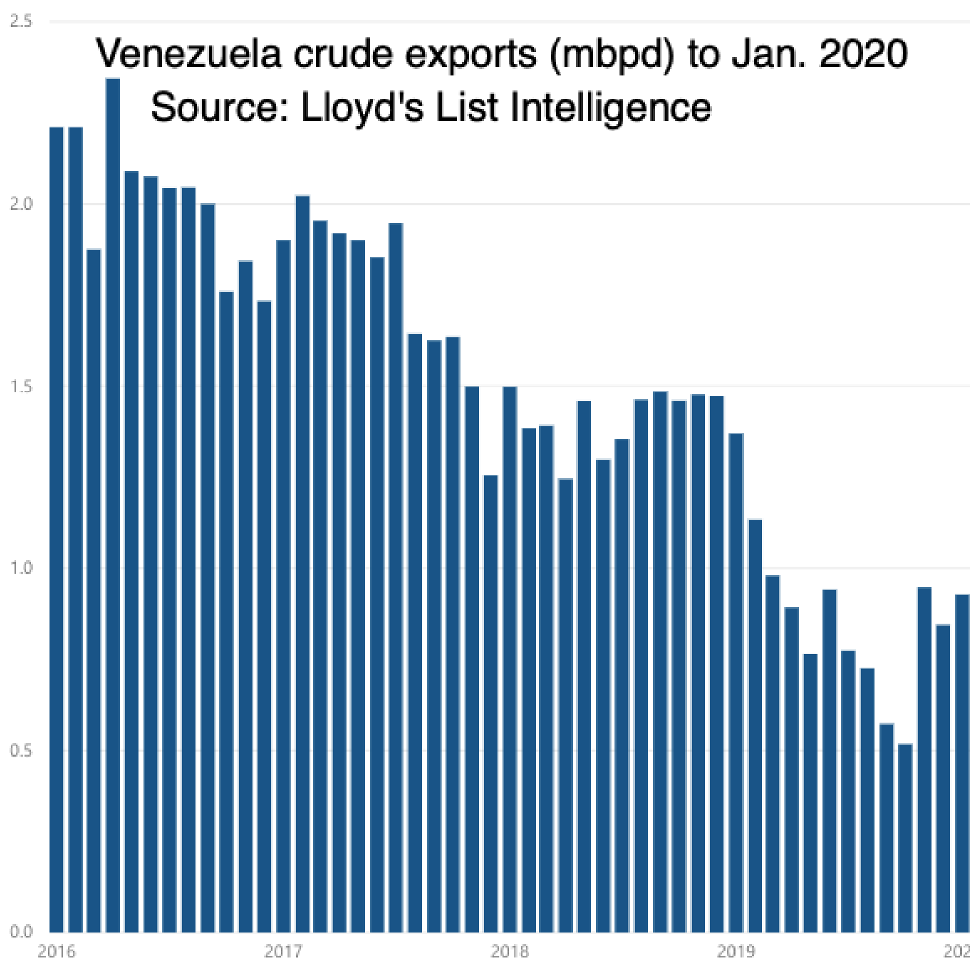
This was the location where the ousted board members had unsuccessfully sued the new board members for control of Citgo. On December 17, the restraining order was granted.

The suezmax tanker sailed to the Jose offshore terminal, arriving on February 11, according to satellite-tracking data. The last automatic identification signal was seen at 1841 hrs GMT on February 14, suggesting that the tanker had left the region but did not want its movements further scrutinised.

The owner and operator of the Isle of Man-flagged tanker, Norway-based Knutsen NYK Offshore Tankers, did not respond to requests from Lloyd’s List for comment about the vessel’s movements.

“We reached out to Citgo at the highest levels for confirmation of whether the Gerd was offloading by agreement or by force,” said Mr Dallen, adding that the company did not want to comment.

“The fact that they knew about it and that they have not filed anything in court to stop it suggests that a deal was reached, probably... because the cost of keeping a suezmax tanker and crew stuck in Venezuela for over a year is approaching the full value of the cargo.”



Venezuelan crude exports have plunged amid political and economic turmoil, worsened by longstanding underinvestment in oil infrastructure and unilateral US sanctions on PDVSA, which hampers trading in US-dollar denominated currency.

Shipments tracked in January reached 930,000 bpd in January, according to Lloyd's List Intelligence data, less than half volumes seen two years ago. Russian oil company Rosneft is selling much of the oil and charters about 80% of tankers exporting from Venezuela, according to Mr Dallen. India and China are now the biggest buyers, after restrictions on sales to the US sidelined Venezuela from its biggest market.

OPINION

Carrier results will give insight into coronavirus impact

CONTAINER shipping will be looking to Maersk's and Hapag-Lloyd's results this week for indications of the impact of coronavirus on the outlook for the year ahead, *writes James Baker*.

While the 2019 full-year results themselves are likely to be positive after a year that was at least benign for box lines, despite the impact of the US-China trade war, the companies' forecasts for the year ahead will be tempered by the slowdown in container volumes that has occurred since the extension of the Chinese New Year holidays.

The continued closure of factories in many regions in China has left slim volumes around for carriers to compete for, with freight rates now beginning to show the impact of the outbreak, despite carrier efforts to reduce capacity through blankings.

"With many vessels still delayed, and many sailings cancelled, the future does not appear that rosy for carriers who are looking at securing stronger ex-Asia rates at this stage," said analysts at Platts.

Platts added that shippers were "caught between a rock and a hard place" when trying to export from China, with lower rates helping but cargoes often unable to be shipped.

To add to the woes, the World Trade Organisation said today that world merchandise trade growth was likely to remain weak in early 2020. The Goods Trade Barometer, a measure of trade trends, now reads 95.5, below the 96.6 recorded last November and well below the index's baseline value of 100.

"This below-trend performance could be reduced further by a new global health threat," the WTO said.

The current lower figure does not take into account recent developments relating to coronavirus, it added.

"While the year-on-year growth figures for the fourth quarter may pick up slightly, the latest barometer reading provides no indication of a sustained recovery," the WTO said. "Indeed, year-on-year trade growth may fall again in the first quarter of 2020."

Against this background, analysts are predicting cautious outlooks from the two box lines reporting this week.

"A hit to volume could push the container market into oversupply, mitigated by blanked sailings and delayed scrubber retrofits," said Jefferies analysts David Kerstens. "This could support freight rates, which typically fall 30% post-Chinese New Year, but will likely adversely affect costs. We expect stable earnings before interest, taxation, depreciation and amortisation and have cut full-year estimated earnings per share by 20%."

One bright spot for container lines is that the reduced volumes have been caused by a shortage of supply due to extended factory closures, rather than from a shortage of demand.

"In a perverse way, this could in fact be a perfect storm for many shipowners/operators," one senior industry figure told Lloyd's List.

"If they manage to get through the next month or two, by which time, hopefully, the coronavirus will be under control, the demand will surge as importers and retailers in US and Europe will have to replenish their exhausted stocks. And that could bring a boom to demand for containerships and space."

Hapag-Lloyd will publish its preliminary 2019 results on Wednesday and Maersk's annual report will be published on Thursday.

ANALYSIS

World boxship fleet update: Coronavirus takes toll on idle fleet

BLANKED sailings and delays to scrubber retrofits have led to an increase in the fleet of idle containerships as seasonal factors combine with the outbreak of coronavirus to have an impact on fleet deployment figures.

Figures from Lloyd's List Intelligence from the end of January show that the amount of idle capacity stood at 326 vessels comprising 757,478 teu at the end of January, representing 3.4% of the global fleet. This was already up from 3.2% at the beginning of January, as the normal seasonal reduction in demand began to see idle numbers rise.

But in the past two weeks that number has increased again, with 834,198 teu, or 3.7% of fleet capacity, now unemployed.

"Carriers have announced further void sailings in the coming weeks as a result of weak demand, with several Chinese cities still not allowing offices and factories to reopen after the holidays due to the coronavirus outbreak," Alphaliner noted.

"The additional void sailings are expected to push up the inactive fleet capacity to more than 1.6m teu over the coming month, with all ship sizes above 1,000 teu negatively impacted."

It added that the situation was exacerbated by the large number of ships that were undergoing scrubber retrofits in Chinese shipyards or waiting to enter the shipyards.

"Labour shortages at the Chinese yards are expected to further delay the completion of retrofitting work and push up the inactive fleet numbers," Alphaliner said.

While the medium-term impact of coronavirus will likely have a negative impact on carriers, who will be suffering from lower than normal volumes in the traditionally weak first quarter that follows the Chinese New Year, the heavy reduction of capacity being taken out of service will at least maintain load factors for those ships still sailing.

Nevertheless, idle ships still cost money even when not trading, so carriers will be hoping the effects of coronavirus on export trades from Asia are ameliorated as soon as possible.

One broker noted that while liner operators had cancelled sailings in addition to those they would normally blank during the post-new year slowdown, demand would likely be negatively affected through February and into March as well.

"As production at factories is expected to be slow to re-start in China one possibility, however, could be that various retailers and manufacturers will boost production at facilities in other countries in Southeast Asia," the broker said. "At the moment it is too early to tell if this will happen and whether it will impact demand positively."

Meanwhile, deliveries continued apace during January, taking the total containership fleet to 22.6m teu, up just 41,000 teu from the end of December.

Only two large ships were delivered during January, the 23,756 teu *MSC Ambra* and the 14,300 teu *MSC Orion*.

MSC Ambra is the last in a series of six sisterships delivered to the carrier by Samsung Heavy Industries as part of a newbuilding programme launched at the end of 2017.

Smaller feeder tonnage made up the remaining 11 units entering service in January, but none of these were in excess of 3,000 teu.

The only confirmed orders during the month were at Daewoo Shipbuilding and Marine Engineering, which confirmed an order for six 15,000 teu containerships.

While the beneficial ownership of the units was not revealed, Lloyd's List understands that the order is an extension to Eastern Pacific's previous order for LNG-fuelled tonnage of similar size that it signed last year, and which brings up the order to 23 vessels.

But further newbuilding deliveries are expected to pick up steam in the coming quarters, according to analysts at Maritime Strategies International, despite some minor delays to deliveries for HMM and CMA CGM.

"In total, we expect around 240,000 teu of newbuilding deliveries in the first quarter of

2020 and 280,000 teu in the second quarter," MSI said.

"Feeder newbuilding deliveries will also increase, as vessels ordered during the 2017-18 wave of feeder optimism continue to join the fleet."

At the other end of the lifecycle, it sees an increase in demolition as well, but not until the market eases again.

"The continued strength of time-charter earnings for larger vessels means a rebound in scrapping may only emerge later in 2020," it said.

MARKETS

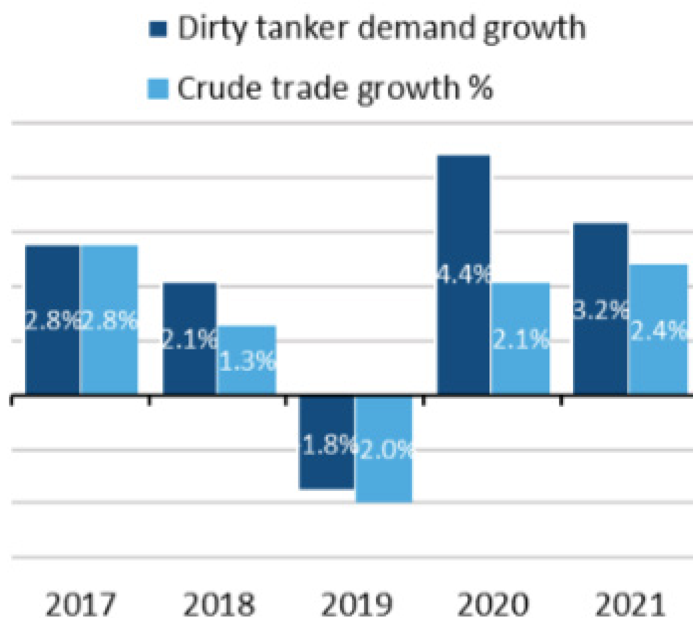
Rising long-haul trades 'turn tanker demand positive' in 2020

BRAEMAR ACM has revised its forecasts for dirty tanker demand lower, citing uncertainty about the impact of coronavirus on oil demand.

"We now expect dirty tanker demand to grow by 4.4% for the full year. Before the virus hit, we expected demand to grow by 6.5% after having shrunk nearly 2% in 2019," the London-based shipbroker said in its quarterly outlook.

Demand for tankers is expected to outpace the growth in crude seaborne trade in 2020, the note said, citing longer laden and ballast voyages. This assumption is centred on voyages rising to Asia and India from the US Gulf. Crude exports from this region have expanded eightfold in three years, to average 2.7m barrels per day in the first 11 months of 2019, according to US Energy Information Administration data.

"We expect India, South East Asia, Korea and Taiwan to all increase the share of US crude in their imports," Braemar ACM said. "We also expect China to step up its import of US crude once the dust settles on the health crises."



Source: Braemar ACM

The average haul-length of crude and dirty tanker voyages is expected to expand by 1% this year, with curbs on Middle East Gulf exports partly offsetting gains from expanded US exports.

The report said very large crude carriers are going to be the sector most affected by coronavirus, as 75% of Chinese crude imports arrive via the largest tankers.

"VLCCs are also likely to find fewer triangulation opportunities in the first half of 2020 when China's teapot refiners (independent refineries) are set to cut back imports of Atlantic basin barrels as they reduce refinery runs," the note said.

"The teapots soaked up two-thirds of the Atlantic basin crude that came into China last year. These refiners, unlike state-owned ones, cannot export refined products to cope with a loss in domestic demand and are therefore forced to cut crude throughput more aggressively."

However, suezmax and aframax tankers will likely find demand support from transatlantic and intra-Atlantic flows, with Braemar ACM anticipating robust refinery margins in Northwest and North American regions.

Coronavirus: Rates fall despite carriers' efforts to cut capacity

CONTAINER shipping carriers are being hit by weakened spot rates, despite the efforts made to pare back capacity amid the effects on world trade of the coronavirus.

The Shanghai Containerised Freight Index on the Shanghai Shipping Exchange, which resumed operation on February 14, showed Asia-Europe rates dropped more than 12% from the pre-holiday level on January 23. Meanwhile, transpacific rates slid 6-8%.

"Overall, the declines are in line with what the World Container Index has also reported for the period, and hence the weakness is clearly substantiated," Sea-Intelligence said in its latest report.

The "terrible news" comes as carriers have already withdrawn many sailings to cope with the virus-led sharp fall in cargo demand — a move that is expected to also strike a blow to their revenue.

The consultancy recorded 25 extra void sailings on the transpacific trade as of February 14, up from 21 a week ago. These are in addition to the 61 cancellations resulting from the original Chinese New Year holiday.

On Asia-Europe trade, the tallies are 22 versus 10 over the same period, plus 44 blanked sailings driven by the CNY holiday.

Orient Overseas Container Line, a member of the Ocean Alliance, in a customer advisory on Friday withdrew two more transpacific services while amending the blanking dates of another three from the week-ago arrangement.

"The information on blank sailings changes almost daily, and shippers would be well advised to keep in close contact with their carrier service representatives and/or third-party providers of shipping service information, as the likelihood of having to change service routing is indeed very high," said Sea-Intelligence.

The resulting disruption to supply chains has also gone beyond China, which is highly connected with other Asian ports on almost all liner services.

Malaysia-based Westports Holdings may not see any throughput expansion this year, with most of its major trades exposed to a potential slowdown in China following the virus outbreak, TA Securities analyst Tan Kam Meng warned last week.

Sea-Intelligence said: "The impact on exporters from non-China origins is therefore a negative side-effect of the blanked sailings."

It added that the current situation was leaving carriers with little choice between blanking a sailing or potentially sailing at a "highly loss-making" utilisation level.

Carriers impose reefer surcharges into China ports

CONTAINER line Ocean Network Express has imposed a $1,000 per container congestion surcharge on reefer boxes going into Shanghai and Xingang in Tianjin, effective immediately.

It has previously been reported that a shortage of truck drivers had caused difficulties in handling reefer containers.

ONE said the surcharge is to cover additional costs related to the unexpected but necessary arrangement of shipments and associated plug-in charge and monitoring fees among others.

The Japanese carrier added that due to the slow inbound container pick-up activity caused by the outbreak of the coronavirus and the extension of the

Chinese New Year holidays, Xingang and Shanghai in particular, as well as some other Chinese terminals, are facing a serious shortage of available reefer plugs.

As such ONE warned that it may need to make schedule adjustments that might result in the discharge of reefer containers at an alternative port without prior notice.

ONE also encouraged customers to consider a change of destination to alternative ports, especially for time-sensitive cargoes such as fresh chilled commodities. It added that it was monitoring the situation closely and would keep customers updated about any further developments.

CMA CGM and its APL unit have imposed a $1,250 surcharge for reefers for the two ports, as well as Ningbo.

German carrier Hapag-Lloyd also announced today that it was adding a global $500 per teu surcharge for reefer boxes destined to China.

"Rapidly rising operational costs and a reefer plug shortage in Shanghai, Xingang and Ningbo caused by the extended Lunar New Year holidays have regrettably forced us to undertake various special measures for reefer transports to mainland China," Hapag-Lloyd said in a customer advisory.

These steps included diverting cargoes to other terminals or ports that have adequate reefer plug availability, waiting for further transit, returning reefers containers to their port of origin, and keeping them on board to arrive at the port the destination on the vessel's next voyage.

The carrier said it would continue to accept reefer bookings to mainland China, but could not guarantee delivery times or routing until container terminals were ready to receive reefer boxes again.

Other lines have not imposed surcharges, but have warned that extreme congestion might result in them having to discharge cargoes in alternative ports or reroute boxes without prior notice.

These include major carriers on the China trade such as Orient Overseas Container Line, MSC and Cosco.

IN OTHER NEWS

DP World to be delisted from Dubai stock exchange

DP WORLD and its majority owner Port and Free Zones World offered on Monday to pay $16.75 per share, a 29% premium on the closing market price of $13 on Sunday, to acquire the 19.55% of DP World listed on the exchange.

Following the completion of the deal, which is likely to happen in the third quarter of 2020, DP World will be 100% owned by PFZW, which in turn is a wholly owned subsidiary of Dubai World.

As part of the delisting, PFZW will pay $5.15bn to state-controlled Dubai World in order to repay debts to lenders. The conglomerate has about $9.9bn in debt maturing in 2022 and a further $1.1bn due in 2026, according to data compiled by Bloomberg.

The plans come as Dubai faces the prospect of restructuring a chunk of $23bn in loans to government-related companies maturing at the end of 2021 for a second time, according to Fitch Ratings Ltd.

American Hellenic reports big jump in insured fleet

AMERICAN Hellenic Hull Insurance Company has increased its fleet by 16% over the past year.

The Cyprus- and Greece-based insurer said that its covered fleet stood at 2,636 vessels in January, which it said was a record start to a year so far in terms of premium.

The company, a wholly-owned subsidiary of the American P&I Club, began operations just three and a half years ago.

American Hellenic is expected to post its first profitable year with the 2019 results after monthly results that since May last vear have consistently been among the best since the company's inception.

"AHHIC's upward trend will continue and our vision is to turn the fastest growing hull and machinery insurance company into the market's global leader", said chief executive Ilias Tsakiris.

He said that the company was ready to "face a wide range of challenges" expected in the new decade.

Green groups stage Arctic protest at IMO pollution talks

GREEN activist groups have taken to the streets outside the International Maritime Organization to protest the use

and carriage of heavy fuel oil in the Arctic today as the IMO's pollution subcommittee meets to discuss the issue.

Campaigners from activist groups Extinction Rebellion and Ecohustler carried banners outside the IMO's London headquarters. They called on shippers to switch to cleaner distillate fuels to prevent damage to ecosystems.

Eleven countries including Denmark, Finland, Norway and the US have proposed an HFO ban on all shipping in Arctic waters except for search and rescue vessels.

But those countries also want a five-year delay on some ships, which the environment groups oppose.

Ecohustler spokesman Matt Mellen said to allow the use of the "dirty, dangerous fuels" in the Arctic "beggars belief".

"The Arctic is changing faster than anywhere due to climate change," he said. "If world governments are serious about protecting this fragile environment, it can bring about a ban during this week's meeting."

The pollution subcommittee is a technical body meant to hash out the detail of new rules and regulations, which are then decided on by the IMO's Marine Environment Protection Committee.

The Clean Arctic Alliance, a group of 18 non-governmental organisations including Greenpeace and the WWF, supports an Arctic HFO ban, but said it was not involved in the protests on Monday.

In a statement, CAA lead adviser Sian Prior said any delays to a ban would "prolong the threat of a HFO spill in the Arctic, putting communities, livelihoods and wildlife at risk".

Indian government approves structural overhaul of major ports

THE Indian government has approved a long-awaited reform bill designed to overhaul and modernise the country's public sector ports to improve their efficiency and competitiveness.

Approved by India's federal cabinet last week, the measure will provide more operational and financial independence to public ports that have stagnated due to years of underinvestment and have lost significant market share to private ports that have benefited from pricing and infrastructure advantages.

The modified Major Ports Authority Bill 2020 legislation is set to replace the existing law of 1963 centring on a trust model. Although the proposal was first tabled in the parliament in 2016, the law was not approved by the country's lower house of Parliament — Lok Sabha.

At present, terminals at major ports are regulated by the Tariff Authority for Major Ports. The reformed bill will replace TAMP with a market-driven pricing environment to level the playing field with minor port operators and generate more competitiveness.

This will also help in bringing transparency to the operations of state-owned major ports.

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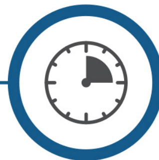

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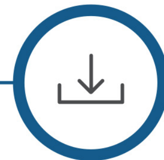

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