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Daily Briefing
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P&I renewal round sees 7.5% 'going rate' fail to stick

THE 2020 RENEWAL round has seen P&I clubs achieve firmer pricing for the first time in several years, but only by around 3% or so, rather than the 7.5% widely seen as the 'going rate' general increase last autumn, according to P&I brokers who spoke to Lloyd's List.

Meanwhile, the number of fleets changing hands ahead of the February 20 deadline appears limited, in marked contrast to the past, when speculation about which owners were ready to take their fleets elsewhere was a regular feature of the marine insurance world at this time of year.

Cards are on the table at noon on Thursday, and surprises are not ruled out if the rumour mill has not worked efficiently. But gossip so far is restricted to a couple of middleweight US owners and some smaller Greeks.

International Group affiliates such as the London, Standard, Steamship and UK clubs all publicly unveiled 7.5% GIs in October and November last year, with others indicating that they were looking to raise a similar jump in revenue, albeit on the back of a switch to ship-by-ship pricing.

But as ever in marine insurance, there is ample difference between announcing an intended rate rise and actually convincing owners to put their hands in their pockets for the additional cash.

From the point of view of brokers, seeking to win the lowest rates for clients, owners' reluctance at having to stump up more after not seeing real-terms rises for some time is entirely natural. Even the losses made by almost all IG clubs last year did not represent a compelling case for rate rises.

That sentiment was reinforced because many clubs profited from improved investment returns in the final quarter of 2019, on the back of what is at the end of the day their members' money.

"We normally try to do a round-up of what went where, but not a lot seems to have left anywhere, as far as we can tell. Bits and pieces here and there, but no marquee names," commented a P&I specialist at a broking major.

"I can't think of any who would attract any attention. I've heard of a couple in the US and a couple of Greeks on the move. But the rumours aren't circulating the way they normally would."

In pricing terms, he described the renewal round as a bit of damp squib. Some clubs stuck to their guns and tried to get a little bit more out of everybody, while others caved in relatively easily.

"Some held the line, some didn't, but overall we think it will be pretty flat. The increases traded up, one way or the other. Some of our clients did pay rises, but probably because they had the sort of loss records that suggested they probably should anyway. Many didn't, and some got reductions."

A broker at a smaller specialist shop confirmed that while rises had definitely been seen, and it would be fair to describe the tone as hardening, the full 7.5% had not been achieved.

His firm had yet to reconcile figures from different offices, and some clubs had sought a smaller amount or in Gard's case zero, making it difficult to determine an average.

Asked for an indicative figure, he said: "Off the record, maybe three, three-and-a-half-ish. Hardening was expected across the whole of the P&I market, so it hasn't really come as a surprise.

"Core performance [at P&I clubs] has improved, by which I mean it hasn't deteriorated as much as in the past. The question is, is this the start of a cycle or just the end of a couple of bad call years?"

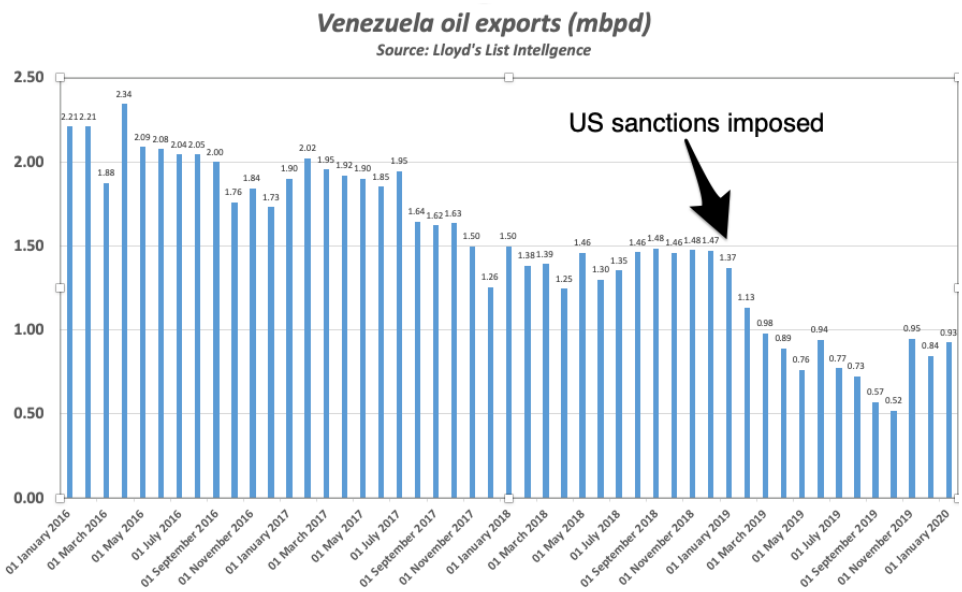
WHAT TO WATCH

Venezuela crude exports going 'dark' as US imposes sanctions on Rosneft

VENEZUELA is poised to further obfuscate crude exports after new US blocking sanctions were imposed yesterday on the trading arm of Russian oil company Rosneft, which charters as much as 80% of all tankers involved in these trades.

Switzerland-registered Rosneft Trading, not the parent oil company, was blacklisted for operating in Venezuela's oil sector, supporting the regime of Nicolas Maduro. Rosneft Trading board chairman and president Didier Casimiro was also listed.

The Trump administration has warned US citizens and companies not to do business with the trading arm, with a wind-down phase expiring on May 20.

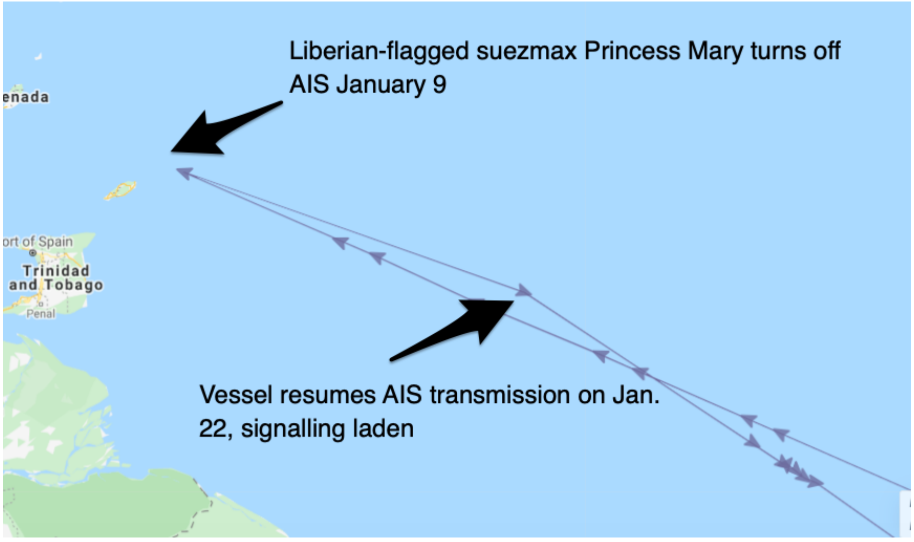


State-owned PdVSA (Petróleos de Venezuela, SA) has been subject to sanctions since January 2019. Rosneft Trading had taken over most of the marketing of Venezuelan crude over the last nine months with oil supplied in return for loan repayments, and subsequent sales brokered with India and China.

About 80% of tankers chartered for Venezuelan exports are for Rosneft, which China is using as a "beard" to cover its purchases, Caracas Capital managing partner Russ Dallen told Lloyd's List on November 11. The cargoes are sold at a steep discount.

Rosneft and PdVSA have established hub and spoke operations via Malaysia and Singapore to distribute crude, and briefly had floating storage at anchorage off Lome, West Africa, over January which was then transferred to China-bound very large crude carriers. Two of these shipments of Merey-16 grade crude were cited by US Treasury Secretary Steven Mnuchin in announcing the sanctions.

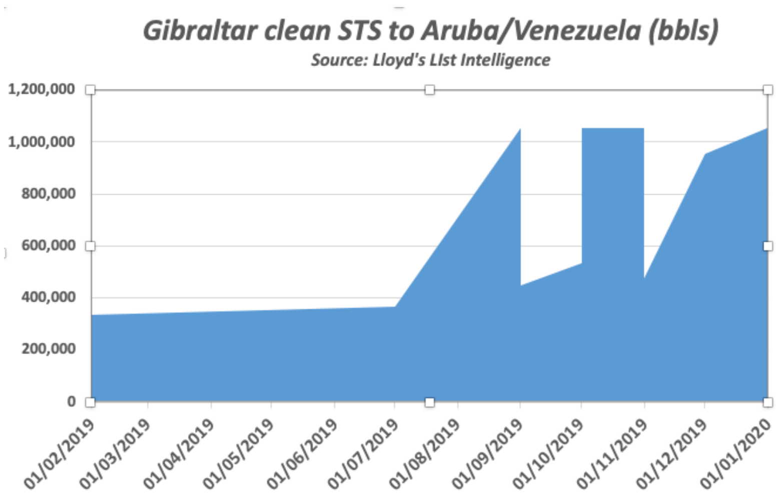
Lloyd's List tracked three shipments on very large crude carriers on *Ridge A*, Ridge S and *Ridge U*, recently bought by former Glencore executive Murtaza Lakhani. A further 55m barrels were shipped by Rosneft Trading for PdVSA between September and December, according to the Treasury.



The VLCC *Princess Mary* is one of the latest tankers seen switching off its Automatic Identification System for loading in Venezuela, with no signal on January 9 to 22. The tanker is now signalling its next port call as Singapore. Navig8 VL8 Pool is listed as the third-party operator. The operator of 32 vessels has been contacted for comment.

The US Treasury's Office of Foreign Assets Control designation aims to arrest rising exports from Venezuela. January shipments totalled 930,000 barrels per day, according to Lloyd's List Intelligence, marking the third consecutive month that shipments have exceeded 800,000 bpd. Overall, Venezuelan exports averaged 870,000 bpd in 2019, compared to 1.42m bpd in the prior year, as sanctions slashed shipments to the US, formerly the largest buyer.

Vessels chartered by Rosneft have been borrowing the subterfuge shipping tactics that Iranian sellers and buyers use to disguise the destination and origin of sanctioned crude, masking conventional tanker-tracking using AIS technology.



Rosneft-controlled tankers have switched off AIS during loading, and engaged in ship-to-ship transfers off Gibraltar, West Africa, Malaysia and Singapore, as well as Caribbean islands including Aruba, Curacao where PdVSA has storage facilities.

Rosneft Trading is the main crude buyer for refineries operated by the Rosneft group, which represents 35% of the Russian Federation's capacity. It is not known whether the trading arm is behind the sale and shipment of diesel and gasoil from the Baltic port of Primorsk to northwest European markets as part of its brief to market refined products.

Rosneft's oil company also owns Germany's PCK Raffinerie, supplied via Urals crude through the Druzhba pipeline. Rosneft's annual report said a separate subsidiary marketed that refinery's output.

Most of the Rosneft Trading sales are on the spot market, with long-term supplies organised by different subsidiaries, traders said.

Sanctions have also been placed on the imports of diluents, including naphtha, used for thinning viscous heavy crude oil for export. Some million barrels of clean product were tracked shipped via Gibraltar STS to either Aruba or Venezuela, Lloyd's List Intelligence data show.

"While RTSA and its parent company were already designated on the Sectoral Sanctions Identifications (SSI) List under Directives 2 and 4 of the Ukraine/Russia sectoral sanctions, no Rosneft entity was on the Specially Designated Nationals List until today," said Eversheds in a legal note to clients.

"The SSI List imposes trade restrictions relating to prohibitions on debt financing and certain exploration and production activities. The SDN List, on the other hand, generally prohibits all US person dealings with or involving SDN-listed companies."

Tripoli port bombing halts peace talks

LIBYA'S internationally recognised government withdrew from peace talks in Geneva after forces loyal to the opposing Libyan National Army, which controls eastern crude export ports, claimed responsibility for the port attack.

The remaining ships at the port included a Mersin, Turkey-owned, 23,837 dwt handysize bulk carrier, *Ayla* (IMO number 9123960) flagged in the Cook Islands, and Curacao-flagged reefer *Cold Stream* (IMO 9051751).

Vessels that have sailed from the port in the past 24 hours include the liquefied petroleum gas carrier *Gaz Venture*, and two Libya-flagged product carriers, *Anwaar Al Khalij* and *Anwaar Libya*.

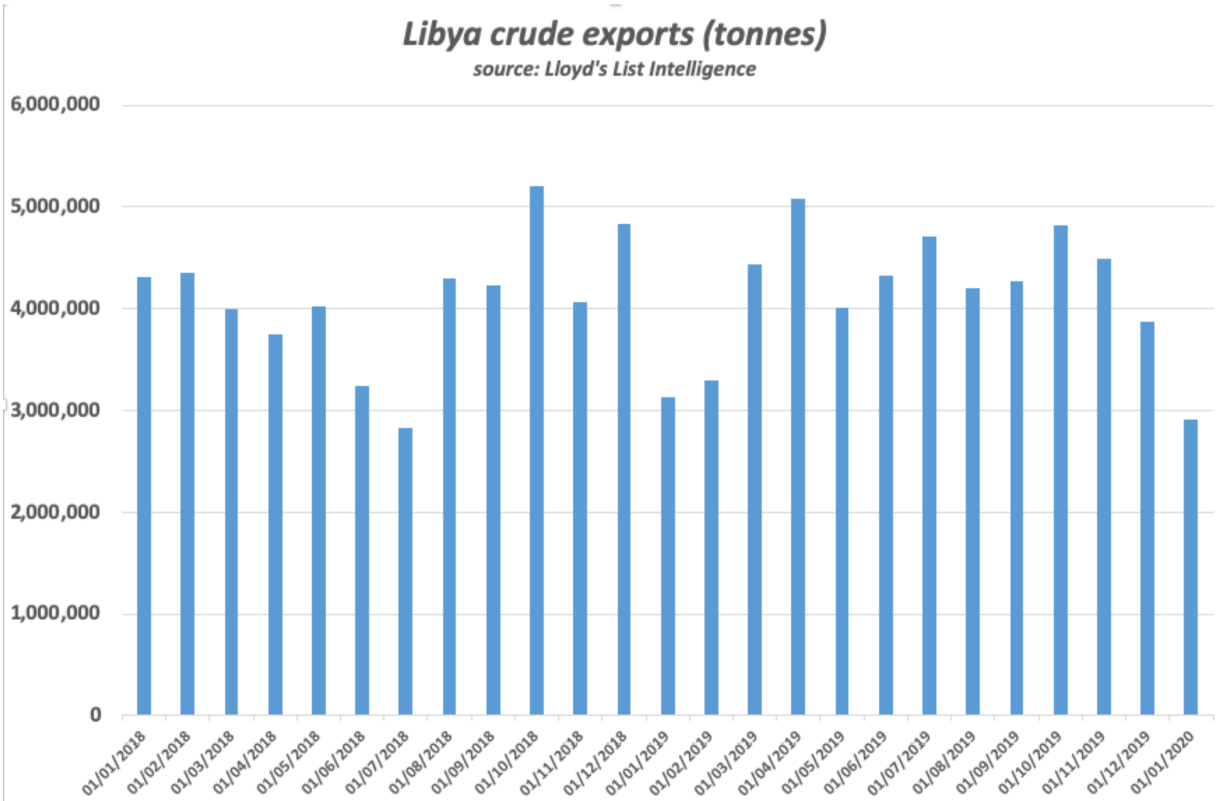
Crude exports from Libya have stalled since the LNA, controlled by Khalifa Haftar, blockaded ports under his control. Libya's National Oil Company declared force majeure on January 18 at Marsa Brega, Ras Lanuf, Marsa el Hariga (Tobruk), and Sidra (Es Sider) ports. That has yet to be lifted.

The NOC said on Tuesday that the country's crude production had fallen to just under 124,000 barrels per day because of the blockade on ports and pipelines, with losses exceeding $1bn. It said four vessels sailed from the port at Tripoli because of the security situation at Tripoli, and that the bombing narrowly missed an LPG carrier discharging at the port.

"A gasoline tanker is preparing to discharge at Benghazi port today, while another diesel tanker is expected to arrive at the port tomorrow. The city of Tobruk and the rest of the Eastern region is being supplied directly from Benghazi," the NOC statement said.

The United Nations Support Mission in Libya said in a statement yesterday that it hoped to resume the second round of talks of the Libyan Joint Military Commission "while expressing its strong and renewed condemnation of the bombing of Tripoli's seaport yesterday by the Libyan National Army, which resulted in a number of casualties and could have led to a real disaster had the vessel transporting liquefied gas been hit".

Libya is a key supplier of crude to Mediterranean refineries with aframax tankers loading 80% of all shipments in 2019, according to Lloyd's List Intelligence. January exports dropped 710,000 bpd, the lowest since July 2018, because of the conflict. December exports totalled 1.13m bpd, data show.



EU chiefs warned that green rules hinge on global co-operation

EUROPE'S biggest shipowners and ports associations have emphasised the need for a global approach to emissions regulation and for the EU to use its power in the international arena.

The European Community Shipowners' Associations and the European Sea Ports Organisation have today unveiled their respective positions on the European Commission's Green Deal.

The flagship policy of the new commission president Urusla von der Leyen is to make the world's largest trading bloc carbon-neutral by 2050.

For the maritime sector, the commission plans to include shipping in the EU emissions trading system, the bloc's cap and trade carbon allowance system. EU apparatchiks also want to make it compulsory for docked vessels to use shore-side electricity.

The shipping industry has traditionally opposed inclusion in the ETS, arguing that an international sector requires a singular global regulator, which it has in the International Maritime Organization.

However, during a press conference at European Shipping Week, Ecsa president Claes Berglund said that without an actual proposal on what that ETS would look like, the association could not evaluate it and take a position.

"We don't really foresee how it would work as it stands now for the maritime industry since we are trading in and out of ports and are in international waters," he said on Wednesday in Brussels.

However, he did say that Ecsa always prefers a global approach to regulation, keeping in spirit with the main point of its position paper.

Ecsa dedicated a considerable part of the paper to highlight the sector's global achievements, such as the IMO's greenhouse gas strategy and ongoing global initiatives, such as the industry proposal for the creation of a $5bn R&D fund.

While Ecsa said in its position paper that it would give its take on the "effectiveness and efficiency" of the commission's proposal to include shipping in the ETS later in 2020, the organisation clearly rejected unilateral action on emissions.

"As a global industry, regulations to address GHG from shipping must be set at the global level via the UN IMO. Regional regulation carries the risk of being suboptimal, resulting in carbon leakage and the distortion of the level playing field, as well as undermining the good progress made by the IMO," Ecsa said in its paper.

The association argued that a main priority for the EU should be to lead in the international regulatory process, helping ensure the International Maritime Organization targets are met without distorting international competition.

"To this end, while promoting a high level of ambition, the EU should work towards ensuring consensus among the IMO Member States by inter alia taking into consideration the concerns of Small Islands Developing States and Least Developed Countries," Ecsa said.

The European Sea Ports Organisation expressed a similar sentiment about the strategy the EU should be taking on emissions policy.

"Given the international nature of the shipping sector, a global approach is essential if market-based measures are to succeed," Espo said in its position paper.

The EU should be exerting pressure within the IMO to roll out "meaningful" measures by 2023. Current proposals to the IMO indicate ships will have at least one new emissions measure enforced on them as early as 2022.

"Espo believes that any European proposals such as an ETS, a levy or an innovation fund must be thoroughly examined in view of safeguarding the competitiveness of the EU port sector," Espo said in the statement.

It argued that zero emissions at berth are achievable over time but a gradual approach is necessary.

"By 2030, CO_2 emissions from ships at berth and in ports should be reduced by 50% on average and across all segments of shipping," Espo said.

Beyond supporting global policy, Ecsa wants the EU to lead the race in R&D on alternative fuels and technologies, and offer supportive measures for their uptake, while facilitating first movers.

"The EU has a unique opportunity to serve as a test and demonstration centre for the development and deployment of new fuel types. All with a view to be up-scaled to a global level," Ecsa said.

It also wants the EU shift away from using road and air transport and to shift instead toward the use of ferries and short-sea shipping. It wants the Commission to develop a study on port call optimisation, among other policy ideas.

Bunkers, LNG and alternative fuels

The commission plans to review the bloc's energy tax directive, which lays out taxation rules on energy products and electricity. Bunker fuels are currently exempt from taxation but that could change during the review.

Espo said it wanted the commission to introduce a permanent tax exemption for all alternative shipping fuels, including onshore power supply.

Asked whether Espo had adopted a view on tax exemption for conventional bunker fuels, secretary-general Isabelle Ryckbost said the organisation did not have a view on the matter at the moment.

Though offering some reduction in carbon emissions, liquefied natural gas, a fossil fuel, is the subject of significant divides in opinion due to methane slip. Critics argue owners should not be investing in LNG-powered vessels that only increase dependency on fossil fuels.

However, Espo said LNG's role as a transition fuel should be recognised and certainty is needed about the support for investments made from 2021 to at least 2027.

Ecsa also asked the commission to evaluate the bedding in of infrastructure for the delivery of alternative fuels in key European network ports.

"Shore-side electricity is one of many solutions. It is important to keep our eyes on the target and not focus on one specific instrument, as new regulation must be technology neutral," Ecsa said.

ANALYSIS

VLSFO share to exceed 50% but growth to slow

VERY low sulphur fuel oil is expected to make up 55% of Singapore's bunker sales this year, down from a 70% lion share seen in January as more marine gas oil or distillates enter the marine fuel stream in the coming months.

Platts Analytics projects that VLSFO or 0.5% sulphur fuel oil and marine gasoil or gasoil blends will have a combined 72% share of Singapore's marine fuel mix by the end of this year.

VLSFO alone will account for a 55% share albeit coming off from 70% and 58% posted for January and December.

High-sulphur fuel oil or 3.5% sulphur fuel oil may claw back some losses to wrap up with a 28% share on average, up from 17% in January, according to the analytics arm of the energy and commodity pricing agency.

It suggested that so far the bunker market is mainly using distillates for blending down sulphur content in fuel oil to comply with the regulatory 0.5% limit.

But more middle distillates are likely to be supplied into the bunker market in the coming months.

This projection is consistent with industry feedback gathered by Lloyd's List.

Back in January when the price spread between MGO and VLSFO was visibly narrowing to zero at one stage, refiners and traders were contemplating whether to supply vacuum gas oil directly to the bunker market, one source said.

MGO or gasoil blends made up 14% of Singapore's bunker sales in January, up only by two percentage points from December.

Platts Analytics also projected an expansion in HSFO's share to 28% of Singapore's bunker sales despite an improving HSFO crack.

The difference between the spreads in Dubai and Singapore has narrowed in favour of Singapore. According to Platts data, the difference between HSFO cracks in Singapore and Dubai — essentially the differential between the price of crude and petroleum products — has improved to minus $7.88 per barrel last week from minus $30 per barrel in mid-November.

The growth in the scrubber-fitted fleet is backing HSFO demand.

Scrubber-fitted vessels in operation and on order will jump to 3,812 this year, up from 3,029 last year, data from DNV GL Alternative Fuels Insights showed.

Notwithstanding improving marine demand for HSFO in the future, the price spread between VLSFO and HSFO will remain healthy and supportive of scrubber investments, according to Platts Analytics' projections.

It forecast an average VLSFO-HSFO price spread of $240 per tonne, which will allow vessel owners to recoup their investments in just over a year.

Singapore's bunker sales rose 7.5% on year to 4.51m tonnes in January, marking the highest monthly total for two years in a row.

DNV GL rejects methane slip concerns

THE maritime head of classification society DNV GL has rejected a recent study that suggested liquefied natural gas may be worse than conventional fuel for reducing greenhouse gas emissions from shipping.

In January, the International Council on Clean Transportation study reported the life-cycle emissions from LNG were at best 15% lower than marine gasoil over 100 years. This was because extracting and processing LNG caused leaks of methane, a far stronger greenhouse gas.

But on Tuesday, DNV GL maritime chief executive Knut Ørbeck-Nilssen questioned the ICCT's findings as he argued "the pathway to carbon-neutral fuels starts with gas".

He said the ICCT report took a "rather short-term look" as it used a 20-year measure of global warming potential, rather than the 100-year measure adopted by the UN Framework Convention on Climate Change.

Mr Ørbeck-Nilssen said methane was 84 times more potent than CO2 using the 20-year measure, but 28 times more potent over 100 years. "This is important because that skews the results and the conclusions quite a bit," he said.

Mr Ørbeck-Nilssen said greenhouse gas savings were higher — between 14% and 21% — for two-stroke engines, from which two thirds of future LNG consumption were expected to come, than from the four-stroke engines used on smaller, coastal vessels.

"It's really the bigger vessels, in particular the container vessels, that are the significant contributors to CO2 emissions," he said.

"I would argue that this report is really contributing to confusion rather than bringing facts that are relevant."

LNG lobby groups SEA-LNG — of which DNV GL is a member — and the Society for Gas as a Marine Fuel made similar criticisms of the ICCT study in February.

ICCT Marine Programme senior researcher Bryan Comer said using LNG in low-pressure, dual-fuel engines — the most popular in use — led to higher overall GHG emissions even using the 100-year measure.

Mr Comer said the 20-year measure better reflected the urgency of meeting the International Maritime Organization's greenhouse emissions goals for 2050, and those of the Paris Agreement.

He said the report focused on engine technologies used in international shipping and in cruise ships, and excluded the engines typically used in coastal vessels.

The worst-performing engine flagged in the study was used in more than 250 LNG carriers and was available for other bigger ships, such as bulk carriers, he said.

Mr Comer said LNG-fuelled vessels would need to operate for decades to pay themselves off and would continue to emit carbon during that time.

Mr Ørbeck-Nilssen called methane slip a critical but manageable challenge, adding that the problem was drastically reduced in modern engines.

He said gas' existing infrastructure meant it was probably the better fuel choice for the next one or two vessel generations. It was better for shipping to start reducing emissions now rather than wait years for new technology to become operational and become mainstream, he added.

"What is really interesting is the possibility that gas as fuel brings into phasing in other types of better fuels," he said.

Comer spoke to the ICCT's findings at length in an interview with The Lloyd's List Podcast earlier this month.

Canadian shippers slam Trudeau over supply chain disruption

CANADA's Prime Minister Justin Trudeau has come under criticism from the maritime community for his government's failure to respond quickly enough to protests over a natural gas pipeline that are impeding the nation's transport network.

"We think the federal government has been slow to react," said Robert Lewis-Manning, president of Canada's Chamber of Shipping, a marine transportation industry association that promotes seaborne trade.

"Although we understand it's a very sensitive issue, we think the government could have put more energy into this earlier," he said, as "the consequences were going to get enormous from a supply-chain shutdown perspective".

The protests began nearly two weeks ago after five hereditary chiefs of the Wet'suwet'en Nation intensified their opposition to the construction of a $6.6bn natural gas pipeline across their land in British Columbia, western Canada.

The protests spread eastwards across the entire country when the Royal Canadian Mounted Police arrested local people who were blocking construction of the pipeline in defiance of an earlier court order allowing the development to proceed.

The nation-wide protesters say they are supporting opponents of the construction of the Coastal GasLink pipeline, which would cross the traditional territories of the Wet'suwet'en.

Mr Lewis-Manning said that Coastal GasLink had signed agreements with all 20 elected band councils along the pipeline route, but that the five Wet'suwet'en hereditary chiefs have taken exception, saying the councils do not have the authority to sign the agreements.

The main flash point currently is in Tyendinaga Mohawk Territory, a 7,363 ha reserve on the Bay of Quinte in southeastern Ontario, where protesters have blocked the main line of the Canadian National Railroad, causing the "largest disruption" in the network's history, the company said.

Ontario's Provincial Police have so far declined to enforce a court injunction to clear the tracks and federal ministers have distanced themselves from a police response that they say could inflame the situation.

Mr Trudeau, in an address to Parliament on Tuesday, called for patience and warned against the use of force to resolve the ongoing rail blockades by indigenous rights protesters.

Describing it as "a critical moment for our country and for our future", Mr Trudeau noted the frustration caused by the disruptions but cautioned against extreme viewpoints.

"Those who would want us to act in haste, who want us to boil this down to slogans and ignore the complexities, who think that using force is helpful — it is not. Patience may be in short supply — and that makes it more valuable than ever," he said.

Still, the situation is becoming critical, according to Mr Lewis-Manning, who said members of the nation's shipping community feel that that "the entire transportation system is quite vulnerable".

He is one of more than 30 business and industry leaders who signed a February 18 letter to Mr Trudeau, urging his government "to work urgently with the provinces and territories, Indigenous leaders and law enforcement authorities to bring an end to the ongoing disruptions and restore normal services without further delay".

The letter said: "In addition to disrupting domestic and global supply chains, the blockades undermine Canada's reputation as a dependable partner in international trade.

"Each additional day rail lines are disrupted requires three to four days for supply chains to recover. This is why it is imperative that the Government act now to get the Canadian economy moving again."

Mr Lewis-Manning told Lloyd's List that rail lines at British Columbia's ports are still operating at "less than capacity" and that there is a "huge backlog" of 60 to 70 ships at anchor, awaiting export cargoes.

"There's really no more space to take any ships to anchor to wait for terminal space," he said.

Mr Lewis-Manning said "some companies are avoiding calling at Prince Rupert and Vancouver, especially Vancouver" and that "some ships are just slowing down and trying to wait for some of that congestion to clear".

Danielle Jang, spokesperson for Vancouver Fraser Port, told Lloyd's List that while port operations were now operating normally, "we continue to see congestion and backlog within the supply chain, partly as a result of the rail disruptions and protest activity".

She said the disruptions have resulted in the demand for anchorages "currently exceeding" the availability, causing a "short-term" backlog of 48 ships waiting to get into port as of Tuesday afternoon.

DP World's Prince Rupert Container Terminal has been specifically designed as a high-volume intermodal container transfer facility and is heavily reliant on rail. DP World has been approached for comment.

Mr Lewis-Manning said the slowdown at the ports was "directly related to the blockages and protests" but warned that even when the transportation system is "available" again, a "lengthy" recovery period of weeks or months will follow.

"I think we're now currently going from weeks to months because the system cannot deal with the backlog," he said.

OPINION

Yard Talk | Who will blink first?

THE World Trade Organisation may not be the best chance Japan has for solving the sticky problem of South Korea's shipbuilding subsidies, *writes Cichen Shen*.

Tokyo has made another consultation request on the issue recently following the previous one in late 2018. The move should come as little surprise, with the two countries being locked in a wider trade dispute. The stumbling block is that Geneva lacks the capacity to make a ruling if the meeting again ends without consensus.

Adjudication is the next stage that the two countries can enter within the WTO dispute settlement system. But the Appellate Body — the second leg of the adjudicative process and which reviews appeals from panel proceedings — is currently hamstrung due to the lack of judges.

The US, now increasingly self-centred, has vetoed the appointment of supplementary judges, arguing that the group has strayed far from its original role. The dissatisfaction was reiterated in a report last week released by the US trade representative's office.

The deadlock may leave ongoing trade disputes "pending indefinitely", according Aarshi Tirkey, a fellow at an India-based think tank, the Observer Research Foundation.

"For countries seeking an early resolution, an option would be to meet bilaterally outside the WTO to iron out their differences," she wrote in an article.

Japan does need to speed up the pace, as the backlog of orders at domestic shipyards has dropped to a 20-year low at 18.5m gross tonnage as of end-January, according to data from the country's ship exporters' association.

Moreover, it is not that the once-largest shipbuilding nation hasn't explored other options.

Its recent attempt to introduce a new shipbuilding competition regime at the Organisation for Economic Co-operation and Development was rejected by South Korea, also a member state. Tokyo has also tried and so far failed to convince Beijing, whose shipyard handouts have been long used by Seoul to defend its subventions, of the merits of a hands-off, market-based approach.

In fact, major Chinese state-owned shipbuilders are no strangers to a string of the supportive practices illustrated by Japan in its complaints against South Korea, such as low-interest loans and below-market-rate debt-to-equity swaps. And they'll probably continue to be given these favours, unless the US can persuade China to do otherwise in the next round of trade talks.

That said, Japan does have an ace up its sleeve.

It is one of the five foreign jurisdictions whose antitrust authorities can throw a spanner in the works of the mega merger between Hyundai Heavy Industries and Daewoo Shipbuilding & Marine Engineering, two of South Korea's largest shipbuilders.

Among those jurisdictions, only Kazakhstan has approved the deal, while Singapore and the European Union are being cautious.

A Japanese shipbuilding official contended that Japan's appeal at the WTO was not directly linked with the HHI-DSME marriage, because the former is about misconducts in the past while the latter is concerning the future.

However, in its latest complaint to the WTO, Japan did list state supports for HHI's acquisition of DSME shares — part of the tie-up arrangements — as violations against the rules-based trading systems.

The underlying message seems quite clear: how can a deal be legitimate if its procedures are on a shaky legal ground?

South Korea certainly would like a quicker clearance on the merger plan. But Japan is unlikely to compromise until the counterparty budges.

MARKETS

Coronavirus-linked disruption boosts hedging activity

HEDGING activity has surged in both the wet and dry markets as the coronavirus outbreak wreaks havoc on the global supply chain.

Forward freight agreements volume hit 5,500 lots last Wednesday on the Singapore Exchange — the largest clearing venue for dry bulk freight — up from an average of between 4,000 and 5,000 lots typically seen over the previous years after the lunar new year lull period.

Daily value for the month up to February 17 averaged 4,375 lots on SGX, up from 4,180 lots for January and 2,540 lots for December.

SGX presently only lists derivatives for dry bulk freight.

Data from the Baltic Exchange also showed a pick-up in hedging activity in February, especially in the wet markets, over and above a rebound in January following December lows.

Tanker derivatives traded up until Monday have already reached 45,016 lots, almost reaching the full-month volume of 46,939 lots seen in January.

Dry bulk FFA trades hit 103,900 lots, or over 70% of January's level.

Head of commodities William Chin viewed the recent rise in hedging activity as one sign of China's influence over the physical supply chain.

China's Wuhan city is the epicentre of the coronavirus outbreak.

Moves to contain the contagion have slowed trades in, or led to demand contraction for, bulk cargoes, crude and oil products, liquefied natural gas and finished goods.

"Disruption in the physical markets has bolstered hedging activity... the current situation has made apparent China's role in the physical supply chain," said Mr Chin.

What also stood out is that such uncertain market conditions have further boosted interest in tanker derivatives.

Tanker derivatives accounted for 30% of the overall FFAs traded so far this month.

Head of Baltic Exchange Asia Lu Su Ling said that tanker derivative volume now made up 20% of overall FFA trades, up from 15% a year ago.

Along with increased hedging interest in the wet market, more players involved in the tanker trade have joined the Baltic Exchange.

Ms Lu highlighted several notable names among these such as Chevron, MMTC, Pertamina, Unipec and Electricity Generating Authority of Thailand.

"Our membership is diversifying beyond Europe and the dry market," she remarked.

Indonesia's national oil company Pertamina is the Baltic Exchange's first member in the resource-rich, populous Southeast Asian country.

EGAT, which is one of its home country's only two LNG importers, is the Baltic Exchange's second member from Thailand.

"Asia accounted on average for 30% of annual new member sign-ups over the last three years and now answers for 20% of the Baltic Exchange's membership," Ms Lu said.

Beyond the SGX, FFAs are also settled against the Baltic Exchange's indices on ICE, CME and EEX.

Coronavirus slows dry bulk market to a crawl

FREIGHT earnings for dry bulk owners are expected to stay in the doldrums in the coming weeks, weighed down by the coronavirus outbreak and persistent oversupply of tonnage, analysts and brokers said.

While healthy demand for raw materials after Chinese New Year often triggers a spike in vessel requirements, average earnings for dry bulkers have actually been sliding during the supposed peak demand season, mostly falling below operating costs, and disappointing many owners.

"Disruption to China's commodity imports, owing to the outbreak of coronavirus, has sent the Baltic Dry Index into freefall," Capital Economics said in a report.

"While freight rates should recover as and when China's industrial activity picks up, our forecast of lacklustre demand for iron ore and coal suggests that they could remain fairly low."

Furthermore, mining giant BHP has warned that if the coronavirus outbreak extends beyond the first quarter, it will likely result in lower commodity demand.

BHP said in an update on Tuesday that the range of responses by Chinese authorities to contain the virus, combined with the risk-averse response of the population, will cause a "sharp decline in economic activity" in the first quarter.

However, if the psychological and logistical impacts are effectively contained within that window, construction and manufacturing activity should recover briskly to higher than normal run-rates in the June quarter.

On the other hand, if the outbreak is not contained by March or in the event it re-emerges after a period of apparent containment, then that would be damaging for both real activity and market sentiment.

However, one silver lining is that almost 90% of Chinese steel production is located in provinces that have announced re-start dates before the end of February 2020, the miner said.

Meanwhile, a Singapore-based broker pointed out that the BIMCO Contagious Diseases Clause has been brutally impacting the fixtures in recent weeks.

“As charterers have to bear the additional liability arising out of the ship calling an affected port, they are not keen in fixing vessels with the infectious disease clause, resulting in failed fixtures,” he said

Adding further downwards pressure to freight markets is the Brazilian truck drivers’ strike at Latin America’s largest port in Santos, which has impeded the unloading of shipments and arrival of trucks at the port.

Heavy rains and weather-related delays have postponed loading of soyabeans at Brazilian ports and are also adding to the vessel queue in Santos with around 19 ships currently waiting at terminals and another 22 ships expected to dock in the days ahead, according to the latest data from Santos Port Authority.

Carriers rev up blank sailing efforts amid coronavirus fallouts

LINER carriers’ capacity on East-West main trades has swung sharply lower as virus-hit China is struggling to resume domestic production.

A total of 33 sailings, or 46% of the scheduled departures, on the Asia-North Europe trade have been cancelled in the last four weeks, according to an Alphaliner survey.

Another 17 sailings are expected to be dropped in the next four weeks, with capacity cut over the eight-week period since the Chinese New Year to reach 700,000 teu.

This is in sharp contrast to the post-CNY reduction of just 340,000 teu in 2019 and 210,000 teu in 2018.

“The fallout from the COVID-19 corona virus outbreak in China is strongly felt in the container shipping market and, due to the corona-related dearth of export cargo from China, carriers have cancelled an unprecedented number of sailings from Asia in the past month,” said the consultancy.

Other outbound lanes from China have also seen such moves.

Alphaliner estimated capacity to be removed by 290,000 teu on Asia- Mediterranean services and 680,000 teu on the transpacific routes.

Hong Kong-based Orient Overseas Container Line, part of the Ocean Alliance, said in a customer advisory that it will drop another nine transpacific sailings from next week, in addition to a string of previous cancellations.

“While work in China has finally resumed after the extended three-week holidays, the container demand recovery has been slow,” said Alphaliner. “Vessel capacity utilisation therefore remains low, despite the many cancelled sailings.”

Another liner consultancy Sea-Intelligence pointed out similar trends in a recent report.

Spot rates have weakened substantially regardless of carriers’ void sailing efforts, it noted

Alphaliner also warned that the situation can start to affect the backhaul routes in the coming weeks as the void sailings will also pare down capacity for outbound trade from Europe and the US.

IN OTHER NEWS

Kelly Tolhurst appointed UK maritime minister

ROCHESTER and Strood's Conservative MP Kelly Tolhurst has been appointed junior minister at the Department for Transport, with maritime and freeports forming part of her brief alongside roads, aviation, security and civil contingencies.

Ms Tolhurst, 41, has represented her constituency since 2015, and was appointed junior minister at the Department for Business, Energy and Industrial Strategy in 2018.

Prior to entering parliament, she ran a marine survey business, Tolhurst Associates, with her father.

She replaces Nusrat Ghani, who returns to the backbenches after holding the maritime job for two years.

While her appointment will be broadly welcomed, there will likely be concern that shipping — which in the past has often been allocated a dedicated minister of state — remains only one of a range of responsibilities for a minister at the lower level of Parliamentary Under-Secretary of State.

In particular, aviation is likely to eat up much of her time, thanks to such ongoing controversies as the possible expansion of Heathrow airport and the current travails of budget and holiday airlines, leaving some privately wondering how much attention she will be able to devote to shipping and ports.

The Chamber of Shipping has published an open letter to Ms Tolhurst, signed by chief executive Bob Sanguinetti. As well as congratulating her on her new job, he reiterated the four themes of its election platform: ensure that UK's continued standing as a business location, support for shipping decarbonisation, help with training provision, and frictionless trade.

"Shipping is the backbone to communities across the UK and a thriving shipping industry is vital to the wider UK economy. I welcome the opportunity to meet you at your earliest convenience to discuss how we advance our mutual interests in UK shipping," Mr Sanguinetti averred.

Tim Morris, chief executive of the UK Major Ports Group, and an avid supporter of the government's plans to build around 10 freeports in Britain, highlighted Ms Tolhurst's existing ties to the industry.

"It's great to see someone with a maritime background taking on the role. We now look forward to working with the minister and her department to deliver some important outcomes… including but certainly not limited to freeports, port connectivity, our contribution to a net zero UK and building the long-term foundations of innovation and skills agendas."

Richard Ballantyne, chief executive of the British Ports Association, said: "The BPA congratulates and welcomes Kelly Tolhurst to the best brief in government. Having previous experience in the industry, we hope that the new ports minister will settle in quickly and take up the mantle from her predecessor as an enthusiastic champion of the UK ports sector and the wider maritime industry."

Issues the BPA wants to see addressed immediately include freeports, post-Brexit trade facilitation, sustainability and port connectivity.

"We look forward to meeting Ms Tolhurst at the earliest opportunity and building a constructive relationship based around a shared vision of a thriving maritime industry generating prosperity in coastal communities and across the UK," he added.

Nautilus International commented: "We look forward to working with [Ms Tolhurst] on the key commitments needed from the government, to ensure a strong and prosperous maritime sector in a post-Brexit environment."

The officers union's specific concerns include a demand for measures to boost British shipping, including significant investment in maritime education and training, and stricter controls over the issue of UK Certificates of Equivalent Competency.

Ports face standardisation challenges

PORTS face having standards applied to them by their shipping line customers if they fail to set their own in an effort to make their services more transparent.

"Standardisation in general is absolutely critical in order to get companies and parties within a port speaking the same language, PortXchange managing director Sjoerd de Jager told the Smart Ports conference in London. "But it is also important for port communities to exchange information, which becomes complex."

Compared to aviation, there are few standards in shipping, according to Matthew Wittemeier, marking manager at logistics software developer Inform.

"Regulation has forced standardisation in aviation, and created an interesting ecosystem for those standards," he said. "Part of the problem lies in the fact that ports are domestically or regionally regulated, rather than having a global framework."

Ultimately, it was in ports' interests to pursue standards, because they helped reduce barriers to entry and remove costs.

"If we all agree on a set of minimum definitions, such as what an estimated time of arrival means, we can then use those to build the platforms that any party can use to share data and become collaborative," Mr de Jager said.

Hapag-Lloyd's focus on profitable trades pays off in strong 2019 results

HAPAG-LLOYD'S stronger focus on more profitable trade lanes and active revenue management helped it raise average freight rates by 2.6% to $1,072 per teu in 2019 versus $1,044 per teu in the previous corresponding period, which in turn helped the German line to raise full-year revenue by 9% to €12.6bn ($13.6bn).

Hapag-Lloyd noted in a press release that a 1.4% increase in volumes to 12m teu also helped, while forex gains on a stronger US dollar helped to boost revenues.

Meanwhile on the cost side, lower expenses for the handling and inland transport of containers as well as a slightly lower average bunker consumption price of $416 per tonne compared with $421 per tonne previously had a positive effect on transport expenses.

Earnings before interest, taxes, depreciation and amortisation rose by 74% to €1.99bn from €1.14bn in 2018.

Tomini Shipping gains Norwegian listing

DUBAI-based Tomini Shipping has its sight set on fleet expansion as it gains a listing on the Norwegian over-the-counter market this week.

The dry bulk outfit said it would continue to look for new investment and acquisition opportunities that fit the company's existing business platform.

The company, which has 12 ultramaxes on the water and three kamsarmaxes on order, was listed on Tuesday. Trading in the shares began on Wednesday morning.

Chairman Imtiaz Shaikh said: "Our ambition is to meet global transportation needs through expanding our fleet with the latest eco-friendly, technologically advanced vessels, which are able to deliver exceptional services to our global client network."

Last year, chief executive Nitin Mehta told Lloyd's List that the company had plans to order newbuilding ships and had been in discussions with builders in China and Japan.

Performance Shipping eyes singular role as listed aframax owner

PERFORMANCE Shipping has set its sights on becoming a dedicated aframax tanker owner.

The Nasdaq-listed owner made its ambitions clear as it confirmed a deal to buy a fourth tanker in that sector.

The company, formerly known as Diana Containerships, said it had signed a deal to purchase the 2007-built *FSL Shanghai* for $26m.

The 13-year-old tanker, which is expected to be delivered by the sellers before the end of next month, is one of two such aframaxes in the lease portfolio of First Ship Lease Trust and is currently employed in the Teekay RSA aframax pool.

"We are very pleased with this acquisition, which brings us one step closer to the creation of the only publicly listed pure-play aframax company," said the deputy chief executive and chief financial officer Andreas Michalopoulos.

New Cork container terminal delayed to fourth quarter

THE new container terminal at the Port of Cork, which was scheduled to open this month, has been delayed to the fourth quarter due to construction delays.

The port's chief operating officer Paul O'Regan told Lloyd's List that while 80% of the terminal's area has been constructed, only half of the quay wall has been completed. All internal roads have been built, he said, while equipment, such as cranes, is starting to be delivered.

The port said last week that it has received two Liebherr post-panamax size ship-to-shore container gantry cranes and the assembly process will be completed in the coming weeks.

Port of Cork, the second-largest in the Republic of Ireland, will close its existing Tivoli terminal, which is located on a river with a restrictive turning point for vessels, when the new facility at Ringaskiddy will be fully operational. The port handled 240,000 teu in 2019, a gain of about 6% from the previous year.

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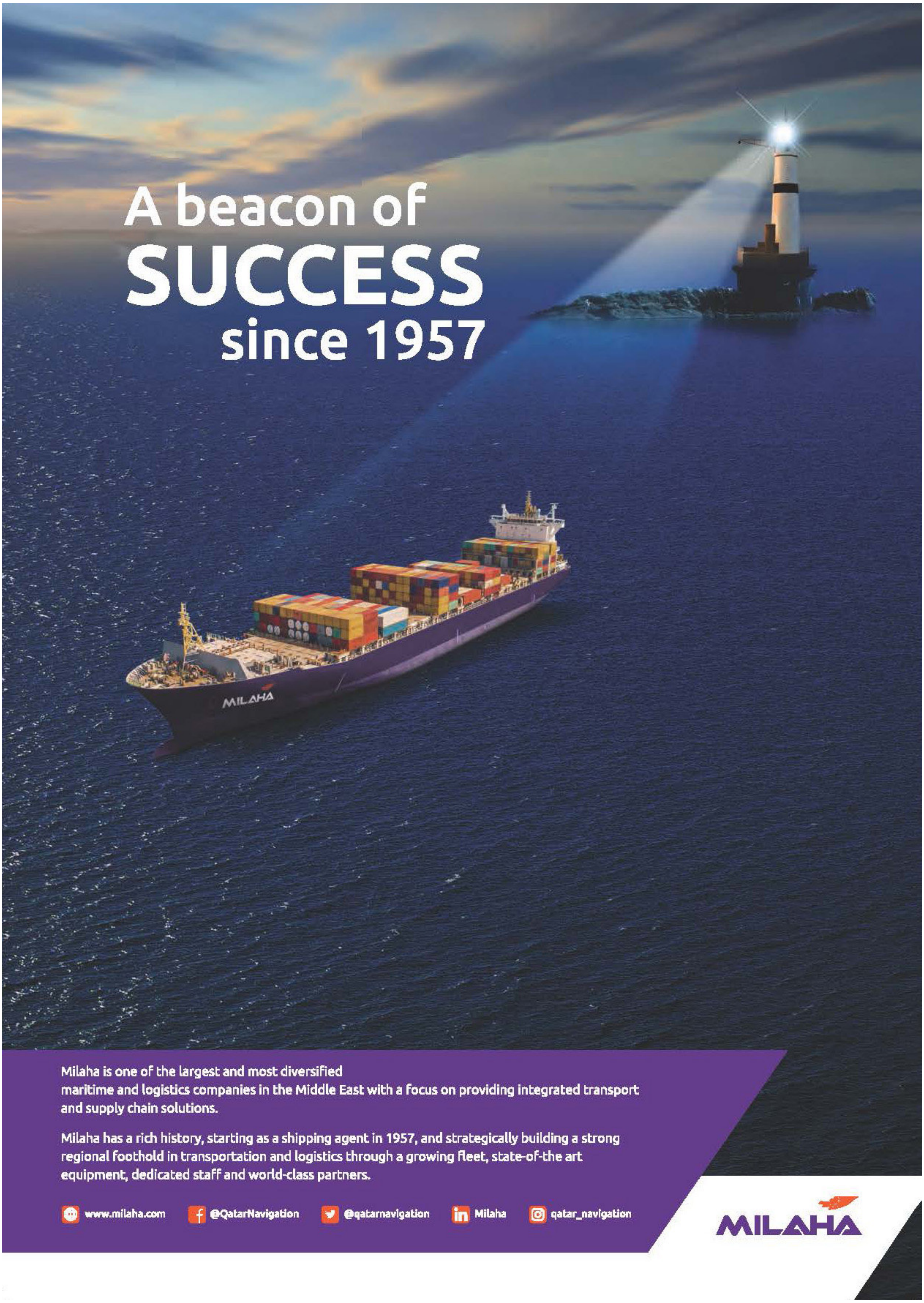
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