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Maersk credit facility linked to environmental performance



MAERSK HAS MADE an environmental rod for its own back by attaching sustainability-related terms to a new \$5bn revolving credit facility, as it seeks to put incentives behind its moves toward decarbonisation of shipping.

Under the terms of the new facility, the credit margin will be adjusted based on Maersk's progress to meet its target of reducing CO₂ emissions per cargo unit moved by 60% by 2030, against a 2008 baseline.

If Maersk meets or exceeds its target trajectory for reducing emissions, it will receive a discount on the margin of 2.5 basis points, which would equate to \$500,000 per year if the facility were undrawn or \$1.5m if it were fully drawn.

But if it fails to meet a less stringent premium target trajectory, a penalty of 2.5 basis points will be added, turning the potential savings into additional costs.

Any level of improvement between the two targets will have no impact on the pricing. The performance will be measured against the carrier's Energy Efficiency Operational Indicator.

"We have received strong support from our global relationship banks. The facility was substantially oversubscribed, and we are pleased with the terms and conditions of the new facility," said Maersk chief executive of fleet and strategic brands Henriette Hallberg Thygesen.

"With the new facility we have extended the maturity profile of our finance commitments, while aligning with our sustainability ones."

The facility is being provided by 26 different institutions, many of which have signed up to the Poseidon Principles, launched last year a global framework for measuring the climate impact of bank's shipping portfolios.

Lead arrangers for the facility are Banco Santander, Bank of America Merrill Lynch, Barclays, BNP Paribas, Citibank, Commerzbank, Crédit Agricole, Danske Bank, Deutsche Bank, Handelsbanken, HSBC France, MUFG, Nordea, SEB and Standard Chartered Bank.

The move marks a further step in Maersk's efforts to drive sustainability into its operations and supply chains. In 2018, the company announced its commitment to becoming carbon neutral by 2050.

"We are determined to reach our ultimate target of becoming fully carbon neutral by 2050, and this

agreement serves as another enabler for us to deliver on that ambition," Ms Hallberg Thygesen said.

"Given the lifespan of our fleet, we need to find new and sustainable solutions to propel our vessels within the next 10 years. To realise this ambitious commitment, we are partnering with researchers, regulators, technology developers, customers, energy providers – and now banks."

The credit facility has a tenor of five years, with a possible extension for two more years, and refinances an undrawn \$5.1bn facility that matures in 2021.

It will act as part of the company's liquidity reserve and is the first bank refinancing arranged by Maersk since its transformation from a conglomerate into its new structure focussed on container shipping and logistics.

WHAT TO WATCH

American Club gains 10% on per-tonne pricing, at cost of losing tonnage

AMERICAN Club said it secured a 10% rise in average per-tonne P&I class income in the recent renewal round, pushing the higher pricing through even though it contributed to a 9% drop in entered tonnage.

Adam Polemis' New Shipping is believed to be the biggest name among the departees, according to people familiar with the situation.

The news comes after broking sources said many marine mutuals seeking high single-digit percentage point rate increases were failing to make that pricing level stick, and generally satisfying themselves with increases in the order of 3%-3.5%.

The upshot of American Club's tactics meant that overall premium attributable to renewing P&I entries for 2020 saw an increase of just 1.5% in cash terms. However, increased deductibles make the like-for-like comparison more like 5%, the club insisted.

"The club's P&I business renewing into the 2020 policy year enjoys a trailing five-year loss ratio of only 41% compared with 48% twelve months earlier," the club said.

"This suggests a positive trend for future losses, as an improving profile for continuing members can be

expected to moderate prospective exposures over the years ahead."

FD&D entries also fell, to 10.7m gt. But American Club enjoyed a 10.6% return on funds under investment over in the 12 months to December 31, the best result in a decade.

Retained claims for 2019 remain on-budget, although they are said to be "not emerging as favourably as they did in 2018". Pool claims for last year are developing in an above-trend direction, although the American Club did not have recourse to the pool on its own account.

Surplus is expected to grow by more than 20% compared with the previous year. Free reserves per ton for 2020 are also forecast to rise, and likely to settle in the area of \$4.15 on a statutory basis within the first quarter of 2020.

The American Club's fixed premium brand, Eagle Ocean Marine, saw premium for the 2019/20 policy period to date grow by 23%, and is forecast to reach a record \$14.5m for the current facility year.

With a cumulative combined ratio of just 77% since inception, Eagle Ocean Marine's performance helps underpin mutual member pricing.

American Hellenic Hull, the hull and war risks underwriting subsidiary, also performed well. Earned premium grew by about 90% over the previous year to approximately \$16.7m in 2019, while pure underwriting profit up by about 400% to \$3.6m, although the bottom-line result was below break-even.

“Although difficult business conditions prevail in both the shipping and insurance sectors, the American Club’s recent experience has been highly encouraging,” said Joe Hughes, chief executive of club manager Shipowners’ Claims Bureau. “My colleagues and I see exciting prospects ahead of us. We live in challenging times, but we are certain that the difficulties of the present will generate opportunities for the future.”

Hafnia says low-sulphur fuels sustainable choice

HAFNIA, formed from the merger of Hafnia Tankers and BW Tankers last year and one of the largest product tanker owners, said using low-sulphur fuels was a sustainable choice.

Of a total fleet of 176 vessels, only three have scrubbers, the company said in a statement. It owns 81 of the vessels.

“We achieved full compliance with the new IMO sulphur regulations, with the fleet converting to using low-sulphur fuel oil as of December 2019,” the company said in its annual report.

“We installed scrubbers on three LR2 newbuilds delivered in 2019; they are all chartered out on long-term contracts, but we believe that switching to low sulphur fuel oil is the most sustainable way to go.”

Given the size of the majority of its vessels — namely small to medium tankers — it made sense to use low-sulphur fuel, said chief executive Mikael Skov, adding that these vessels bunker in many ports around the world and there were question marks about availability of high sulphur fuel.

It also expects to lower its impact on the environment and is part of the Getting to Zero coalition.

The spread between high-sulphur fuel and compliant fuel has dropped to \$120-\$160 per tonne currently in the spot market from \$350 per tonne

West of England P&I Club said its owned tonnage had increased by 10m gt and now exceeds 100m gt for the first time. Total entered tonnage is expected to exceed 150m gt in 2020. These increases have been evenly spread across West’s major markets, it added.

Standard & Poor’s has affirmed the club’s A- rating, while its solvency ratio is already in the upper quartile of the IG, and forecast to remain there in 2020

Last week, Gard declared a gain of 15m tonnes over the last 12 months, with a renewal rate of 99% and a book now standing at 229m gt.

North P&I Club said that total entered tonnage had grown to over 230m gt, with owned P&I tonnage reaching 160m gt.

before January, when the cap was introduced, Mr Skov said in a conference call. In the derivatives market, the fourth quarter is assessed at \$155 per tonne, he said.

The company, which expanded its fleet by 15 vessels last year, will be taking delivery of two new long range one tankers in August and October, through Vista Shipping, a joint venture between Hafnia and China’s CSSC.

It reported net profit that soared in the fourth quarter to \$42.4m versus a loss of \$10.6m in the previous three months. Full-year profit amounted to \$71.7m.

The company expects market conditions to improve later in the year due to restocking efforts, although if the coronavirus persists, it could negatively impact trade prospects for oil and products and therefore demand for tankers.

And it has not yet seen the full effects of refined products moving around because of IMO 2020.

“We haven’t seen the full value yet; it’s not a normal, steady regular market yet,” Mr Skov said.

However, low fleet growth and the lowest orderbook in 30 years for product tankers bode well for earnings potential going forward, he said.

Rates in the Far East are moving up, he noted, with handysize ships doing well.

“We have a good solid platform even in markets that are not super-high,” the executive said, adding

that he was pleased with the way the merger has gone.

Chinese buyers cut April crude purchases as refinery runs collapse

CHINESE refinery runs in February are 4m barrels per day lower than January, delegates attending the Argus Crude & Refined Products Forum was told yesterday.

That figure was based on a survey of 70 refineries and represents a 30% fall compared with the 2019 average throughput of 13m barrels per day.

Chinese buyers of crude are already reselling or lifting fewer cargoes from the March loading program, and slashing April purchases, said Argus Media vice-president China Petroleum, Tom Reed at the price reporting agency’s annual event for International Petroleum Week in London. He said there would be a build-up of crude in the Atlantic basin as a result.

“These refinery cuts imply the loss of 120m barrels of oil demand, or 320,000 bpd over the year,” Mr Reid said of the refinery run cuts. “Some demand may be clawed back later in the year. The market is not yet pricing in this massive crude overhang.”

Crude and product tanker shipowners and charterers are digesting the implications of the coronavirus outbreak in China, where quarantined areas and travel bans have collapsed land and aviation transportation demand for the world’s largest crude importer.

Argus Media has already shaved 400,000 bpd from its global crude oil demand forecasts for 2020, with the bulk of the loss over the first quarter of 2020.

“Very clearly the market is spooked,” Argus Media chief economist David Fyfe told the forum.

Oil bottlenecks rise at US Gulf ports as pipeline capacity added

THE crude pipeline bottleneck that has depressed oil prices in the shale-producing Midland region has shifted to the two largest exporting ports in the US Gulf, Houston and Corpus Christi, the Argus Crude and Refined Products Forum has been told.

The lack of pipeline capacity in the Permian Basin from where shale oil is produced has trapped crude

“It comes just at the end of two years when there’s a weakness in trade, and manufacturing is slowing quite dramatically. By the end of last year, there was a feeling we were at a turning point... all these things have been thrown into doubt.

“Our underlying assumption is that this is a recovery deferred, not a recovery derailed.”

Independent refineries at Shandong that import 40% of the country’s crude are running at half levels seen last month, Mr Reed said. Many also had scheduled maintenance, he added.

Sinopec, the world’s largest refiner by distillation capacity, was the most affected, seeing runs 1.5m bpd lower than January. This reflected its exposure to falling demand in central China, one of the worst affected regions where the state-owned company owned two refineries.

Petrochina, with refineries in northwest China where the virus has also been reported, was cutting runs by 700,000 bpd.

“These are massive, massive run cuts, potentially signalling the lowest throughput rate in six years,” Mr Reid said.

“However, in north China the market has already started to recover, we’re already starting to see fuel demand and refinery utilisation reach higher even later in February in Shandong.”

Independent refiners bought 30 million barrels this month, he said, showing that some restocking had resumed.

inland and depressed prices from 2016, with volumes railed and trucked to US Gulf ports at a high cost as exports took off.

Some 2m barrels per day in additional pipeline capacity was added from the Permian basin to Corpus Christi in 2019.

That has eased one bottleneck but created another at the two export biggest ports of Corpus Christi and Houston, the conference heard. The new pipeline to Corpus Christi terminals saw the port overtake Houston as the biggest exporter.

“The bottleneck now is at the port,” Tim Reed from Argus Media told delegates at International Petroleum Week. “Some of them [pipelines] don’t even have tankage at the end of the pipeline so there’s lots of activity now to build tankage.”

ExxonMobil’s Wink-to-Webster pipeline will transport another 1m bpd of Permian shale oil to the US Gulf and begin from 2021. Phillips 66 will begin shipping 900,000 bpd from Cushing to Corpus Christi and Houston via the Gray Oak pipeline, according to Argus presentations.

“That’s a seismic change,” Mr Reed said. “These all have to be exported as the domestic refining market is full already... most needs to go the export markets.”

However, the construction of offshore buoys that will allow very large crude carriers to load and help alleviate the port bottleneck are not expected to be in place for another four years.

Argus analysis shows that although there are nine projects in “various stages of development” only three to four were likely to be built and none before 2024.

Only one terminal at Corpus Christi can take VLCCs, but it can only be partially loaded. Asia-bound cargoes are typically reverse-lightered on to the largest tankers offshore, from smaller aframax shipments. About 12 shipments a month are seen from the Louisiana Offshore Oil Port, known as LOOP. The offshore port was previously used for imports only but two years ago began to reconfigure so it could also export.

“Although there is a raft of projects looking to build loading terminals offshore, the US permitting process for building offshore loading facilities is fairly tortuous so we’re unlikely to see any for three to four years,” Mr Reed said.

“A lot of the attention is on this because it changes the economics of exporting crude especially to the Asia Pacific region.”

Other markets are also growing rapidly. US Gulf oil exports into Europe now surpass production volumes of grades that comprise the North Sea-linked Brent index, the world’s biggest crude price benchmark. However, port bottlenecks and slowing production have curtailed the breakneck pace of exports.

Europe imported 1.5m bpd of US crude in January, mostly on aframax and suezmax tankers, the conference heard. For five consecutive months, imported volumes exceeded the production of the Brent, Forties, Oseberg, and Esfisk grades that comprise the Brent index, presentations showed.

US Gulf-Europe crude shipments have more than doubled since September 2018, when 600,000 bpd was shipped. Last month’s volumes are also equal to imports of Urals crude to Europe from Russia, reflecting the rapid shift in trade flows arising from shale oil exports over the past 12 months.

Argus Media, a price reporting agency, forecasts US production growth at 740,000 bpd in 2020, some 222,000 bpd lower than estimates from the US Energy Information Administration. Last year, US production growth was 1.25m bpd according to the EIA, with 2.7 million bpd exported.

The changes were highlighted at the forum, one of many under way during International Petroleum Week in London, an annual gathering of oil companies, traders and subsidiary industries from around the world.

OPINION

‘We need a smaller group of better capitalised clubs’

WITH very little in the way of new convention or regulation on the horizon, the new chief executive of the International Group of P&I Clubs, Nick Shaw,

has time to consider tasks that can transform the organization, *writes Mark Cracknell, head of P&I at Marsh JLT Specialty.*

A priority should be improving decision-making. Much has been said, and written, about the value of the IG to the shipping industry and to the vital interests of global trade of the mutual P&I system.

The areas for improvement fall into the categories of tactics and strategy.

In the first category, we place issues such as the scope and limits of cover ordinarily afforded by the P&I clubs. Some of the deficiencies in club cover that trouble our clients seem to be simply a failure to keep abreast of the pace of events.

An example is the potential for the imposition of fines for exceeding sulphur caps for bunker fuel. There can, of course, be a moral hazard when it comes to cover for fines.

However, where a fine arises as a result of differences between two recognised authorities in the measurement of the sulphur content of fuel, it seems egregious that there should be any question of cover when a shipowner has loaded fuel – accepting in good faith the representations of a first competent body in respect of that sulphur content – but faces a fine when a subsequent authority disputes the earlier findings.

Club managers could, and should, have discretion to make a determination on whether the member has, or has not, done everything reasonably possible to avoid such a penalty

If, in the opinion of club managers, the member has acted in good faith and could not reasonably have taken steps to avoid a fine, cover should be afforded.

This is a practical, as well as a technical and moral, imperative. Such cases likely will be numerous in the future. It is not the most effective use of club directors' time to be asked to deliberate on such matters.

Another issue, with potentially greater financial consequences for those concerned, is the limit on cover for liability toward passengers. An ever-increasing number of new generation modern cruise ships now have a requirement under the EU Passenger Liability Regulations to provide certification for a sub-limit in excess of the \$2bn for passengers' cover.

Non-compliance with PLR is not an option. The clubs insuring these vessels under the current arrangements are only able to provide the necessary certification (in excess of the \$2bn) with the support of additional reinsurance.

The \$2bn sub-limit would have been more than adequate to meet the PLR requirement of the largest passenger vessels operating when it was first established. Today it falls short.

And what seems to be a mutual P&I risk is being transferred from the mutual pooling system to commercial insurers, among whom there is fairly limited capacity for this exposure on the terms required. As a result, those underwriters with the required appetite are able to benefit from a seller's market.

Whereas a decade or so ago, the number of clubs that would accept cruise business could be counted on the fingers of one hand, that is no longer the case. Nearly every P&I club either already writes cruise business or has expressed a strong interest in doing so.

This is because the passenger shipping, and particularly cruise, is a "success story" of the shipping industry and so a growth area for the clubs. At the same time, the cruise operators have shown themselves to be committed and responsible contributors to the mutual P&I system.

Today, an unintended outcome of the original decision to place a cap on passenger cover (at a level vastly in excess of any regulatory requirement for it when the cap was introduced), is that some of the cruise industry's most successful operators are now effectively being penalized by the P&I system as a consequence of their growth.

This results from a requirement to pay for the very expensive "top up" reinsurance that enables their clubs to issue PLR certification for some of their ships, which seems contradictory to the fundamental principles of the mutual (not for profit) P&I system.

If it is accepted that the cruise industry is part of the mutual P&I system, as it very clearly is today, then it seems reasonable the P&I system should not discriminate against the industry; nor should it needlessly operate counter to the industry's needs. There is an easy solution here, which is to remove the passenger sub-limit so that \$3bn limit of cover for personal injury claims applies however those claims may arise. The clubs could then provide PLR certification for all of today's cruise fleet (and what is envisaged for several years) without the need to engage commercial reinsurance markets.

Most of the club managers appear to support this change, at least according to the conversations we

have had. Most believe it's simply a fair solution to an unforeseen, but easily manageable, structural deficiency in the current arrangements.

Some are also worried about the potential for damage to the reputation and standing of the IG, in the very remote eventuality of a large passenger claim where club cover could fall short of the PLR compensation requirement.

The problem is the IG decision-making process. Every club has the same vote, and while the required two thirds of the majority may be moving towards a consensus for this change, dissenters have plenty of opportunity to establish roadblocks.

Our 2018 P&I Market Review considered the number of P&I clubs, focusing on the financial and competitive efficiencies that would come from having fewer clubs. We made the case that there should be no more than eight P&I clubs.

We argued that, through the better use of the substantial amounts of capital already contributed by ship owners to their P&I clubs, efficiencies could be achieved. In the simplest terms, the report discussed the potential to increase the per-club retention in a way that would allow the abolishment of the International Group Agreement (IGA), bringing benefits all round.

Alternatively, if the remaining clubs chose to operate the mutual P&I system exactly according to the current structure, an estimated \$1bn+ of surplus capital could be returned to members; a happy choice for club members to make.

Either way, we expect the additional benefit of quicker, more effective decision-making.

Eight remaining clubs, if not actually completely homogenous, would naturally have more common ground on most issues than is currently the case as the opportunity for individual directors to dominate small clubs would be reduced.

Some would say one size does not fit all. But why not, if a smaller number of larger clubs level up to the highest current standard? Moreover, assuming that in this brave new world the remaining eight clubs are the most successful of the current crop of 13, market intelligence indicates the necessary majority would be able to move forward quickly and decisively on issues such as the limit of cover available for passenger claims.

A smaller group of better capitalised clubs would end the discussion around a requirement to increase P&I rates. Even with the current clubs, the idea that this is necessary seems incorrect (except perhaps in a couple of cases at the lower end of the tonnage scale).

The supposed justification appears limited to relative comparisons of capital strength, mostly made by the clubs themselves about each other. In absolute terms, there is not much to report. The majority are quick to point to their AAA S&P capital strength ratings, which are unlikely to be diminished by holding P&I rates at their present level, or even reducing them.

Despite the reported and much bemoaned overall reduction in free reserves and recorded combined ratios mostly worsening during the 2019 P&I financial reporting season, capital adequacy (as shown in Solvency II filings) once again improved for the clubs as a whole.

Time for a change. Will anyone rise to the challenge?

ANALYSIS

Low LNG prices to benefit India's gas expansion

A DRIVE to promote the use of liquefied natural gas in India now overlaps with a persistently low-price environment, benefiting new import projects looking to secure supplies to feed expanding domestic demand.

This places Singapore-based AG&P, a downstream gas and logistics company, as one such beneficiary should it play its cards right as the developer of the

new Karaikal import project along the country's east coast.

Karthik Sathymoorthy, who leads the company's business unit for LNG terminals and logistics, told Lloyd's List that the private player expects to conclude a long-term offtake contract for 10 years or more supplies to feed the Karaikal terminal in the next quarter.

He hinted that the economics in general do not support shipping LNG all the way from the US to India.

“We prefer to negotiate LNG supply contracts on CIF [cost, insurance and freight included] terms rather than FOB [free-on-board] as we do not plan to invest in shipping tonnage,” he said.

The AG&P terminal, which started construction this week, will build up from a base load of 1m tonnes per annum in import capacity.

The developer has secured a floating storage unit from ADNOC Logistics and Services. The cargoes will be regasified using its plug-and-play modules, which can be scaled up to meet future increases in demand.

Mr Sathymoorthy said that a sizeable volume will be set aside to receive cargoes purchased from the spot market.

Recent Platts-assessed prices for spot LNG cargoes delivered to India have already dropped 35% from the start of the year to below \$3 per million British thermal units in early February as demand from China crashed following the coronavirus outbreak.

Spot LNG prices in the larger Asia region have also been hovering in the single-digit band through winter.

The energy and commodity pricing agency estimated that end-users in India have already issued tenders and procured almost 67 cargoes equivalent to 4.3 m tonnes of LNG for delivery this year.

That would equate to over half of some 120 to 130 cargoes India procured from the spot market last year, the agency suggested.

AG&P may not have actively engaged in spot buys as yet, at least not for importing through its Karaikal terminal that is slated to kick off operation in the final quarter of 2021.

Still, Mr Sathymoorthy flags a seemingly consensual view that backs up capacity allocation for arbitrage opportunities going forward.

US opens trade talks with Kenya

THE US has only one free trade agreement in the whole African continent, with Morocco.

As a result of the agreement, which it signed in 2004 and which came into effect at the beginning of 2006,

“The LNG market may stay long in the six to eight years... we expect the supply glut to persist for at least another five,” he said.

In the interim, AG&P is also buying LNG by the truckload from Koichi and other import terminals in India for its first city gas developments in the country.

These projects are sited in geographic areas covering three districts in the states of Tamil Nadu and Rajasthan. AG&P won geographic area licences for these in April. It won nine others last March and is participating in a new bid round for almost 50 locations.

Infrastructure bottlenecks have long held back gas demand growth in India, the world’s second most populated country after China.

Mr Sathymoorthy argued that this is about to change as the government there has set up to expand city gas developments beyond New Delhi, Gujarat and Mumbai — three significant economic successes now mainly powered by natural gas.

The administration of Prime Minister Narendra Modi has been rolling out development bid rounds to attract the needed investments and know-how to replicate the early successes with natural gas adoption in the three states across the rest of India.

One other aim with these projects is to enable and encourage the uptake of natural gas among residential, transport and commercial sectors beyond the more price-sensitive industrial users.

The first 10 concluded city gas developments bid rounds saw the award of licences for 228 geographic areas that would have covered 70% of the country’s population, the Economic Times of India reported.

AG&P will invest about \$1.3bn in building CGD networks comprising 1,500 compressed natural gas stations, pipelines spanning more than 278,000 sq km of land and LNG truck delivery capabilities.

“The time has come to invest in India’s natural gas industry,” Mr Sathymoorthy said.

maritime trade between the US and Morocco has been growing at almost 14% compound annual growth rate.

Kenya’s president Uhuru Kenyatta this month met the US president Donald Trump at the White House

aiming to initiate a free trade agreement between the two countries.

As a follow-up, the Corporate Council on Africa, in partnership with Kenya Private Sector Alliance, opened talks with US business leaders and government officials to explore whether the private sector would support a bilateral effort and consider any advantages in investment and trade opportunities that could arise from a Kenya-US FTA.

If successful, this FTA would be the first between the US and a sub-Saharan African country and it would potentially be considered a template that the US could use to boost its trade and investment relationship with the rest of the African continent.

This agreement could be an opportunity “for the private sectors of both the US and Kenya to deepen trade and investment ties in key sectors from energy to banking, construction, ICT/digital trade, health, manufacturing and services trade”, said CCA chief executive Florizelle Liser.

This encouraging observation from the CCA has been echoed by Kyle McCarter, the US ambassador to Kenya, who said he was optimistic that an FTA would translate into enlarging choice within the marketplace.

Successful FTAs, allowing consumers to purchase more, and better quality, products at a lower price, can increase prosperity for the citizens of the signatory countries. They can also drive economic growth and improve efficiency by increasing innovation.

In addition to the Morocco FTA, the US and some African countries are signatories to the African Growth and Opportunity Act, which gives 39 sub-Saharan African countries duty-free access to about 6,500 US products.

Kenya is one of the signatories, and is estimated to be the US’ sixth-largest trading partner within the AGOA countries. South Africa is at the top of the list, with something in the region of 124,000 teu moved in 2018.

Whether the potential deal with Kenya will mark the beginning of a gradual replacement of the AGOA would appear improbable.

However, the AGOA is set to expire in 2025 after being extended for further 10 years by the then US president Barack Obama in 2015. With this date in mind, the African countries will follow how the talks between the US and Kenya evolve with interest.

MARKETS

Between the lines: Cargo owners feel impact of coronavirus

CARGO owners will face considerable challenges in coming months as a consequence of blank sailings and the resulting exception handling, port omissions, vessel delays, and other network disruptions.

Even with more offices and factories reopening in the past week, back-haul shippers, in particular, are likely to experience issues as container carriers are expected to prioritise empty container repatriation over low-freight back-haul cargo, according to Sea-Intelligence.

In its latest report, the consultancy tracked the number of blank sailings attributed to the coronavirus, taking the eight-week period from week 5 to week 12, with data calculated in week 4, immediately before the Chinese New Year holiday, taken as the baseline.

Any blank sailings that were announced up to and including week 4 are attributed to ‘normal’ Chinese New Year cancellations, whereas any blank sailings that were not announced in week 4 but were announced from week 5 onwards are instead attributed to the outbreak.

On the Transpacific trade, coronavirus blank sailings have reached 25, with carriers on the Asia-North America West Coast trade lane announcing 23 blank sailings.

In total, roughly 231,100 teu, (comprising 210,800 teu on Asia-North America West Coast and 20,300 teu on Asia-North America East Coast) or 6% of the total capacity is slated to be taken out of the Transpacific trade in the analysed eight-week period.

The Asia-Europe trade is set to see a similar 22 blank sailings, with 16 on Asia-North Europe and 6 on Asia-Mediterranean.

In teu terms, this translates into a total capacity withdrawal of roughly 364,800 teu (276,900 teu on Asia-North Europe and 88,000 teu on Asia-Mediterranean) or 10% of the total capacity on the trade.

Looking at the three individual carrier alliances, there are some interesting observations. The Alliance has not announced a coronavirus blank sailing on three of the four trade lanes, with their

Soft demand continues for China's international freight

KUEHNE + Nagel has highlighted current “soft demand” for China’s international freight, as companies and factories in the world’s second-largest economy gradually resume work as restrictions are eased in the light of the coronavirus.

However, in its latest update yesterday, the Switzerland-headquartered global freight forwarding and logistics group warned that once Chinese production activity gains momentum, a “cargo rush” risks creating “a severe shortage” in shipping capacity with the prospect of spikes in rates.

“Based on our initial assessment, organisations that have received approval from local authorities to reopen are currently operating at approximately 10%-50% of their normal working capacity. The reduced staff strength is driven mainly by the 14-day quarantine period imposed on all travellers returning from other provinces and secondly, workers still being unable to return from other provinces.”

It said this had impacted both the trucking and factory labour force and that, as a result, production levels may only stabilise by the end of February or early March.

On the ocean freight side, K+N noted that all key Chinese ports are operating, albeit with lower efficiency due to the limited workforce.

The ports of Shanghai, Tianjin and Ningbo remain congested due to yard density at critical levels and ongoing shortage of reefer plugs at the terminals of these ports.

only such announcements coming on the Asia-North America West Coast trade lane.

Even then, they are slated to blank a lower amount compared to 2M and Ocean Alliance on that trade lane. Across all four trade lanes, 2M have announced blank sailings equalling roughly 269,200 teu, which translates into 12% of their total capacity.

Ocean Alliance is slated to blank 272,300 teu or 10% of their total capacity. The Alliance will only blank 2% of their total capacity, which equates to 41,200 teu, all of which is to be blanked on Asia-North America West Coast.

K+N said loading and discharging operations have slowed down due to a lack of stevedores, and Wuhan port remains closed until further notice.

“Ocean carriers reacted to the situation with an additional 32 void sailings on top of the lunar new year blank sailings — removing a total capacity of 350,000 teu per week,” K+N highlighted. “Coupled with the expected cargo rush once factories resume operations, shipping capacity will be at a severe shortage.”

“This rapid mass cancellation of sailings from China will cause capacity shortage to backhaul shippers in the next 3-6 weeks, depending on geography. As a result, freight rates are also expected to spike in response to the space shortages on both headhaul and backhaul voyages.”

K+N warns that prolonged container turnaround times, resulting from bottlenecks at main Chinese ports, will adversely impact the availability of equipment within the network. It said that ocean carriers are taking measures by announcing a congestion surcharge or cost recovery surcharges, with immediate effect, to cope with the current situation.

Separately, analysts at Platts warn that logistical constraints are emerging for exporters into China and the North Asian markets where, owing to the blanked headhauls, there is no capacity for the backhauls, causing a bottleneck at ports across much of Asia and the US.

“As a result of the shortage of free containers in these regions, backhauls into North Asia are under

the microscope with some strong rate increases due to kick in on March 1 to compensate for the relative lack of supply, enabling carriers to mitigate their losses from the void sailings,” Platts said.

“The longer tail in demand recovery has left many market participants not expecting a recovery until at least the end of the first quarter, and carriers hope for a bumper summer season as a result.”

IN OTHER NEWS

DP World acquires key terminal in Canada

DP WORLD and partner Caisse de dépôt et placement du Québec have completed the acquisition of Fraser Surrey Docks in the port of Vancouver, Canada, from Macquarie Infrastructure Partners.

Sultan Ahmed bin Sulayem, DP World group chairman and chief executive, said the acquisition “bolsters our footprint in the west coast of Canada”.

He said his company had been seeing “growing demand” from customers for multi-purpose facilities in the region and that Fraser Surrey Docks had the location and the “relevant infrastructure” to meet the demand.

Ports of Long Beach and Los Angeles sign agreement to improve market share

THE Harbour Commissions of the Ports of Los Angeles and Long Beach have approved an agreement aimed at reversing their loss of market share to rival ports along the US east and Gulf coasts.

The two ports, which jointly represent the nation’s largest seaport complex with a combined throughput of some 18m teu a year, plan to work with industry stakeholders to improve efficiencies and lower costs for

shippers while improving sustainability, business continuity and security.

The pair said the newly approved memorandum of understanding represented an opportunity to “explore five areas of additional co-operation” that will enhance competitiveness: cargo transfer predictability, digital connectivity, cyber security, establishing metrics and workforce development.

Polaris Shipping chief convicted over Stellar Daisy's fatal sinking

POLARIS Shipping chief executive Kim Wan-Jung has been convicted for not reporting defects in the very large ore carrier *Stellar Daisy*, whose sinking in 2017 killed 22 seafarers.

Mr Kim was sentenced by Busan District Court to six months in prison with a year of probation for violations of the Ship Safety Law, which was revised after the *Sewol* ferry disaster to safeguard lives.

However, the court said that he was not guilty of failing in his obligation to maintain the “balance” of the ship.

SevenSeas fund buys first bulker

SEVENSEAS Investment Fund, an open-end Luxembourg-domiciled ‘Sicav’ shipping investment fund, has acquired its first handysize

bulk carrier and is looking to raise more cash, it has emerged.

The fund has acquired the 37,000 dwt *Federica*, an eight-year-old bulker built at Hyundai Vinashin.

The vessel is understood to be trading in the Atlantic under a time charter at a daily rate of more than \$10,500 that lasts until May.

Venture capital-backed Danelec focuses on IoT growth

THE acquisition of a majority stake in Danish marine equipment supplier Danelec Marine by the Norwegian venture capital company Verdane, completed last month, will underpin a new corporate strategy, chief executive Hans Ottosen has told Lloyd’s List.

Existing shareholders in Danelec continue to own shares in the company, and both Mr Ottosen and chief operating officer Casper Jensen remain in their positions.

Danelec, best known for its voyage data recorders and electronic chart display and information systems, is building its presence in ship-to-shore Internet of Things (IoT) solutions. It was one of the first to bring to market Simplified VDRs; its VDRs and S-VDRs are fitted on more than 6,000 ships.

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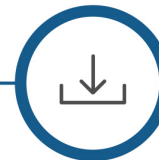
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