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Rosneft sanctions leave oil trader's Venezuela VLCC fleet stranded

AN OIL trader who began a new Venezuela crude shipping business in January with Rosneft Trading has three unemployed very large crude carriers anchored off Mauritius after terminating all business with the Swiss trading unit.

Former Glencore executive Murtaza Lakhani said that his company, Mercantile & Maritime, would remain compliant with US sanctions imposed on Rosneft Trading on February 18.

Singapore-based Mercantile & Maritime Trading operates eight tankers, including five VLCCs purchased last November. All the vessels were immediately deployed on Venezuelan-Asia routes shipping sanctioned crude for Geneva-based Rosneft Trading.

"Following an extensive review of our live arrangements, we can confirm that any activities impacted by the recent US sanctions will be terminated in accordance with the specified timeline," Mr Lakhani said in a statement released through a London-based public relations company, Hawthorn Advisors.

Rosneft Trading has undertaken most crude oil marketing on behalf of Venezuela's national oil company PDVSA over the last nine months.

The trading subsidiary, but not the oil company, was blacklisted by the US for supporting the regime of Nicolas Maduro, with a wind-down phase expiring on May 20.

Since the Office of Foreign Assets & Control designation, three Mercantile & Maritime VLCCs — *Ridge A*, *Ridge U* and *Ridge S*

— were diverted while sailing in ballast to Venezuela via offshore Mauritius where they remain at anchor for the last six days, vessel tracking data show.

Another Mercantile & Maritime VLCC laden with Venezuelan crude, *Power M*, is sailing east after loading February 17. A second VLCC, *Princess Mary*, was spot-chartered by an undisclosed company in November and deployed in similar trades as the others. That tanker is now sailing through the Singapore Strait.

Hawthorn Advisors did not immediately respond to a request for comment.

Mercantile & Maritime vessels were crucial to a new logistics hub-and-spoke operation established late in 2019 by Rosneft and PDVSA to sell and re-distribute crude.

The vessels were briefly deployed at anchorage off Lome, West Africa, in January, with crude transferred to China-bound vessels via ship-to-ship transfers.

Some of these vessels were also involved in STS operations off Gibraltar, as well as Aruba and Curacao, where PDVSA has onshore storage facilities.

Late last year, Rosneft Trading had other VLCCs used for floating storage off Malaysia while buyers were found, mimicking similar moves made by Iran to obfuscate the origin and destination of crude and products subject to unilateral US sanctions.

The crude was already sold at a discount but fresh Ofac designations are adding further pressure.

“Venezuela continues to have trouble finding buyers for its oil, especially in the wake of the latest Rosneft sanctions and President Trump’s visit to India (a situation also made worse by the collapse in Chinese demand because of the coronavirus),” said Caracas Capital managing Partner Russ Dallen, in a February 29 note to clients.

Rosneft is selling oil for Venezuela in an oil-for-debt deal that has seen PDVSA return $1.5bn to Russia, plus interest, in the first three quarters of 2019, according to Miami-based Mr Dallen.

WHAT TO WATCH

Coronavirus fear persists despite slowed blank sailings by carriers

CORONAVIRUS-LED void sailings have slowed following the recovery of China’s factory and logistics activities. But the spread of the disease in other countries has raised concerns about a further disruption to container shipping demand.

Carriers have cancelled 77 services on Asia-Europe and transpacific trades in relation to the virus impact as of the end of last week, up from 70 in the week ago, according to estimates by Sea-Intelligence.

By comparison, the increase rates were both more than 20 cancellations in the previous two weeks.

“The pace of new blank sailings has clearly declined, indicating a belief from the carriers that volumes will slowly be brought back to normal levels,” said the consultancy in its latest report.

The move comes as China is making progress on restoring its economic activity, which had been halted by an extended Chinese New Year holiday and strict quarantine regulation.

The National Bureau of Statistics said on Saturday that the work resumption rate at mid-to-large-sized enterprises in the Purchasing Managers’ Index survey was 85.6% as at February 25, and will rise to 90.8% by the end of March. The rate relating to firms in the manufacturing sector will improve from 85.6% to 94.7% over the same period.

Bloomberg Economics estimated that Chinese factories were operating at 60% to 70% of capacity last week.

French carrier CMA CGM said in a customer advisory on Monday: “Manufacturing activities are gradually picking up, more port workers and truck drivers are returning to their posts, and cargo flow is easing up at the major coastal ports. In short, business operations have now entered the recovery phase.”

However, Sea-Intelligence said the ripple effects caused by carriers’ mass withdrawal of sailings earlier were not yet over, with a risk of a serious

shortage of capacity and equipment in the near future.

"Carriers are already pushing rate increases on account of this, and for some backhaul shippers, the coming weeks might well be a matter of whether they can get their cargo moved at all, almost irrespective of the price they are willing to pay."

Meanwhile, it added that smaller carriers on intra-Asia trade would be under strain to stay afloat, with some having a huge share of their cargo linked to China.

"These carriers are already now suffering a sharp cashflow reduction, and for some, this may well become a matter of financial survival within the next couple of months."

Some shipping lines have already started to sell ships to shore up liquidity, according to shipbrokers.

South Korea's SM Line was said to have sold the 2005-built, 8,210 teu *SM Charleston* to Greek owner Danaos for $19.5m, and two sister vessels — *SM Hong Kong* and *SM Seattle* — to a Korean buyer for $40m in total.

South Korean media reported that the Seoul-based carrier had also asked its executives to take a 10% salary cut as part of the cost-reduction measures to help it overcome the current difficult times.

Lloyd's List has sought comments from the company.

The difficulties facing the carriers, however, may not go away any time soon given that the virus creeping into other regions outside of China.

"The situation in Italy and the US is getting worrisome," said one executive from a large international port company, adding that the anticipated recovery in cargo demand might fall through if the infection in the western economies could not be contained effectively and hence hurt consumption.

Sea-Intelligence noted the cancellation of the annual Trans-Pacific Maritime conference, which was due to take place in Long Beach, California this week. "This indicates a level of concern — and risk-averseness — that might signal a deeper issue," it said.

"Such greater risk-averseness might lead to fewer orders, fewer investments, and a higher propensity to reduce inventories versus sales. If this ball gets rolling, the industry will be faced with additional shortfalls in volume in the coming months."

The bet that failed: Kurt Zech unravels Zeaborn

KURT Zech's flirtation with shipping appears to be coming to a close, with the construction entrepreneur's rapid expansion of Zeaborn Group on the back of the cheap assets available in the wake of the shipping downturn now portrayed in German industry circles as a brave bet that sadly failed.

Several key group companies are officially insolvent, and while the more viable components are ostensibly unaffected, they are being discretely hawked around, according to Hamburg sources, who believe that Mr Zech is well aware that it's game over.

That said, he is being accorded full credit for his ruthlessness in pursuing his exit, rather than stick around out of sentiment like an old school shipowner with a family name at stake.

"He knows he gambled and lost. Very different from owners who feel hurt in their pride and drag a dead horse around the desert for years," quipped one German source.

All of this marks a reversal of fortune on the way things looked just a few months ago, particularly at heavylift affiliate Zeamarine, which had grown from start-up to major sector player in the six years that followed its birth in 2013, thanks to an 'if it moves, buy it' policy.

The breakthrough came in 2017, when Zeaborn was actually given money to take over Bertram Rickmers' struggling Rickmers-Linie as a going concern.

It went on to mop up the rest of the Bertram Rickmers empire, as well as the shipmanagement and brokerage interests of Mr Rickmers' brother, Erck Rickmers, the following year.

After a relatively brief joint venture with Intermarine of the US, Zeaborn soon took 100% control, and also in 2018 rebranded the unit Zeamarine, putting it straight into the heavylift and project cargo big league, with a fleet of 75.

As recently as April 2019, there was even a foray into the wet market, with the acquisition of Claus-Peter Offen's CPO Tankers.

When things did begin to unravel, they unravelled fast. Just before last Christmas, Zeaborn announced it was parting company with managing partner Jan-Hendrick Többe, seen as the man who provided the sector expertise to complement Zech Group's financial clout.

In his place, restructuring specialist Sven Lundehn was appointed to decide the way forward; in the event, Mr Lundehn did what restructuring guys do.

Three key Zeamarine companies were declared insolvent last month. Zeamarine Bremen, Zeamarine Germany and Zeamarine Chartering —– essentially the group's booking and operational outfits — are now operating under court supervision, in accordance with creditor protection conditions.

Zeamarine also made it known that the Americas container line business has been sold on and is now operating under its old name.

"I understand Intermarine retained its own legal entity within Zeamarine," said a rival German shipowner with exposure in that niche. "Hence they carved it out and allowed it to continue trading.

"Intermarine is therefore not affected from the insolvency filing, and is already branding its services again under the Intermarine name."

The official stance is that Zeaborn Ship Management and broker Harper Petersen are not involved in the restructuring.

But Lloyd's List has been told that their original owners — estranged Hamburg shipowner brothers Erck Rickmers and Bertram Rickmers — have been sounded out about buying them back. They both said no.

So what went wrong? The basic problem appears to have been that Zeamarine was a persistent money-loser. Mr Többe and co-manager Ove Meyer — who was quietly axed in July 2019 — promised to turn that situation round, but could not deliver.

Talented middle-ranking staff, particularly on the sales side, were increasingly disaffected, and got jobs elsewhere.

"Once such news gets around, I guess the cargo stays away and then you really get cash-flow problems," commented a Hamburg owner.

"Zech has pulled the plug and for sure just wants to get out where possible. I believe only the ship management activities will be left, and possibly also sold at some stage."

Another observer commented: "People here say that the entire idea of a massive entry into the heavylift/project cargo at the bottom of the market was a brilliant gamble which turned sour when the market did not recover as expected.

"As rigorously as Kurt Zech let the young guys build the fleet up, he is tearing it down now through his tough insolvency administrator. There is not much emotional attachment to shipping, obviously."

Another local shipowner said that he had discussed Zeamarine's affairs with people close to the situation, and the root of its downfall may have been the breakneck speed at which it rose.

"They were doing deals left, right and centre and never focused on integration. They ended up with huge inefficiencies and a poor performance," he opined.

He described Mr Többe as always running after the next deal, leaving most of the hard yards in getting everything to hang together to Mr Meyer. In the end, Mr Zech got fed up of injecting liquidity and forced the resignation of Mr Többe.

"They had not intended to end up in an insolvency filing within weeks, but when an internal note on the changes to the board was leaked to the press, the situation got out of hand.

"Within one or two week, all their credit lines at bunker supplies disappeared, shippers started to book cargo on alternative vessels to avoid being caught in the situation. Very quickly Zeamarine found itself in a cash squeeze, and was not able to avoid an insolvency as liquidity dried up."

"The question is what they will do with Zeaborn. I am sure Zech would rather be a seller than a buyer of more shipmanagement businesses. If Zech wants to sell, I am sure he can, but maybe not at the valuation he was once hoping for."

Perhaps the most obvious potential buyer would be V.Ships Germany, where industry veteran Nils Aden

is managing director. Ironically enough, he was briefly Zeaborn's managing director, and is said not to have had a particularly happy time in its employ.

But a word of caution here. V.Ships is still digesting its 2018 acquisition, Norddeutsche Reederei H Schuldt, and may not be in the market for another purchase until that process is completed.

Lloyd's List discussed the content of this article with a Zeaborn representative, who declined to comment on what he described as 'speculation'.

OPINION

Are VLSFOs really that bad for the climate?

A REPORT submitted to the International Maritime Organization by Finland and Germany suggests the new very low sulphur fuel oils, which comply with the 0.5% sulphur limit introduced on January 1, are bad for the climate, *writes Lars Robert Pedersen, the deputy secretary-general of BIMCO.*

It claims VLSFOs are predominantly aromatic because of their chemical composition and, when burned in engines, produce elevated levels of climate-forcing black carbon.

Let us start with the engine used in the study: a medium-speed, four-stroke diesel (these are predominantly ships' auxiliary engines). This type runs at relatively high speed and with limited stroke. It means injected fuel has a restricted time to burn and requires better ignition-quality fuel compared with bigger engines to ensure complete combustion.

Most fuel oils used by ships are burned in the engines that drive ships' propellers. A smaller amount is burned in auxiliary engines, driving electricity generators. An even lesser amount is burned in boilers to produce steam for heating purposes.

The vast majority of marine fuel is used for propulsion. Propulsion engines in ships vary significantly but, when we assess the share of each engine type, based on the amount of fuel burned in each, significantly more is used by the slow-speed, two-stroke diesel engines.

These large engines operate with long piston strokes and at slow speed — less than 150 revolutions per minute. This means that oil injected into the combustion chamber and ignited can burn for longer, compared with smaller engines operating at much higher rpm. The time available to burn the fuel oil is critical to avoiding the formation of unburned hydrocarbons and soot, also known as black carbon.

In tests, burning fuel oil with a high aromatic content in slow-speed diesel engines has however shown that aromaticity has little influence on the formation of black carbon. Levels of black carbon formation in these engines are also generally below those seen in four-stroke medium-speed models.

The ability of a fuel oil to burn fast is linked to its chemical composition, and it is well documented that highly aromatic fuels are not as willing to burn as paraffinic fuel oil.

Fuel oils used in ships are usually assessed for their ignition quality by means of their Calculated Carbon Aromaticity Index rating. This value, calculated from the density and viscosity via a complex formula, will normally be between 800 and 880. Fuel-oil testing companies make this calculation as a matter of routine when samples from bunkering are sent for analysis. A CCAI of 860 and above indicates that ignition problems may occur.

The high-sulphur fuel oils widely used up until January 1, 2020, before the sulphur regulation came into effect, were normally quite aromatic, with CCAI values between 850 and 870.

The study we were discussing used samples of VLSFO blends made at some time during 2019 — thought then to be representative of those the industry would be bunkering now to comply with the new sulphur regulation.

The fuels were then burned as described above in a medium-speed, four-stroke diesel engines, and the exhaust gases analysed for black carbon emission.

Unsurprisingly, the study found a correlation between aromaticity and combustion quality, with the highly aromatic fuels emitting higher levels of black carbon.

Little can be concluded from the study, other than the fact that burning highly aromatic fuels in medium-speed engines can give rise to increased black carbon emissions. This is nothing new.

What we cannot do is assume the conclusion will be the same when it comes to black carbon emissions from all engine types burning compliant fuels that were delivered post January 1, 2020 under the new sulphur regulation.

Therefore, examining and understanding the chemistry of the new VLSFOs is a necessary first step on the way to making black carbon conclusions post-January 1, 2020.

Step two is to investigate black carbon emission levels from large bore, slow-speed, two-stroke engines, in addition to the medium-speed, four-stroke diesel engines (auxiliary engines) used in the study, for correlation between fuel oil aromaticity and black carbon formation.

The third — and last — step is to compare the situation post-January 1 to that of pre-2020.

Once these steps have been taken and results published, I would not be in the least surprised if the conclusion is that black carbon emissions from ships have actually dropped because of the shift to 0.5% VLSFO.

ANALYSIS

Vitol newbuilding VLCC used for diesel floating storage

A VITOL-owned newbuilding very large crude carrier is the first tracked trading clean in nearly 10 monthsn with the *Elandra Kiliminjaro* now storing a 2m-barrel cargo of diesel off Singapore.

The 299,240 dwt tanker sailed from South Korea's Hyundai Heavy yard at Ulsan on February 10 for Singapore and loaded diesel from Malaysia's Tanjung Langsat and Singapore's Universal Terminal over past days, according to energy intelligence provider Vortexa.

The VLCC is the first newbuilding seen loading a clean cargo of refined products for its first voyage in about 10 months. At least five of the 17 newbuilding VLCCs launched in the first quarter of 2019 were used to ship or store middle distillates from Asia, amid an oversupply of both tanker tonnage and gasoil or diesel.

The *Elandra Kiliminjaro* is owned by Elandra Holdings and operated by Mansel, both shipping units of oil trader Vitol.

The diesel floating storage play comes amid free-falling global demand for land and air transportation fuels because of the impact of coronavirus on travel. Against this backdrop, Europe and North America have also recorded the warmest winter on record, which has wiped out seasonally higher use of kerosene and gasoil for heating.

The middle distillates physical surplus flipped the spot price structure for gasoil futures trading on London's ICE Europe exchange to a contango last week.

This means the future price is higher than the front-month price, which can promote floating storage economics. However, higher time charter equivalent earnings for VLCCs suggest that the floating storage is more a sign of oversupply of refined products, rather than tonnage overcapacity.

March ICE gasoil was trading at $446 per tonne at 1315 hrs GMT today, some $13 tonne lower than the November 2020 contract price, data show.

Vortexa said the diesel-loading VLCC reflected "strong Chinese diesel outflows, and a slump in northwest European diesel margins to multi-year lows this month".

Diesel margins in Europe – the profit derived by refineries from producing the middle distillate – slumped to the lowest since September 2016 last week.

Asia produces more diesel and some other middle distillates than it needs, with surplus sailing to Europe, Latin America or African countries.

Greatest oversupply is now seen in China, where state-owned refineries are exporting volumes that the produced for the domestic market but which are no longer needed as the economy struggles to return to normal after the coronavirus outbreak.

Capesize bulker scrubber premium tumbles

THE scrubber premium for capesize bulk carriers has fallen to just over a third of its January highs, tracking losses seen in compliant fuel oil prices at the world's busiest bunkering hub following the coronavirus outbreak, data from energy and commodity pricing agency S&P Global Platts has shown.

Platts assessed the scrubber premium — defined as term charter earnings differential between ships with and without scrubbers installed — at $4,309 as of Friday, down from $12,246 on January 3.

Despite the drastic decline, these data still back ships fitted with scrubbers, as they are "still in the black and making money", said Pradeep Rajan, who heads up Platts' shipping and freight team in Asia Pacific.

On the flip side, the lower premium or narrower term charter earnings differential also puts ships without scrubbers in better position to compete for long-haul charters, he suggested.

Scrubber premium correlates with the price spread between compliant and non-compliant fuels, which has narrowed since the coronavirus contagion broke out in late January.

Platts-assessed trades were done in Singapore on fuel oil complying with the International Maritime Organization's 0.5% sulphur limit, or very low sulphur fuel oil at $418 per tonne on Friday compared with $282 per tonne for 3.5% sulphur fuel oil or high sulphur fuel oil.

This equates to a price spread of $135 per tonne between compliant and non-compliant fuel oil, down from more than $300 per tonne seen in January.

Bunker players have pointed to slower inquiries from shipowners pushing up fuel oil inventory in Singapore as factories in China only recently started resuming operation.

Trade has slowed to a crawl and shipping rates for bulk carriers — scrubber fitted or not — have not been spared the brunt.

Voyage charter rates for capesize bulk carriers trading between the port of Hedland in Australia and Qingdao in China were fixed at a low of $5.20 per tonne on Friday for a ship running on VLSFO, or $3,822 in term charter earnings, Platts data showed.

IN OTHER NEWS

Cosco Shipping Holdings taps virus bonds

STATE conglomerate China Cosco Shipping Corp has joined moves by domestic companies to tap the bond markets for relief amid financial impact from the coronavirus outbreak.

Cosco Shipping Holdings, its container shipping and ports arm, has raised Yuan1bn ($143.5m) on Friday from issuing the so-called "virus control bond", according to an exchange filing.

The bonds carry a coupon rate of 1.82% and maturity of 180 days, the Shanghai- and Hong Kong-listed subsidiary said.

Coronavirus: UK steps up monitoring at ports

PUBLIC Health England, a government watchdog, is to step up monitoring at ports in response to the coronavirus threat.

Health Protection Teams will deliver a similar level of checks to those already in place for passengers and crew at airports, according to a joint announcement from PHE and the Department for Transport.

The arrangements will involve assessing recent travel history and contacts, onward travel plans, and possible

Scrubber retrofits will help boxship sector

BOXSHIPS out of service for scrubber retrofits will continue to boost the sector in 2020, according to Clarksons.

The shipping brokerage said 423 boxships of 3.6m teu had been fitted with a scrubber by the start of February, about 16% of fleet capacity, with another 254 ships representing about 10% of capacity pending retrofit.

"The impact of vessel time out of service for scrubber retrofit is set to remain significant in 2020 and potentially be larger than in 2019," Clarksons said.

The brokerage said vessel time out for scrubber fits last year absorbed about 1.6% of fleet capacity, and 2.4% of 8,000-plus teu capacity, on average. The share of capacity under retrofit also increased during the year, it added.

EU funds Wärtsilä-led project to cut emissions

FINNISH company Wärtsilä plans to produce a new engine and propulsion solutions that it hopes could significantly cut fuel consumption, greenhouse gas emissions and other air pollutants.

The technology firm said SeaTech, a consortium that will run until 2023 and that Wärtsilä is co-ordinating, has secured European Union funding for its project.

Wärtsilä Marine director of research & technology development Jonas Åkerman told Lloyd's List that the EU is providing around €5m ($5.56m) for the project.

TPM conference cancelled over coronavirus concern

A LARGE number of container shipping executives had their plans overhauled during the weekend following the last-minute cancellation of the annual Trans-Pacific Maritime conference, which was due to take place in Long Beach, California this week.

A number of people spoken to by Lloyd's List were already in the air and destined for the US west coast when the decision was taken by the organisers to cancel the event due to fears over spread of the coronavirus.

TPM, which would have celebrated its 20th anniversary this year, is one of the highlights of the container shipping calendar, particularly for shippers, beneficial cargo owners and carriers operating on the transpacific trades.

New member joins Lloyd's List Editorial Board

MARITIME technology expert Daryl Williamson is joining the Lloyd's List Editorial Board, bringing an added dimension to the extensive industry knowledge and experience of existing members.

The board was established two years ago to ensure Lloyd's List remains the most trusted and authoritative provider of maritime news and analysis, and the principal source of market intelligence and insight for all those working in the shipping industry and related business sectors.

Mr Williamson, who retired as commercial development director at Lloyd's List Intelligence last week, spent almost 30 years at Lloyd's List, supporting maritime commercial and government customers in a variety of technical and business roles. He worked with every sector of the industry, delivering maritime security information services and developing software tools for governments and businesses throughout the world.

Hydrogen is a suitable option for containerships

MOST containerships operating in the Pacific Sea between China and the US would require only minor adjustment to be powered by hydrogen, according to a study.

The International Council on Clean Transportation said in its study that 99% of those transpacific voyages could be powered by hydrogen instead of fossil fuels, with only limited changes required to a vessel's capacity or operations.

"Specifically, this could be achieved by replacing 5% of certain ships' cargo space with more hydrogen fuel, or by adding one additional port call to refuel hydrogen en route," the US-based non-governmental organisation said.

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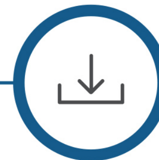

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