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Floating storage economics improve as oil contango widens

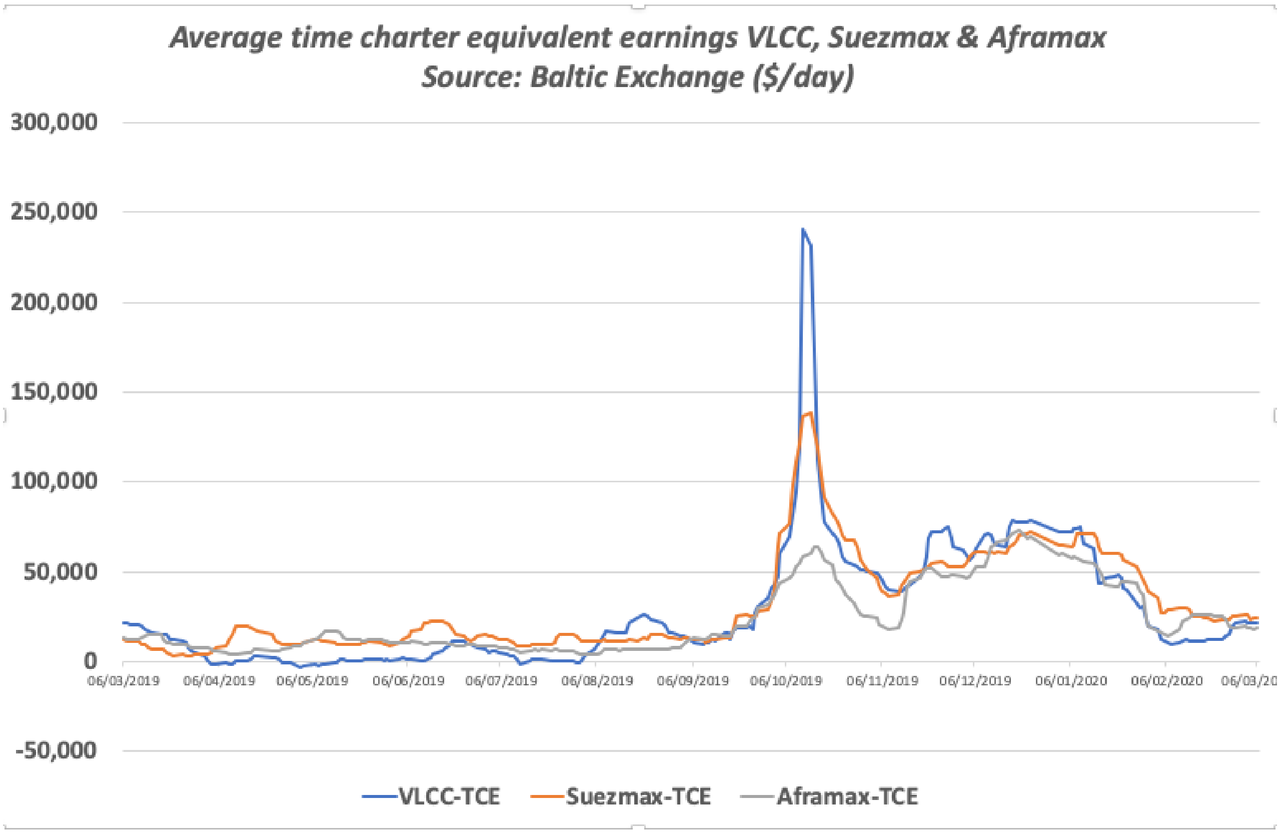
TANKER OWNERS ARE BETTING on rising demand for floating storage and increased Chinese purchases of cheap crude to offset contracting oil demand while plunging marine fuel prices help maintain earnings momentum.

Brent crude slumped as much as 35% in weekend trading after Organisation of the Petroleum Exporting Countries oil producers failed to rein in the coronavirus-led oversupply weighing on prices. The contango structure, when the front-month price is lower than future prices, can lead to traders buying and storing oil on tankers for later sale at a profit.

The Paris-based International Energy Agency forecast yesterday that global oil demand would contract for the first time since 2009 just as Saudi Arabia and Russia — the two largest exporters — began a race to the bottom for market share.

"While the situation remains fluid, we expect global oil demand to fall in 2020... because of the deep contraction in China, which accounted for more than 80% of global oil demand growth in 2019, and major disruptions to travel and trade," the IEA said in its monthly report released on Monday.

About half of the 100m barrels per day of global crude demand is exported by sea. Seaborne trade of refined products adds a further 25m bpd.



Marine fuel oil prices also plunged by nearly a quarter yesterday, sharply reducing operating costs for the global fleet. Very low sulphur fuel oil in Singapore dropped $70 per tonne to $284.75 per tonne, according to price reporting agency Argus Media. High-sulphur fuel oil was $70 lower, at $187 per tonne. Spreads between the two marine fuels fell below $100 per tonne for only the second recorded time.

Momentum for floating storage is building after a second newbuilding very large crude carrier owned by oil trader Vitol was chartered last week for a short-term period of six months. This suggests it will also be used for floating storage off Singapore, adding to a slowly rising armada of tankers there.

Elandra Denali was fixed at $36,000 per day once it leaves the South Korean shipyard later this month, and is expected to join the 2020-built *Elandra Kiliminjaro* off Singapore. The latter VLCC is now storing a 2m-barrel cargo of diesel and is the latest VLCC tracked to be deployed in floating storage.

Prices for future delivery of Brent crude are close to levels over the spot price where short-term time charters of tankers for floating storage is viable. However, whether it would be on a scale that could lift or maintain rates has yet to emerge.

The three-month Brent contango is currently trading at $1.80 per barrel. Current VLCC forward freight agreements for the second quarter of 2020 were priced at Worldscale 59, or $12.92 per tonne, according to FFA shipbrokers. That translated to $1.76 per barrel, making the current contango almost viable.

Some 47 VLCCs were currently deployed for temporary floating storage, which totalled 120m barrels for the week ending March 6, according to Lloyd's List Intelligence. However, 35 of these were VLCCs owned by the National Iranian Tanker Co, storing sanctioned crude and condensate off Iran or Malaysia, that is unable to easily trade.

Whether volatile conditions could sustain rates after the price shock was uncertain. Oil companies and traders chartering tankers have yet to have time to assess new oil and product market structures and refineries' responses that may affect chartering needs.

Lower crude prices support refinery margins but many in Europe and Asia are reportedly undertaking maintenance in response to the global demand slump, estimated at 3.5m bpd month-on-month fall in February.

Moves by Saudi Arabia and Russia to flood the market with cheap crude oil are designed to crush the US shale oil industry, which has filled the gap left by Opec-plus production cuts over the past three years, eroding the cartel's market share, even as oil prices stabilised.

"Even though we are witnessing unprecedented market conditions, it's not Armageddon," said Houston-based RBN Energy in a report today. "Crude oil will continue to be pumped, piped, shipped and refined. Most infrastructure projects under construction before the collapse in oil prices will be completed. The big question is, how will the market adapt?"

In the US, West Texas intermediate light sweet crude was trading at 33.86 per barrel at 1500 London time. Freight costs add a further $3.19 for shipment to Asia, in addition to delivery costs to Houston for export.

The uncertainly arrested advances in VLCC and suezmax spot rates on Friday, as market participants stepped back to re-evaluate conditions. VLCC time charter equivalent average rates were at $21,313 daily on March 6, slightly down from the five-week peak of just over $22,000 seen on March 2.

WHAT TO WATCH

Terminals axe shore leave as coronavirus alarm mounts

CONOCOPHILLIPS Teesside and Oiltanking Hamburg are understood to have banned seafarers coming ashore and denied welfare visits to vessels by Christian chaplains, in a bid to contain the spread of coronavirus.

Seafarer welfare charities stressed that it is premature to talk in terms of a lockdown at this stage.

But with media reports suggesting similar measures are in place in a number of other ports around the world, they now fear such restrictions are on the cusp of becoming widespread.

Crews now face the threat of unfair stigma, with the added irony that they may be statistically safer from coronavirus staying put on board rather than mingling with port city populations, representatives added.

The developments in Britain and Germany come after the Australian Maritime Safety Agency last week announced that it will consider allowing shipowners to extend seafarer tours of duty beyond the 11-month ceiling set down in the Maritime Labour Convention where coronavirus makes this necessary.

Ben Bailey, director of advocacy at the London office of the Mission to Seafarers, said that he became aware of the apparent blanket ban on shore leave and welfare visits at ConocoPhillips Teeside, which is near Hartlepool, late last week.

"They said that non-essential personnel will not be allowed in the port until further notice, and we do understand that," he said.

To the best of his knowledge, mission chaplains and ship visitors are allowed to board ships in all other ports in which the Anglican-aligned Mission to Seafarers is active, and are continuing to do so.

Mr Bailey also highlighted the situation in Australia, where port state control authority AMSA has said that it will consider reasonable requests from shipowners and operators where foreign seafarer repatriation and service periods have been impacted by travel restrictions and quarantine measures, even if that puts them in breach of the MLC.

Some ships have been held at anchor for up to two weeks if they have come from China, where coronavirus begun, and welfare visits are not allowed.

"Broadly we're not seeing a clampdown on port restrictions at the moment. But we do have to put all of this into perspective, and the vast majority of seafarers won't have been in the affected areas.

"I'm not a doctor, but I'd say they are among the safer parts of the population, as they are constantly out at sea and not actually interacting in these places.

"We have to get the balance right, in ensuring that vessels can operate appropriately, and that seafarers who are entitled to shore leave are properly looked after."

ConocoPhillips did not immediately respond to telephone and email inquiries from Lloyd's List seeking comment on the issue.

However, a representative of Oiltanking Hamburg confirmed Facebook postings from seafarers on vessels currently alongside at the terminal that they are confined to ship. Access is limited to police and pilots, he added.

Hamburg Pastor Matthias Ristau of the Evangelical-oriented Deutsche Seemannsmission has spoken out on Twitter about the risk of the stigmatisation of seafarers as a result of the spread of coronavirus.

Given that the transit time between China and Germany's largest port exceeds the incubation period, there should not be any risk, he said.

"Germany is already sixth or seventh in the world by the number of those infected, with over 1,000 cases. There is more reason for seafarers to be afraid to come to Germany than for Germany to say it doesn't want access by seafarers.

"People are closing ports but not airports or land borders. Seafarers are facing stigma, and it's without any reason. It's easy to put the blame on seafarers, but it's totally wrong."

Martin Foley, chief executive of Catholic seafarers' mission Stella Maris, said: "While we completely understand the need for maximum vigilance and precaution as the virus takes hold globally, Stella Maris would urge all national governments and port authorities not to stigmatise seafarers and uphold their dignity at all times.

"Seafarers play an absolutely pivotal role in global trade. The global community will undoubtedly need their professionalism as we tackle the coronavirus, just as we have seen on many cruise ships. Please do not forget seafarers."

IEA anticipates first drop in oil demand in over a decade amid coronavirus

GLOBAL OIL demand is set to drop in 2020 for the first time since 2009 due to the coronavirus, the International Energy Agency has forecast, as its chief accused countries of playing "Russian roulette" to try to drive down oil prices against the backdrop of a global health crisis.

The IEA announced on Monday that it expects a 90,000 barrels per day drop in global oil demand year on year for 2020, a downward revision of about 1m barrels per day from its previous forecast.

IEA executive director Fatih Birol said during a webinar that the organisation expected an overhang of 3.5m barrels per day across different countries.

The IEA published its projections as oil prices fell as much as 30% on Monday, following Saudi Arabia's decision to increase its production in the aftermath of Russia's refusal to cut its own supply. Though oil prices recovered slightly during the day, the fall upon opening was the biggest since 1991.

A 90,000 bpd drop is the IEA's base case projection. But in a situation in which the global economy is slower to recover from the coronavirus outbreak, global oil demand could fall by 730,000 barrels per day in 2020. In an optimistic scenario, in which the situation comes under control quickly, demand could increase by 480,000 barrels per day in 2020.

Mr Birol said the severity of the situation came down to two main factors; China's significance in the global trade and the energy demand and the disproportionate impact of the virus on mobility, exemplified through aviation, which although it generates 1% of global gross domestic product accounts for 8% of global oil consumption.

"Putting the demand and the supply picture together, I think this situation seems to have no equal in the oil market history, with such a shock combination of massive supply overhang and significant demand shock at the same time. So we think this is an unprecedented situation," he said.

Mr Birol said he was worried for oil producing countries as a collapse in oil prices would deplete their revenues. For some countries, it would be almost impossible to finance areas such as healthcare and education, leading to potential destabilisation in countries such as Iraq, Angola and Nigeria.

"The IEA has repeatedly talked about the importance of diversification of these oil producing economies. And now diversification becomes simultaneously more important but at the same time more because of lack of funds to diversify," he said.

Russian roulette in the global oil market

The dire situation caused by the outbreak of coronavirus has been followed by the inability of

Opec and non-Opec countries to agree new production cuts, leading to Monday's price rout.

Without directly naming countries, Mr Birol slammed actors whose motivation is to kill shale — an apparent reference to Opec's efforts to curb the market share of the North American product by slashing the oil price — warning that the commodity has proven its resilience before.

"Looking at motivation of some of the actors to kill shale, I would say that at a time of such uncertainty and potential vulnerability for the world economy, playing Russian roulette in oil markets may well have grave consequences," he said.

The current crisis is halting the growth of shale, as independent producers are already heavily indebted, he said. Ultimately this could lead consolidation and bring further efficiency gains.

Global oil demand slowing down

Looking beyond the disruption from the coronavirus, the IEA said it expected global oil demand growth between 2019 and 2025 to average annually at 950,000 barrels per day, an evident drop from the 1.5m barrel per day growth seen over the past decade.

"Oil demand growth slows because demand for diesel and gasoline nears a plateau as new efficiency standards are applied to internal combustion engine vehicles and electric vehicles hit the market," the IEA said.

Meanwhile petrochemical feedstocks, LPG/ethane and naphtha will account for around half of all oil products demand growth and continued rising plastics demand and cheap natural gas liquids in North America will also contribute.

Supply will be more than sufficient to meet the anticipated demand, with global production capacity expected to increase by 5.9m barrels per day by 2025.

Non-Opec countries will continue to claim the larger production share but Opec countries will also increase their capacity.

"The US leads the way as the largest source of new supply. Brazil, Guyana, Iraq and the [United Arab Emirates] also deliver impressive gains. Colombia, the UK, Russia, Egypt, Nigeria and Angola post the biggest declines," the IEA said.

But it warned the supply growth was "heavily front-loaded" and US production was slowing down, dropping from 2.2m barrels per day in 2018 to 1.6m in 2019 due to spending cuts from independent producers and scaled-back drilling activity.

"In our base case, that assumes $60/bbl Brent, growth is expected to grind to a halt in the early 2020s and production will plateau around 20 mb/d – 2.5 mb/d higher than in 2019," the IEA said.

The agency expects that beginning in 2022, the US slowdown will allow Opec countries in the Middle East to step in and add to the supply.

ANALYSIS

Saadé defends CEVA acquisition as central to CMA CGM's growth prospects

RODOLPHE Saadé has mounted a robust defence of CMA CGM's CEVA Logistics acquisition and played down the group's debt levels as he presented an upbeat assessment of the outlook for container shipping in the wake of the coronavirus outbreak.

The chairman and chief executive of CMA CGM expects shipments out of China to be almost back to normal by the end of the month, following the slump during the annual Chinese New Year holidays and the longer-than-usual factory closures as the Chinese authorities took action to contain the disease.

In a pattern of trade reminiscent of the sharp 2010 recovery in the aftermath of the first-ever decline in container volumes during the 2009 financial crash, Mr Saadé says there are already signs of stock replenishment as customers in Europe and the US rush to protect supply lines that could be jeopardised by half-empty warehouses.

In an interview with Lloyd's List soon after CMA CGM released its 2019 financial results, Mr Saadé also underlined the importance of being able to provide a full range of both shipping and logistics services.

"What we would like to do is to offer CEVA solutions to customers of CMA CGM. To the customers of CEVA, we would like to offer shipping solutions," said Mr Saadé.

"That is why I believe the strategy we are pursuing is the right one, because we are in a position to offer services covering the whole logistics chain."

He sees growth coming largely from logistics activities, which is why Mr Saadé regards the CEVA acquisition as critical to CMA CGM's future development.

Industry leader Maersk is already at an advanced stage of combining its ocean shipping, terminals and freight forwarding operations into a single integrated container logistics company, and other box lines also want to provide full end-to-end services.

CMA CGM, the world's fourth-largest container shipping company and a member of the Ocean Alliance, is following a similar path, with the recent $1.6bn takeover of Switzerland's CEVA Logistics central to the group's business plan.

However, the integration process has proved far from straightforward, raising questions in industry circles about whether the investment was a mistake. The cost of the acquisition has swollen CMA CGM's already huge debt levels, while a recent management reshuffle that appeared to sideline CMA CGM veteran Nicolas Sartini only added to the sense that all was not well. Mr Sartini, who was moved from CMA CGM subsidiary APL to run CEVA Logistics, was only there for just over a year before being put in charge of CMA CGM's port interests from the beginning of March.

Mr Saadé acknowledged that the takeover had not been easy, with a lack of customer loyalty one of the problems, in contrast to the ocean shipping side of CMA CGM's business.

Although CEVA Logistics contributed $7.1bn to the group's $30.3bn revenue in 2019, it posted a net loss of $161m because of restructuring costs and financial provisions, as well as the application of IFRS 16 accounting rules that took effect in January 2019.

"In CEVA, we have customers that we lose too quickly, and we need to make sure we offer them the right service quality so that they stay," said Mr Saadé.

Nevertheless, he made it clear that he did not have any second thoughts about buying CEVA, and that steps were being taken to address the issues CMA CGM had encountered. That includes centralising CEVA head office in Marseilles, where the group's headquarters is located, optimising purchasing processes, and diversification towards smaller customers.

"If it were not CEVA, it would have been someone else, as I really believe in developing a logistics division so that we are in a position to offer our customers end-to-end solutions, but I believe CEVA is the right company, and it was good that we bought it," he insisted.

"I am very confident that by the end of the year, we will see significant signs of recovery, so I do not regret at all having bought CEVA," he told Lloyd's List. "We will get there in the coming months."

Mr Saadé, who took over as head of the family-controlled group from his late father Jacques Saadé in 2017, also said CMA CGM's debt level of almost $18bn was manageable.

"The number is big, but I am not concerned," he said, noting that the group had plenty of assets such as ships and terminals, as well as liabilities.

"We are taking all the necessary actions to ensure we have enough cash available."

The level of debt is $7.6bn higher than it would have shown on the books before the new global accounting rules were introduced last year, while the CEVA acquisition and consolidation of its debt accounted for another $2.1bn.

However, net debt is expected to decline by more than $1.3bn by the middle of the year, following the $968m sale of 10 ports to its Terminal Link joint venture with China Merchants, plus some ship sale and leaseback transactions. The group also has just negotiated a three-year extension on $535m worth of credit lines that were due to mature in 2020.

"We believe that the business should be okay as we move forward," said Mr Saadé.

"Obviously the virus is going to disrupt our business forecast but at the same time, we do not believe the situation will last forever."

Signs of a return to normal are already evident, Mr Saadé continued, with CMA CGM forecasting higher volumes this year than the 21.6m moved in 2019, as liftings out of China rapidly recover to levels being handled before the start of the coronavirus outbreak. By early April, all ships that CMA CGM idled during the downturn will be back in service.

"Are we concerned about Europe and US? Of course," said Mr Saadé. "But we prefer to look at the glass half full, and the fact that China is rebounding is a positive sign," he added, with CMA CGM expecting freight rates to pick up in the second quarter and absorb the negative impact of the virus on first quarter financials.

OPINION

Maritime fingers on the economic pulse

SHIPOWNERS and terminal operators are on the front line of the global economy. They usually know well ahead of the economists, statisticians, and politicians what is happening in the real world, as their vessels and their facilities are handling countries' imports and exports, *writes Janet Porter*.

That means they have a good overview of global commercial activity, well before just about everybody else. That has always been the case, and today is little different.

So as the financial markets go into free-fall on fears that the coronavirus is going to send the world's big economies into recession, it is worth paying attention to what Rodolphe Saadé has to say, albeit with some caveats.

Mr Saadé, head of CMA CGM, believes that China's exports are rapidly returning to normal as Chinese factory production recovers after the enforced shutdowns as the lunar new year holiday closures were extended to help contain the spread of the disease.

CMA CGM, which is a member of the Ocean Alliance along with Cosco Shipping, OOCL and Evergreen, has long-established trading links with China and so good business connections.

All container lines have been badly hit by the slowdown in Chinese production over the past few weeks, forcing them to blank a large number of sailings from Asia to the US and Europe, and consequently idle ships. However, Mr Saadé says all CMA CGM vessels that are temporarily unemployed will be back in service by early April as Chinese exports rebound. He can tell from forward bookings, and the fact that some customers are even turning to airfreight to speed up deliveries, that demand is picking up again.

Now Mr Saadé has every reason to want to convey a positive message about market prospects. CMA CGM is saddled with huge debts, and there is undoubted nervousness in financial circles about the group's viability, as illustrated by the drop in CMA CGM bond prices.

CMA CGM has been here before. The group came close to collapse a few years ago before Turkish businessman Robert Yildirim stepped in with a big cash injection.

He remains a shareholder with a 24% stake in CMA CGM, and apparently is happy with his investment and the group's business strategy.

Mr Saadé also insists he is unconcerned about CMA CGM's high level of debt, pointing out that the number has increased sharply partly because of a change in global accounting rules last year. He also notes that the group has very sizeable assets and says he is not concerned about the current level of debt.

Shipowners are invariably long-term optimists. That is the nature of the business, but Mr Saadé certainly sees this as a short-term disruption.

The fact that China's exports are now rebounding does not mean that the crisis will soon be over, however. Of course it doesn't. How the spread of coronavirus affects other big economies remains and the demand side of the equation remains to be seen. Fear itself is contagious.

Yet if Mr Saadé's assertion is correct that Chinese exports are rebounding very fast, so helping to alleviate pressure on supply chains and replenish half empty warehouses in the US and Europe, that should help to contain some of the panic that is now spreading as quickly as the virus itself.

The next few weeks will be very telling in more ways than one.

MARKETS

World boxship fleet update: Idle vessels returning to service could upset market balance

WITH the ever-changing news surrounding the coronavirus outbreak dominating the conversation, attention has slipped away from some of shipping's other concerns, including the size and make-up of the containership fleet.

The number of blankings has made the headlines, however, and that has led to increasingly large numbers of vessels sitting idle. While those numbers are set to return to normal in the coming weeks, paying for unemployed tonnage will have done little to improve earnings are already constrained carriers.

At the end of February, the world containership fleet stood at 22.6m teu, almost exactly where it was month earlier. Just one vessel was added to the total fleet number, and fleet capacity rose by just 2,193 teu.

The reduced increase was aided by the fact that deliveries in the month were only for smaller feederships, the largest of which was under 2,000 teu.

Combined with the demolition of five ships comprising 9,675 teu, the net effect was virtually no growth last month.

Where growth was seen was in the number of idle vessels. In terms of ship numbers, Lloyd's List Intelligence reported 364 vessels unemployed, accounting for just over 1m teu of capacity and representing 4.6% of the total fleet.

As well as vessels laid up by blanked sailings, there are also a large number out of service awaiting scrubber installations.

Delays at various Chinese yards due to the coronavirus outbreak have resulted in extended yard stays for the vast majority of containerships undergoing retrofits in China, according to Alphaliner.

Chinese yards account for over 83% of all scrubber installations completed so far, and 77% of ongoing installations. According to Alphaliner's latest vessel count, 83 ships are undergoing retrofits in China.

"The extended Lunar New Year holidays have not slowed the steady stream of ships that come into Chinese yards, with 25 container vessels entering the docks since February 1, compared with 15 units that departed after completing their retrofits in the same period," Alphaliner said.

Meanwhile, Clarksons reported that up to 2.2% of containership fleet capacity could be absorbed on average across the year, out of a projected 3% fleet growth.

But it warned that the coronavirus outbreak had increased uncertainty over the retrofit schedule and would need to be tracked closely.

"The impact on 'active' fleet growth when the volume of capacity under retrofit eventually starts to significantly decrease will also be important to monitor," Clarksons added.

The rapid impact of coronavirus has changed the supply picture significantly in the past month.

"Fleet developments in January, prior to the coronavirus outbreak, saw a seasonal uptick in vessel deliveries and signs of increased activity in demolition markets," said analysts at Maritime Strategies International.

But it added that the near-term supply outlook had been affected by coronavirus.

"The impact on the supply-side will be much smaller than the demand side, however the main channels of impact are via disruption to Chinese shipyards and complications related to completing vessel demolition transactions," MSI said.

"In practice the delivery schedule in 2020 is not especially 'front-loaded', although delays at the start of the year will have a knock-on effect in the later quarters."

The greatest potential for newbuilding slippage came in the feeder segment, where China retains a 65% share of scheduled feeder newbuilds in 2020.

"This is arguably a positive development for smaller vessels currently in the fleet, where a mix of upsizing on regional trade routes and competition from more economical newbuilds has proven a major challenge in recent years," MSI said.

Overall, MSI expects 176,000 teu of deliveries in the three months to April, set against 62,000 teu of demolitions.

Meanwhile, BIMCO expects the container shipping fleet to grow by just 2.5% in 2020, marking the first time in four years that deliveries will be below the 1m teu mark, which will help reduce the overcapacity in the market.

"On top of a fall in deliveries, demolitions are set to rise to 200,000 teu," BIMCO said.

But BIMCO chief shipping analyst Peter Sand warned that supply growth would still be above demand growth.

"In 2020, we are looking at the lowest fleet growth in four years but we do not expect demand to be anywhere near 2% for 2020. This is likely to represent another challenge in terms of deteriorating fundamentals for liner shipping," Mr Sand said.

"We are expecting around 750,000 teu to be delivered to the active fleet this year, offset by approximately 200,000 teu in demolitions. In those terms we are talking about a not insignificant injection of fleet capacity and a move in the wrong way."

He also warned that a return to service of the idle fleet would have move impact on supply this year than newbuildings.

"The fleet growth coming down may not be the thing that makes or breaks the market," Mr Sand said. "That is more for the idle fleet, because the capacity returning to the market represents the capacity added in 2018 and 2019 combined. That will determine when there will be a floor under the freight rates."

Blanking figures show impact of coronavirus beginning to ease

EARLY indications from China are that the impact of the coronavirus on the supply chain is beginning to reduce as factories return to work, but questions remain over whether the demand side will now have an even more important impact on carriers' operations in the months ahead.

New analysis by SeaIntelligence supports comments made in an interview with Lloyd's List by CMA CGM chief executive Rodolphe Saadé that volumes were returning to normal at China's ports for the first time since the beginning of the outbreak.

By looking at the number of blanked sailings announced, SeaIntelligence found that while the number was up in week 10, the increase was small.

"We know that carriers in recent years have increasingly been using blank sailings to manage normal deviations of the demand developments, and hence we should expect a certain level of blank sailings, even in the absence of the virus impact," SeaIntelligence said.

Comparing this year's blankings with corresponding weeks in 2019, taking into account the different dates of Chinese New Year, SeaIntelligence said the numbers vary only slightly between 2019 and 2020.

"The overall conclusion from can only be that the amount of blank sailings now present in the two main trades to Europe and North America are back to the "normal" level of blank sailings for the coming weeks," it said.

This did not in itself indicate that manufacturing is back to full speed yet in China, as part of the current demand would be caused by cargo which had been awaiting pick-up, but was caught by a lack of intra-China transportation in recent weeks.

But SeaIntelligence warned that while the supply side may be coming back to normal, the latest issue was the threat of reduced demand in importing economies.

"China gradually seems to get back to normal business," it said. "However, the impact is now hitting the destination regions, and looking slightly further ahead, the potential troublesome aspect will be the impact of the spread of the virus elsewhere, with especially Europe rapidly implementing quarantine zones and shutting down parts of the economy."

This could trigger a reduction in inventory levels, as either business lose confidence or consumers reduced spending, it warned.

"If businesses are worried about additional virus fall-out, we may see a negative spike in volumes as inventories are corrected sharply downwards."

The level of the impact on demand would depend on whether lower inventories were driven by manufacturers or consumers, it added.

"This might technically happen as a result of the supply chain disruption we have already seen, but if this is the only effect, then we would shortly see a rebound, as businesses would endeavour to restock to the previous levels. In this case there will not be a material impact seen over full year 2020," it said.

"The problem is if businesses lose confidence in the mid-term economic outlook and start preparing for this by reducing inventories. This would lead to a similar development as in 2001, where the recession was inventory driven."

But a worse fallout would come if the impact of coronavirus led consumers to cut spending, reducing sales. In this scenario, a better comparison would be with the recession of 2008.

Container lines therefore needed to be in close communication with their customers to understand wo what degree inventory reductions were part of their strategy, as the impact on peak season volumes could be dramatic.

"If businesses are not worried, then we may see a positive volume spike as there is a catch-up from the lost production in February," SeaIntelligence said.

"If the businesses are worried for additional virus fall-out, we might well see a negative spike as inventories are corrected sharply downwards."

Oil price war adds to tanker market volatility

TANKER charterers and owners are stepping back this morning as Russia and Saudi Arabia begin a global battle for oil market share just as demand for crude is forecast to contract for the first time in a decade.

Brent crude tumbled by as much as 35% in trading over the weekend after oil cartel the Organisation of the Petroleum Exporting Countries' three-year alliance with the world's second-largest producer, Russia, collapsed on Friday. Brent was priced at $35.48 per barrel on London's ICE Futures Europe exchange by 1130 hrs GMT, rising from as low as $31 per barrel in earlier Asian trading.

Chinese refineries slashed runs by as much as 3.5m barrels per day in February, resold March cargoes and curbed April buying as a coronavirus-led collapse in demand for air and land transportation fuels left the world's biggest importer with a massive crude surplus.

Weekend reports suggest that 70% of Nigerian and Angolan crudes for April remain unsold, affecting suezmax tankers, which predominately lift cargoes from West Africa for shipment.

Suggestions that Saudi Arabia will lift production from levels of about 9m bpd to as much as 11m could see not only crude exports rise but temporarily lift shipments of refined products from the Kingdom as it expands runs. Saudi Arabia is a significant Middle East exporter of jet fuel, diesel and gasoil to Europe and Africa, and major local supplier in the Gulf.

Russia declined to agree production cuts of 1.5m bpd on Friday, thereby resisting Opec members who sought to arrest free-falling oil prices from the coronavirus outbreak. In retaliation, Saudi Arabia has discounted its crude prices and signalled higher exports to maintain market share. Russia's leadership has signalled it will not cut output as it wants to head off the rise of US shale oil, which has added more than 3m bpd to global oil exports in the last three years.

Increased Saudi exports will likely boost the purchasing of Chinese oil companies who want to buy steeply discounted crude, providing employment for the very large crude tankers that typically ply these trades to Asia from the Middle East Gulf.

However, the oil price contango — when the spot price is lower than the future price — is not wide enough to support floating storage economics. The three-month spread for Brent crude was around $1.20 per barrel in trading today, with the three-month time charter rate for a very large crude carrier last done at $40,000 per day, according to shipbroker reports.

The demand shock lifted Chinese inventories to a record high in February. Any floating storage now emerging off West Africa and Singapore will more likely reflect a shortage of onshore storage than profitable crude contango structures.

IN OTHER NEWS

Marine broker Aon buys rival Willis Towers Watson for $30bn

AON is to buy marine broking rival Willis Towers Watson in a $30bn deal that will allow it to reclaim the title of the world's biggest broking firm.

The two brokers are major players in marine insurance, with Aon placing some $3bn in premiums annually.

Aon chief executive Greg Case said the transaction "will create a more innovative platform capable of delivering better outcomes for all stakeholders, including clients, colleagues, partners and investors".

Mr Case expects about $800m in pre-tax synergies to be generated.

Marsh & McLennan Companies overtook Aon as the world's biggest broker by volume when it bought rival JLT last year but Aon's purchase of Willis Towers Watson will mean it again becomes the world's largest broker by volume.

Industry pushes governments for bunker licensing schemes

THE INDUSTRY'S biggest groups have united yet again to push governments to introduce mandatory licensing schemes for bunker suppliers operating in their jurisdictions.

The proposal to the International Maritime Organization was tabled by the International Chamber of Shipping, BIMCO, Intertanko and the World Shipping Council and will be discussed at the next Marine Environmental Protection Committee in early April.

It supports this measure from governments to mitigate risks around fuel oil quality and safety, a concern that has become especially prevalent over the past few years with the advent of new fuels to comply with the global 0.5% sulphur cap.

"This would impose quality requirements on, and promote more effective regulation of, fuel oil suppliers," they said in their submission.

Clarksons braces for coronavirus impact

LONDON-listed shipbroker and financial services provider Clarksons has warned that coronavirus will likely hurt its bottom line during the first half of the year, but remains confident about the future for the shipping market.

The company announced on Monday that it had got off to a strong start this year and is positive on the future, but the outbreak of the coronavirus means business in the near term will be challenging.

"We started 2020 with a stronger forward order book than in 2019, however, the emergence of the coronavirus will impact our first half performance. In the medium term, the environmental regulatory drivers and the supply and demand dynamics in the shipping industry are favourable. We remain confident in the prospects of the group," Clarksons chief executive Andi Case said in the company's preliminary annual results.

Freight rates have been hit by the coronavirus and Clarksons' index for vessel earnings, ClarkSea Index, has dropped 32% since the first week of the year.

Cruiseship infected with coronavirus heads to port of Oakland

THE port of Oakland is due to receive some 3,000 passengers from the coronavirus-infected cruiseship *Grand Princess* on Monday in an effort by federal and state officials to provide needed medical attention while insulating the local population from the virus.

The port of Oakland was chosen because it is one of a limited number of docks that can accommodate a ship the size of the *Grand Princess*, and because it was the easiest "to seal off, securely move passengers toward their isolation destinations and protect the safety of the public", the California Governor's Office of Emergency Services said in a statement.

Meanwhile, Singapore will accept a cruiseship that has been turned away in Malaysia and Thailand due to coronavirus fears. Noting that the Costa Crociere vessel *Costa Fortuna* left from Singapore and was also homeported there, the Maritime and Port Authority of Singapore said the doctor on board will check on the passengers and crew in order to ensure that they are healthy prior to disembarkation.

HFW unveils promotions to partner and legal director levels

HFW has strengthened its shipping practice with the promotion of Claire Womersley to partner and Caroline Murphy and Katherine Noble to legal director, effective from the start of next month.

Ms Womersley's practice encompasses all aspects of crisis response and wet litigation arising from marine casualties. She has supported clients in a number of high profile cases, particularly those involving deaths and natural disasters.

She is also master mariner and spent nine years at sea on large passenger vessels and ro-ro freight ferries before joining HFW.

Ms Murphy deals with a wide range of dry shipping disputes, including charterparties and bills of lading, as well as on shipbuilding disputes and the dry aspects of shipping casualties. She also acts on contractual disputes arising out of sale and purchase contracts involving oil.

CSSC (HK) seals feeder ship sale-and-leaseback deal with Sinokor

CSSC (HK) Shipping has sealed a $102.8m sale and leaseback deal for four feeder container ships with regional South Korean player Sinokor.

Under the terms, the ship-leasing arm of the state-owned yard will buy the four 1,080 teu vessels from Sinokor, which originally ordered them for $72.4m and scheduled for delivery between September and December 2021. The group will then lease back the vessels for 12 years, after which the charterer is obliged to purchase them.

The deal will strengthen the group's leasing business and is consistent with its overall business development strategies, CSSC (HK) Shipping said in a stock market announcement.

In January 2019, Sinokor placed a big order for 20 smaller container ships with CSSC-affiliated yards.

Judge reduces damages award against ILWU to $19m from $96m

A US judge has found a federal jury's award of $93.6m in damages against the International Longshore and Warehouse Union and its Local 8 unwarranted and reduced the figure to just over $19m instead.

US District Judge Michael H Simon ruled that "the court is left with the definite and firm conviction that the evidence does not support a damage award of $93.6m" in favour of terminal operator ICTSI.

Judge Simon also ruled that a much lower damage amount was warranted by the evidence, saying that "the court also finds that an award of $19,061,248 is the maximum amount sustainable by the proof".

Last November, the federal jury ruled that the 38,000-member ILWU International and its Portland Local 8 must pay $93.6m in damages for orchestrating an on-the-job slowdown that harmed ICTSI, which operated Terminal 6 in the Port of Portland, Oregon.

Classified notices follow

APPLICATION FOR A DEVELOPMENT CONSENT ORDER, THE PROPOSED HORNSEA PROJECT THREE OFFSHORE WIND FARM ORDER (APPLICATION REFERENCE EN010080)

NOTICE UNDER ARTICLE 17 OF THE INFRASTRUCTURE PLANNING (ENVIRONMENTAL IMPACT ASSESSMENT) REGULATIONS 2009.

Notice is hereby given that further information has been published in relation to the application made by Orsted Hornsea Project Three (UK) Ltd of 5 Howick Place, London, SW1P 1WG ("the Applicant") for a Development Consent Order ("DCO") under the Planning Act 2008 ("the Application") for the Hornsea Project Three Offshore Wind Farm (accepted for examination under application reference EN1010080).

The Secretary of State considers information provided by the Applicant to their consultation letters dated 27 September 2019 and 31 October 2019 ("Further Information") to contain further environmental information and therefore invites comments from interested parties on the Further Information no later than **16 April 2020**.

The Further Information extends to:-

- North Norfolk Sandbanks and Saturn Reef Special Area of Conservation ("SAC");
- The Wash and North Norfolk Coast SAC;
- The Flamborough and Filey Coast Special Protection Area ("SPA");
- Cromer Shoal Chalk Beds Marine Conservation Zone ("MCZ"); and
- Markham's Triangle MCZ.

The Further Information is set out in the following documents:-

- Applicant's Summary Overview
- Appendix 1: Shadow Habitats Regulations Assessment (HRA) Derogation Case and supporting Annexes:
    - Annex A: Case Law, Guidance & Previous Decisions on Alternative Solutions;
    - Annex B: Imperative Reasons of Overriding Public Interest (IROPI) Law and Policy Update;
    - Annex C: Statement of Need - Planning Act 2008; and
    - Annex D: IROPI Case Studies.
- Appendix 2: Compensatory Measures:
    - Annex A: Supplementary advice on the Conservation Objectives for kittiwake;
    - Annex B: Subtidal Sandbanks Compensation Measures Options Screening;
    - Annex C: Flamborough & Filey Coast Special Protection Area (SPA) Compensatory Measures Options Screening;
- Appendix 2A: Sandbanks Compensation Strategy
- Appendix 2B: Kittiwake Compensation Strategy
- Appendix 3: Marine Conservation Zones: Marine Conservation Zone (MCZ) Derogation Case
- Appendix 3A: Cromer Shoal Chalk Beds MCZ In Principle Measures of Equivalent Environmental Benefit (MEEB) Plan
- Appendix 4: Post Examination Mitigation and Project Envelope Modifications:
    - Annex A: Consequence of Change
    - Annex B: Revised Ornithological Mitigation Scenario
    - Annex C: Cable Protection Assessment for Marine Protected Areas
    - Annex D: 2018/2019 Cable Engineering Site Specific Survey - Data Overview
- Appendix 5: Updated MCZ Assessment
- Appendix 6: (Updated) Outline Cable Specification and Installation Plan
- Appendix 7: (Updated) In–principle Hornsea Three Southern North Sea Special Area of Conservation Site Integrity Plan
- Appendix 8: Record of Consultation
- Appendix 9: Draft Development Consent Order (DCO) (Track changed)
- Appendix 10: Draft DCO Clean
- Appendix 11: Draft DCO Schedule of Changes
- Appendix 12: Draft DCO Standard Instrument Template
- Appendix 13: Markham's Triangle Exclusion Zone Plan
- Appendix 14: Supporting Reference Material to Appendix 1, Annex C: Statement of Need

The Further Information also includes a number of consent envelope modifications. These include (but are not limited to):

- Decrease in maximum number of turbines from 300 to 231.
- Increase in minimum rotor tip height of turbines from 34.97m above lowest astronomical tide (LAT) /33.17 above mean sea level (MSL) to 41.8m above LAT/40m above MSL.
- Decrease in total rotor swept area from 9km^2 to 8.8km^2.
- Removal of all infrastructure from Markham's Triangle MCZ.
- Reduction in cable rock protection within European designated sites.

Summary of the Project

The Application is for development consent to construct, operate and maintain Hornsea Project Three offshore wind farm ("Hornsea Three"). Hornsea Three will comprise up to 231 (previously 300) offshore wind turbines together with associated offshore and onshore infrastructure and all associated development.

Hornsea Three will be located within the former Hornsea Zone, to the east of Hornsea Project One and Hornsea Project Two. It will be located 121 km off the Norfolk coast and 160 km off the Yorkshire coast, and will cover an area of approximately 696 square kilometres.

Development consent is required to the extent that development is or forms part of a Nationally Significant Infrastructure Project pursuant to section 14(1)(a) and 15(3) of the Planning Act 2008. As Hornsea Three will have a generating capacity of greater than 100MW it is a Nationally Significant Infrastructure Project for the purposes of the Planning Act 2008. The Application was made on 14 May 2018 and accepted for examination on 8 June 2018 (under reference EN1010080). The examination closed on 2 April 2019. The Secretary of State has suspended consideration of the Application whilst awaiting the provision and publication of further information, with his decision expected on 1 June 2020.

The electricity generated from Hornsea Three will be transmitted via subsea electricity cables. The Hornsea Three cable corridor extends from the Norfolk coast, offshore in a north-easterly direction to the western and southern boundary of the array area. From the landfall west of Weybourne on the Norfolk coast, underground onshore cables will connect the offshore wind farm to an onshore high voltage direct current (HVDC) converter station or a high voltage alternating current (HVAC) substation, which in turn, will connect to the existing Norwich Main National Grid substation, located to the south of Norwich.

The mode of transmission will be either HVDC, HVAC or a combination of the two. Depending on the mode of transmission, a HVAC booster station may be required (onshore and/or offshore). Should an onshore HVAC booster station be required, this will be in the vicinity of Little Barningham.

The Application includes the option to construct Hornsea Three in one or two phases. The draft DCO (as of the end of the examination) provides for flexibility in relation to the design of the generating stations and their associated development.

The DCO would authorise the compulsory acquisition of land, interests in land and rights over land, and the powers to use land permanently and temporarily. The DCO would also authorise alterations to the public highway network, the construction of temporary and permanent accesses, the temporary stopping up or management of the public highway, public rights of way and street works and the application and/or disapplication of legislation.

Environmental Impact Assessment Development

The proposed works are environmental impact assessment development for the purpose of the Infrastructure Planning (Environmental Impact Assessment) Regulations 2009 and accordingly an environmental statement accompanies the Application.

Further Information

The Further Information can be viewed on the Hornsea Project Three Offshore Wind Farm project page of the National Infrastructure Planning website:- https://infrastructure.planninginspectorate.gov.uk/projects/eastern/hornsea-project-three-offshore-wind-farm/

Electronic copies of the Further Information and the environmental statement for reference can be provided on request by emailing: HornseaProjectThree@orsted.co.uk, by writing to Hornsea Project Three Offshore Wind Farm, c/o Emily Woolfenden Ørsted 5 Howick Place, London SW1P 1WG or by telephone 07881943166. The Further Information and the environmental statement for reference will be available for inspection free of charge at Norfolk and Norwich Millennium Library, The Forum, Millennium Plain, Norwich NR2 1AW between 11 March and 16 April 2020 and copies of the Further Information can be made available in hard copy format on request at a cost of £100.

Deadline for Response

Comments from interested parties on the Further Information must be received **no later than 23:59 on 16 April 2020**.

How to Respond

Consultation responses on the Further Information should be submitted by email to: **HornseaProjectThree@planninginspectorate.gov.uk**

Please also send any hard copy response to the Hornsea Project Three Offshore Wind Farm Team, Secretary of State for Business, Energy and Industrial Strategy, c/o the Planning Inspectorate, 3D Eagle Wing, Temple Quay House, Temple Quay, Bristol, BS1 6PN.

If you will have difficulty in submitting a response by the consultation deadline, please inform the Planning Inspectorate Project Team as soon as possible. An explanation of the reasons for this should also be provided.

Responses will be published on the Hornsea Project Three Offshore Wind Farm project page of the National Infrastructure Planning website: https://infrastructure.planninginspectorate.gov.uk/projects/eastern/hornsea-project-three-offshore-wind-farm/ as soon as possible after 16 April 2020.

IN THE HIGH COURT OF JUSTICE **CR-2020-000459**
BUSINESS AND PROPERTY COURTS OF ENGLAND AND WALES
COMPANIES COURT (ChD)

IN THE MATTER OF
SUNDERLAND MARINE INSURANCE COMPANY LIMITED

and

IN THE MATTER OF
THE NORTH OF ENGLAND PROTECTING AND INDEMNITY ASSOCIATION LIMITED

and

IN THE MATTER OF
PART VII OF THE FINANCIAL SERVICES AND MARKETS ACT 2000

NOTICE

NOTICE IS HEREBY GIVEN that on 25 February 2020 an Application was made under section 107 of the Financial Services and Markets Act 2000 (the **Act**) in the High Court of Justice, Business and Property Courts of England and Wales, Companies Court (ChD) in London by Sunderland Marine Insurance Company Limited (**SMI**) and The North of England Protecting and Indemnity Association Limited (**NOE**), for Orders:

(1) under section 111 of the Act sanctioning a scheme (the **Scheme**) providing for the transfer to NOE of the entire insurance and reinsurance business carried on by SMI; and

(2) making ancillary provisions in connection with the Scheme pursuant to sections 112 and 112A of the Act.

A copy of the report on the terms of the Scheme prepared in accordance with section 109 of the Act by an Independent Expert (the **Scheme Report**), a statement setting out the terms of the Scheme and a summary of the Scheme Report, and the Scheme document may be obtained free of charge by contacting SMI and NOE using the telephone number or address set out below. These documents and other related documents, including sample copies of the communications to policyholders, are also available at www.nepia.com and www.sunderlandmarine.com. Both websites will be updated for any key changes to the proposed transfer.

Any questions or concerns relating to the proposed Scheme should be referred by email to ged.mcternan@nepia.com, by telephone at +44 (0)191 232 5221, or in writing to The North of England Protecting and Indemnity Association Limited, The Quayside, Newcastle Upon Tyne, NE1 3DU, United Kingdom. If you have a policy with SMI and/or NOE, please quote your policy number in any correspondence. This can be found on your policy documentation or related correspondence.

The Application is due to be heard at the **High Court of Justice of England and Wales, 7 Rolls Buildings, Fetter Lane, London EC4A 1NL, United Kingdom on 16 June 2020**. Any person who thinks that he or she would be adversely affected by the carrying out of the Scheme, or objects to the Scheme, may attend the hearing and express their views, either in person or by representative. It is requested that anyone intending to do so informs SMI or NOE, at the address provided above, in writing as soon as possible and preferably before 9 June 2020 to set out the nature of their objection. This will enable SMI and NOE to provide notification of any changes to the hearing and, where possible, to address any concerns raised in advance of the hearing.

Any person who objects to, or considers they may be adversely affected by, the Scheme but does not intend to attend the hearing may make representations about the Scheme by giving written notice of such representations to the parties at the address provided above or by calling the dedicated telephone number provided above, in each case as soon as possible and preferably before 9 June 2020.

SMI and NOE will inform the UK's Financial Conduct Authority and Prudential Regulation Authority of any objections raised in advance of the hearing, regardless of whether the person making the objection intends to attend the hearing.

10 March 2020

Norton Rose Fulbright LLP,
3 More London Riverside, London, SE1 2AQ, United Kingdom
Solicitors acting for SMI and NOE
Ref: MAR/MJFF/1000050627