Thursday March 12, 2020

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Daily tanker earnings reach $300,000 as traders add to Saudi-led tonnage frenzy

A 2012-BUILT VERY LARGE crude carrier is poised to earn $299,000 per day as an escalating tanker chartering frenzy drove a tenfold rise in rates over a 72-hour period, leading to record volumes of freight futures traded in London.

Maran Tankers Management-operated Maran Antares was chartered by Thai oil company PTT, earning $299,982 per day, according to Tankers International. A second VLCC, 2009-built *Georgios*, exceeded earnings of $205,000 daily. *Georgios* is one of at least nine VLCCs provisionally hired by Saudi shipowner Bahri since Monday as the kingdom ramps up exports after launching an oil price war with Russia over the weekend.

The huge and unexpected grab for tonnage spooked oil Asian refiners and oil traders, who then locked in charters for a further 25 VLCCs over the same period, paying ever-accelerating levels, according to fixtures published by Tankers International.

All deals are 'on subjects' — and therefore not finalised — with the market now awaiting to see which will go ahead and thus represent the true market ceiling.

Aside from the Saudi export surge, the tumbling oil price is also underpinning demand for crude tankers, which has simultaneously revived demand to charter VLCCs for floating storage.

"Everyone is scrambling for tonnage," said Oslo-based shipbroker Fearnleys in its weekly report published today.

"We already see VLCC cargoes being split in both West Africa and Middle East Gulf, just adding more fuel to the fire for suezmaxes."

Owners were taking advantage of the situation, and putting on the breaks, the report added. "We expect the peak to continue for the rest of the week, at least as long as we see this cargo activity, the only question to ask is how far can this go?"

The rapid upward trajectory returns the market to a similar three-day period last October, when US sanctions on two of Chinese-government owned shipowner Cosco's tanker entities induced panicked VLCC chartering. Charters were agreed at levels that equated to earnings exceeding $300,000 per day, but ultimately very few of the sky-high deals actually materialised, with most failing to go ahead.

The VLCC frenzy has now spilt over to the suezmax sector. Rates for Black Sea loading for voyages to the Mediterranean gained 17%, while West Africa-Europe routes rose by 13% to $51,000 per day, according to the London-based Baltic Exchange.

Forward freight agreement contracts also rallied, in volumes and prices. Yesterday record volumes traded, according to Braemar ACM, the world's largest shipbroker for the FFA tanker sector.

The Baltic Exchange's average VLCC time charter earnings were assessed at $139,130 per day on Wednesday, from $28,245 two days earlier. The biggest rises are seen on VLCC routes to Asia, with the route to Singapore assessed at $171,000 per day.

Shell was also reported to have booked three VLCCs for three-month storage options, while the United Arab Emirates' national oil company ADNOC also said it was accelerating oil production, potentially adding more cargoes into the market.

Saudi Aramco said today it would boost oil production capacity to 13m barrels per day, from 12m bpd, while ADNOC will rise to 4m bpd. Brent crude was trading at $36.20 at 1715 hrs London time on the ICE Futures Europe exchange, with the August contract at $39.13 per barrel — a difference in price that would support floating storage economics at chartering levels of around $35,000 daily.

While oil shipments to Asia are set to rise over the next month, oil cartel the Organisation of the Petroleum Exporting Countries estimated crude demand in China, the biggest seaborne importer, would contract this year.

"For 2019, Chinese oil demand grew by 360,000 bpd, while oil demand in 2020 is projected to decrease by 130,000 bpd," Opec said in its monthly report released yesterday.

This suggests that soaring rates could soon be capped, especially if Russia and Saudi Arabia reach any impasse or agreement in the battle for market share, amid the coronavirus-led demand downturn.

WHAT TO WATCH

US shipping showcase CMA 2020 postponed

THE annual CMA Shipping Conference, one of the largest maritime events in North America, has been postponed due to fears over the spread of the coronavirus.

The event had been due to take place in Connecticut on March 31-April 2 with several thousand industry delegates booked to attend, but organisers yesterday announced that it will now be pushed back to June 29-July 1.

CMA is just the latest major industry event to either cancel or postpone in the wake of the coronavirus global pandemic and there is growing speculation that more major events will either postpone or cancel over the coming days.

The annual Trans-Pacific Maritime conference, which was due to take place in Long Beach, California earlier this month cancelled just hours before the registration desks were due to open, while SeaJapan and Singapore Maritime Week have both had to cancel this year.

This year's Posidonia 2020 exhibition in Greece is still officially expecting more than 2,000 exhibitors from over 90 countries at the show, which is scheduled to run from June 1 to June 5. Organisers have made no public announcement regarding the

risk associated with the coronavirus pandemic, but it is understood that a review is likely.

A statement issued by the Connecticut Maritime Association on Wednesday evening said: "Our primary concern is the health and safety of the attendees… considering the spreading of the Coronavirus at this time, we simply cannot guarantee such an environment, which truly is not only the very foundation of our event, but also of our community, and it is our community that has always made the CMA Shipping Conference such a special industry event".

Lloyd's List parent company Informa, which runs the CMA Shipping Conference, has advised that all participants and speakers currently registered for the CMA conference, trade show and exhibition have automatically been re-booked for the June edition of the event.

IMO set to postpone environmental negotiations due to coronavirus

THE INTERNATIONAL Maritime Organization is set to postpone two weeks of environmental negotiations set to begin in late March because of the coronavirus outbreak, Lloyd's List understands. This delay will potentially complicate the introduction of new carbon-cutting measures for ships.

Industry sources told Lloyd's List that the 75th meeting of the Marine Environment Protection Committee — the IMO body that makes all final decisions on environmental rules, which was scheduled from March 30 to April 3 in London, is expected to be delayed.

The Intersesssional working group on greenhouse gas emissions, the preparatory body that meets the week before the MEPC 75 and does much of the heavy lifting on the matter, will also be postponed.

Lloyd's List understands new dates for the meetings have yet to be decided.

An official announcement by the IMO is expected on Thursday, and Lloyd's List understands that the decision has not yet been officially signed off, but it is likely to come later today.

A spokesperson from the IMO did not comment, saying the organisation has not announced anything new.

The postponements would follow similar action by the IMO last week, including the delay of the Legal Committee.

Delegates at the next MEPC are set to discuss and potentially agree on new short-term CO_2-cutting measures, mostly aimed at meeting the IMO's target of improving carbon intensity of ships by at least 40% by 2030 compared with 2008.

Some of the other key issues on the table are the industry proposal for the creation of a $5 independently run research and development decarbonisation fund, the adoption of higher energy efficiency targets for new ships, black carbon emissions in the Arctic and efforts to combat marine plastic litter from ships.

Most crucially though, the anticipation for this MEPC was that delegates would approve at least one new short-term GHG measure. Vessels would have to comply with a new measure as early as 2022, according to the timelines of proposals on the table.

The next meeting, MEPC 76, is scheduled to take place in late October and provided MEPC 75 approved a measure was widely expected to adopt it, making it an official regulation and marking the first new measure the IMO brings in since it committed to its initial GHG strategy in April 2018.

However, the possible delay of MEPC 75 raises questions about whether the adoption of new regulations at MEPC 76 is feasible because delegates would require sufficient time between the two meetings to consider the decisions of MEPC 75 and make relative proposals at MEPC 76.

Scrubber economics disrupted by coronavirus and Opec plus-stoked oil slide

A PERFECT storm brewing in the oil markets is threatening to undo the financial models used by many shipowners to prove the economic benefits of scrubber investments.

These models are often based on one main measure — the price difference between 0.5% sulphur fuel oil — very low sulphur fuel oil and 3.5% sulphur fuel oil — high-sulphur fuel oil.

One assumption underpinning such a reference is that the VLSFO-HSFO price spread would reflect the demand and supply forces playing out in the marine fuel market.

But this underlying assumption has been recently challenged by fuel price moves affected by the coronavirus outbreak and the Opec-plus fallout.

For example, take the VLSFO-HSFO price spread for trades out of Singapore, the world's top bunkering hub.

Energy and commodity pricing agency, S&P Global Platts noted that HSFO, which is being priced as "inferior product" after losing its bunker market clout to VLSFO, takes relatively a smaller hit when oil price moves.

This fact would have contributed to a narrowing in the price spread between the two fuel oil types, when Brent fell drastically over the weekend following Saudia Arabia's move to flood the crude market after its fallout with the Russians regarding production cuts.

Platts assessed the spread at $104.76 per tonne on Monday, down from $118.29 tonne on Friday.

Platts noted, however, that the spread has already contracted by a large margin since the coronavirus outbreak, which has hurt trade and overall shipping demand.

The agency assessed the spread at $150 per tonne last Tuesday, down from $300 per tonne seen in January before the outbreak in China went public.

What seems apparent is that VLSFO prices have tracked crude prices more closely compared with HSFO especially since the International Maritime Organization's 0.5% sulphur limit on marine fuels entered into force on January 1.

Yet shipowners have made calls on exhaust gas scrubbers based on assumed VLSFO-HSFO price spreads.

If such conventional wisdom continues to hold sway, one major Chinese dry bulk player argued that those scrubber installations still in planning phase should have been aborted by now.

"If the current VLSFO-HSFO price spread continues for another six months or more, scrubber fittings will prove to be a wrong bet for shipowners," the senior shipping executive told Lloyd's List.

He went on to suggest that the spread could even trend lower if the oil price war between the Saudis and Russians persist.

Several US-listed dry bulk shipping firms that have gone ahead to install scrubbers on their entire fleet "would suffer badly".

Additionally, what would have disrupted the financial models justifying scrubber investments are the unforeseen delays in redeliveries of ships following such retrofit work.

"Quite a few capesizes drydocked in the third quarter of last year, when freight rates were about $30,000 to $40,000 per day. With delayed yard deliveries, the losses of income were quite substantial," said the senior executive.

Scrubber retrofits in China have reportedly been set back by yards resuming work only weeks after the Chinese New Year break, having been held back by the coronavirus outbreak.

That said, recent fuel market developments are also not seen as supporting VLSFO bunker sales — nor HSFO bunker sales for that matter.

Bunkering industry veteran Simon Neo pointed out that Singapore's bunker supply contracts are typically pegged to weighted averages of oil prices over agreed timeframes.

Shipowners betting on crude prices further falling on an expected prolonging Opec plus spat would thus far see motivation to hold back refuelling as far as possible.

Bunker players may also opt to average down by releasing any stocks acquired at higher costs and buying in the now lower priced fuel oil supplies.

In China, the situation appears to differ somewhat from that on the ground in Singapore. State-owned Sinopec is ramping up production of VLSFO, with the aim of making up on lost ground spilling over from the coronavirus-linked disruption.

Top-class Chinese refineries have only hit 70% to 80% of capacity, one Sinopec bunker manager told Lloyd's List.

VLSFO output in the country was previously forecast to range between 15m and 18m tonnes this year.

OOIL confirms long-awaited super-sized newbuild orders

ORIENT Overseas International Limited, which is now part of China Cosco Shipping Corp, says it has agreed to build five super-sized containerships worth $778.4m.

The orders have been long expected, with the newbuilding plan first unveiled by Lloyd's List in January 2019 although some details were modified later.

The ships were initially said to be equipped with the so-called "LNG-ready" design, enabling an easy conversion to the use of the liquefied natural gas as fuel in future. But the idea was later aborted as the technology was deemed immature by the company.

OOIL did not specify the type of propulsion systems of the newbuildings in the announcement. Sources familiar with the deal said the ships would be only burning traditional fuel oils and the decision on scrubber fitting had yet to be made.

Cosco Shipping chairman Xu Lirong also told Lloyd's List in an interview in September that the company will not order LNG-fuelled ships, citing the lack of infrastructure readiness.

Capt Xu said "it is likely and justified" for his company to add five or six 20,000-teu class vessels to its fleet to improve route arrangements.

The state giant has 28 vessels of 20,000 teu or above, including the South Korean-built sextet owned by OOCL. The latest orders will allow it to complete three loops consisting of a homogeneous fleet of this class in the Asia-Europe trades.

Three of the 23,000 teu series will be built at affiliated yards Nantong COSCO KHI Ship Engineering, with the remaining two at Dalian Cosco KHI Ship Engineering, OOIL said.

Deliveries are scheduled for between the first quarter and the early fourth quarter of 2023.

OOIL said that 60% of the newbuilding costs would be financed by banks, while the rest will be funded by internal resources. The Hong Kong-listed company made more than $1bn in net proceeds last year from the disposal of its terminal assets in Long Beach, California.

Elsewhere, Cosco Shipping's Ocean Alliance partner Evergreen ordered 10 23,000 teu ships in September last year.

Competitor carriers, Hapag-Lloyd and Ocean Network Express, were also reportedly mulling newbuildings of a similar size.

However, Hapag-Lloyd chief executive Rolf Habben Jansen told Lloyd's List recently that "we will not be going back to the yards in the next few months" amid extraordinary market uncertainty from the coronavirus impact.

OPINION

Working remotely becomes even more interesting

THE coronavirus outbreak has prompted the cancellation of all but the smallest business meetings and limited travel to only the most vital journeys. It is a time for resilience, pragmatism and innovation. The good news is that the virus will not be with us for ever, the better news is that business has been forced to rethink much of what it has long considered sacred, *writes Richard Clayton.*

It is not only viral infections that drive fresh thinking. Maritime professionals have come under pressure from cost, safety and environmental protection to trial advanced technologies. Machine learning, 3D printing, drone surveys and data analytics are no longer "the future".

This week, Bureau Veritas has announced the opening of its first Remote Survey Centre, which boasts the ability to deliver class surveys "without a surveyor being physically present". They will do this using imagery and real-time video, connecting ships with surveyors at the centre in Rotterdam and with experts wherever they happen to be working.

In 2012, BV began developing procedures to allow administrative verifications to be conducted remotely. These cover classification surveys and specific statutory items that can be agreed by flag administrations. During eight years of development, technology has evolved rapidly. Today, after a series of tests and proofs of concept to confirm the technology has reached a sufficient level of maturity — and with dramatic improvements of connectivity — BV believes it is in a position to offer "total confidence".

Shipowners will benefit from speedy response with no travel or waiting time, a team of experts available via livestreaming, and reduced cost because travel expense will no longer be factored in.

The consequence could be that survey work will be swifter yet just as accurate, more productive for surveyors themselves and beneficial for the crew, and offer improved value for money.

The hurdle to be surmounted is the inherent belief that humans do surveys. In the same way that autonomous vehicles still raise safety concerns, drone-conducted surveys feeding video back to a remote centre will — initially — challenge the idea of total confidence. But the coronavirus is making us think again. A resilient, pragmatic industry will become more comfortable with tech-led decision-making in operations, performance, even safety.

Look for the coronavirus dividend in years to come.

ANALYSIS

Ports of Quebec and Montreal battle for US heartlands

HUTCHISON Ports' plans to build a new 700,000 teu capacity deepwater terminal in Quebec could see the start of large ship services to Canada's east coast, but the port will have to compete with Montreal for services aiming to target the lucrative US Midwest market.

Last May, Hutchison and its joint-venture partner, railway operator Canadian National, signed a 60-year concession with the Port of Quebec to establish a new deepwater container terminal.

"Quebec will become Hutchison's gateway to the east coast of North America," said Hutchison Ports Europe finance director James Pettifer. "With 16 m alongside and full-year access, the terminal will be able to work vessels up to 13,000 teu."

The total terminal cost is expected to be C$775m ($582.7m). The Port of Quebec will develop the infrastructure for the port quay and facilitate dredging and land reclamation, while Hutchison and CN will develop the superstructure and the yard facilities in a joint venture.

While the development still requires environmental consent, the operational date is targeted to be 2024.

The ability to take ships up to 13,000 teu would make the terminal attractive to carriers, Mr Pettifer added, as this would allow the benefits of lower slot costs that large tonnage provides.

"Big ships calling at Quebec with lower slot costs will be able to access these inland markets," he said. "Direct to train will reduce dwell time."

Mr Pettifer said the new terminal would be able to rival US east coast ports in terms of speed of access to the important markets of Detroit and Chicago once terminal dwell time and rail links had been taken into consideration.

"The east coast of Canada is strategically located to reach the US markets, and we've noticed a shifting competitive advantage from the west coast due to macro changes in the global shipping industry and changing trends in manufacturing from China to Southeast Asia," Mr Pettifer said.

CN vice-president Dan Bresolin said there had been a fundamental shift in the origin of goods shifting from China to India and other Southeast Asian countries.

"As you go further south in this region, it makes for better connectivity into east coast ports. It is just as fast in some cases from ports of origin west of Hong Kong to go to an east coast port in order to access the large population centres in the US Midwest and east coast."

Nevertheless, the new terminal will face competition from other developments in the region. A berth extension at the South End Container Terminal at Halifax, due to be completed this year, will allow two vessels of up to 14,000 teu to be worked simultaneously.

While Halifax and Port Sydney, which is also has a proposal for a deepwater terminal under consideration, are further from the inland markets than Quebec, the port of Montreal is closer and is also adding a new terminal.

The Contrecoeur terminal will have capacity of 1.2m teu when it comes online in 2024, and also has direct rail connections to the US heartlands.

Montreal argues that the case for big ships is not particularly relevant, as the slot cost advantages only apply when the ships are running with high load factors.

"You need to look beyond the size of the ship alone," said Port of Montreal vice-president Tony Boemi.

With its balanced mix of imports and exports, Montreal could offer carriers a full ship both inbound and outbound, he said.

Montreal's location on the St Lawrence river and draught limitations mean that Contrecoeur will only be able to service ships of up to 6,000 teu.

However, the port believes it is not just the size of the ship that counts. More important is the number of laden containers worked.

In Montreal, vessels between 2,000 teu and 5,000 teu are worked with an average offload/load cycle of 4,200 teu.

"If you compare that to the Atlantic ports' average, they do about 1,700 teu on much larger vessels," Mr Boemi said.

"Everyone is so caught up with the size of the vessels but it is not this that counts but what happens when they come in. We are a full discharge/full load port."

For a ship of over 6,000 teu to work for carriers, it required multiple port calls, he said.

"There are no ports on the east coast that discharge more than we do in one cycle."

And Montreal points to its own ease of access to the Midwest market.

"Montreal's locations makes it an ideal gateway into the Midwest from Europe," Mr Boemi said. "The port has a catchment area of 40m people within a one-day truck journey, with another 70m within a two-day rail journey.

"Cargo will follow the path of least resistance, which is why we're seeing the Asia cargo. Much of this is transhipped in European ports and, as a result of that, it comes in right into the core of the market."

Sino-US trade war accelerates changes in transpacific trade flows

THE Sino-US trade war has adversely impacted ports along the Pacific Coast, heavily dependent — as most of them are — on trade with China along the historic transpacific route.

Figures from the US Census Department underline a shift in the pattern of trade, indicating that some supply chains have moved out of China and into Southeast Asia, Vietnam in particular.

That shift puts supply chains closer to the US east and Gulf coasts than to the west coast.

In dollar terms, US exports to China declined by 11.3% from 2018 to 2019, while imports declined by 16.2%. By contrast, US exports to Vietnam rose by 12.5% and imports rose by 35.6%.

In terms of volume, Vietnam is hardly replacing China as America's top trading partner. However, the Census Department figures suggest the trade war has shifted trade patterns.

Gene Seroka, executive director of the Port of Los Angeles, is conscious of "shifting trade patterns" resulting from US and Chinese tariffs.

"The shifting trade patterns are real to us here in California and Los Angeles specifically because of our high China content in trade," he said. The two ports move "more than 50%" of their containers back and forth with China, he said.

With more goods coming out of Southeast Asia, Mr Seroka said, "it's a little bit easier to ship that cargo via the Suez Canal" to the US east and Gulf coasts. From those locations, it goes to "Midwestern distribution centres and fulfilment locations".

Mario Cordero, executive director of the Port of Long Beach, agreed. "For the Port of Long Beach, the tariff dispute dramatically reduced cargo volume between China and the Port of Long Beach."

He said "some of this was made up with increased trade with other nations" but emphasised the tariffs have had "a profound effect", especially on US businesses that export and import goods.

Underlining the theme of shifting trade lanes, Mr Cordero said "farmers, ranchers and manufacturers in California were hit hard, and have tried to shift to other markets [than China]".

Weston LaBar, chief executive of the Harbor Trucking Association, which represents drayage drivers, said the trade war has created "many issues" for the trucking industry on the west coast.

"The fallout has been a drop in cargo volume and long-term concerns regarding market share as trade lanes have shifted to reduce tariff exposure," he said.

The February issue of the Global Port Tracker, produced by the National Retail Federation and Hackett Associates, supports those views by showing a 3.6% drop in US west coast containerised imports from 2018 to 2019, while the US east coast saw a 3.7% increase.

More to the point, Los Angeles and Long Beach saw a combined 5.5% downturn while east and Gulf coast ports saw increases.

On the east coast, New York-New Jersey was up 2.6%; Virginia, 2.9%; Charleston, 5.5%; Savannah, 6.6%; and Jacksonville, 6.5%. Along the Gulf coast, Miami was up 6.3% and Houston, 5.6%.

In northern California, Port of Oakland maritime director John Driscoll gave a slightly different report, saying the impact of the trade war has been "negligible".

He said a "vibrant northern California economy, coupled with strong Asian demand for US exports, has kept volume steady".

"The port witnessed low single-digit import declines during the last four months of 2019, but imports jumped 7.3% last month. Meanwhile, exports have increased for four consecutive months," Mr Driscoll said.

Port Tracker shows that Oakland, alone among US west coast ports, saw a modest increase year over year: "The loaded volume imported in 2019 totalled 975,000 teu for a 1% increase over the previous year".

Despite the slight uptick for Oakland, Mr Driscoll welcomed the recent Phase One agreement between the US and China as a "hopeful starting point for our import and export customers".

"There's still much more to do in unraveling the tariffs imposed over the past two years and we urge both sides to push for a final resolution to the trade impasse," he said.

The Northwest Seaport Alliance, comprised of the ports of Seattle and Tacoma, has seen a decrease in its containerised imports. According to Port Tracker, "the loaded volume imported in 2019 totalled 1.37m teu for a 5.7% decrease from the previous year".

NWSA chief executive John Wolfe said China was the primary import and export market for ports on the west coast, so tariffs on China had a "disproportionate impact on our cargo volumes".

He said importers had been "diversifying supply chains" over time to include manufacturing and sourcing from other countries, in addition to China.

"Tariffs have drastically accelerated that trend. Since the trade war began, we've seen an increase in container trade with countries in Southeast Asia and a larger decline in volume with China," he said.

More to the point, Mr Wolfe said the geographic shift of manufacturing and sourcing to Vietnam, Thailand, Cambodia and other countries in Southeast Asia has created "additional routing options".

While the NWSA's lost cargoes may have been routed to the US east or Gulf coasts, the more likely move is into Canada's southwestern port of Prince

Rupert, which, with its superb CN railroad connections, reaches right across Canada and into the US heartland.

Prince Rupert saw the largest percentage rise in imported containerised cargo of any port in North America, up 19.3% year on year.

By contrast, Canada's port of Vancouver saw a 2% fall, making it an unlikely source of competition for the NWSA's wandering volumes.

Ultimately, the most revealing number regarding the trade war comes from Port Tracker, which said US ports collectively saw just a 0.2% decline in imports throughput year over year.

In short, the trade war seems to have made no real overall change.

Equally telling are the figures that show west coast ports lost 3.6% in imported throughput, while east and Gulf coast ports gained 3.7%. That suggests something different than tariffs at work: trade is migrating from the west coast to the east and Gulf coasts.

John McLaurin, president of the Pacific Merchant Shipping Association, which represents marine terminal operators, ocean-going vessels and maritime industry stakeholders, summed it up best. While the trade war has "suppressed" overall trade volumes, Mr McLaurin said his members were more concerned about "the shift in cargo to Canadian, Gulf and east coast ports".

"They view this as a structural change that is taking place that is being influenced to some degree — shifting of overseas manufacturing out of China — by the Trump trade policies but which started years before the trade war," he said.

For most observers, that structural change was triggered by the expansion of the Panama Canal, which opened the way for discretionary cargoes to take the all-water route from the Far East to the US east and Gulf coasts — a process now accelerated by the trade war.

MARKETS

Weaker demand continues to weigh on capesize market

HOPES that capesize bulker rates would gain some momentum following the steep collapse in oil prices have not been realised so far.

However, the sector has become even more volatile and there was still little movement compared with activity st the same point in 2019.

The average weighted time charter on the Baltic Exchange increased by only 10 points to $2,552 per day at Tuesday's close, while the index gained 35 points but still remained in negative territory at -347 points.

Brokers blamed lack of demand in the Pacific for the market gloom, with the sector also facing pressure from the continuing coronavirus outbreak and seasonality.

The only positive note last week was in the North Atlantic, where some fresh inquiries provided a slight boost to the market.

The BCI remains negative and kicked off this week with significant volatility. That is an indication it will take a while before the big bulkers move into decent earnings, according to Intermodal shipbroking.

"Despite the improved momentum, most owners remain reservedly optimistic as the negative variable that led to this year's disappointing start is still very much present," the broker said, pointing out that regardless of the upward trend of the past three weeks, there are still serious demand challenges that the market is bound to face amid slowing economic growth.

Although, cheap oil should mean a boost for growth and consumer spending power, Allied Shipbroking said that as the overall demand is so fragile that the way this abundant supply would affect the real economy seems rather questionable.

Meanwhile, the coronavirus outbreak has simply worsened the negative market outlook.

BIMCO said in its latest dry bulk outlook: "Some demand has permanently been destroyed by the

economic impact of the virus, and with market sentiment taking a turn for the worse, it seems likely that the dry bulk shipping industry will struggle to be on the profitability side for the coming year."

US southwest ports prepare for 'surge' of containerised imports as February figures disappoint

THE San Pedro Bay ports of Los Angeles and Long Beach reported markedly lower throughput of container traffic in February, citing decreased manufacturing in Chinese factories because of extended closures caused by the coronavirus outbreak. But officials see a "surge" coming and are preparing for it.

The decreased throughput figures follow a trend defined by the most recent edition of Global Port Tracker produced by the National Retail Federation and Hackett Associates, which said that "trade in the first quarter of 2020 has slumped dramatically".

"Now that we are in the coronavirus environment, uncertainty has expanded exponentially as the virus has spread out of China and is impacting other parts of Asia, the US, Europe and the Middle East," the report added.

That view was echoed by Port of Long Beach executive director Mario Cordero who noted on Tuesday that with "the extended factory closures and slowdown of goods movement in China and other Asian countries in February because of the Lunar New Year and the coronavirus outbreak, we are seeing shipping lines needing to cancel some sailings".

As a result, Long Beach terminal operators and dockworkers moved only 538,428 teu in February, down 9.8% compared with February 2019. Port officials said imports dropped 17.9% to 248,592 teu, while exports increased 19.3% to 125,559 teu. Significantly, empty containers sent overseas decreased by 12.8% to 164,277 teu.

However, Mr Cordero expressed confidence that once the virus is contained, "we may see a surge of cargo, and our terminals, labour and supply chain will be ready to handle it".

Port of Los Angeles executive director Gene Seroka amplified those remarks, saying: "We're actively working with our supply chain partners to be prepared for a cargo surge once production levels ramp up."

Alphaliner underscored that potential surge, saying that "in China, the falling new cases of coronavirus infection and the easing of travel restrictions are helping the industrial production to gradually return to normal levels".

It added that exports have already started picking up and "will gather pace" in the coming weeks, in a context where importers around the world are seeking to replenish their depleted inventories.

That will be good news in Los Angeles where February imports decreased 22.5% to 270,025 teu compared with the previous year. Exports decreased 5.7% to 134,468 teu. As with Long Beach, LA's empty containers declined: down 35% to 139,544 teu.

February volumes, also adversely impacted by the Chinese New Year holiday in Asia, totalled 544,037 teu. For the first two months of 2020, total container volumes are 1.4m teu, down 13% compared with last year.

Mr Seroka sees "soft volumes" coming in March because of the continued low level of output from Chinese factories, but he sees a possible surge because of "anticipated manufacturing improvements".

As a result, he said: "We will need to return empty containers to Asia and push lingering US export boxes out swiftly."

Alphaliner confirmed that point, saying that an "unprecedented number" of cancelled sailings from China to Europe and the Americas, prompted by the Chinese New Year Holidays and the coronavirus outbreak in China, has left in particular Europe and the US "short of container equipment".

To redress the balance, Lloyd's List understands that port of Los Angeles officials have been talking with shipping lines about the need to "evacuate" empties as well as loaded exports. "We're pleased that MSC will bringing mega ships in," one port official said.

Alphaliner notes that *MSC plans* to shift the 23,756 teu MSC Mia to the transpacific leg of the 2M's

North Europe–Far East–US west coast service AE1/Shogun/TP6/Pearl.

According to the Los Angeles-based Maritime Exchange of Southern California, *MSC Mia* is due on March 31, with — Alphaliner says — the slightly smaller 22,000 teu *MSC Nela* following in two weeks' time.

The opportunity to correct the imbalance in equipment may be short-lived, however, as Chinese exports are "picking up" again. "Volumes might even peak in April, as European and US importers will sooner or later have to replenish their stocks of products 'made in China'."

North American LNG projects shrug off weak prices to seek market share

PROJECTS for the production of liquefied natural gas continue to ramp up in North America as investors ignore temporary price drops and focus on long-term strategy in their pursuit of global market share.

On Quintana Island in Freeport in Texas, the three partner companies McDermott International, Chiyoda International Corp and Zachry Group, have announced that Train 3 of their Freeport LNG project has reached the final commissioning stage.

The project scope includes three pre-treatment trains, which remove impurities from the feed gas, along with the liquefaction facility of three production trains, a second loading berth and a 165,000 cu m full containment LNG storage tank.

Freeport LNG Train 3 aims to reach initial LNG production by the end of March 2020, with commercial operations slated for May, the partners said.

Once complete and commercially operational, they said the facility will "significantly improve North America's energy export capabilities".

Meanwhile, Mexico Pacific Limited, a North American LNG export project based in northwest Mexico, also is touting its location west of the Panama Canal as a competitive advantage in reaching markets in Asia.

"The combination of the shorter shipping distance to Asia from its west coast location and its access to low-cost US gas allows the project to deliver some of the lowest landed cost LNG into Asia," the firm said.

"Upon its completion, MPL will be the leading west coast LNG export facility in North America, offering partners in Asia lower cost, geographic diversity and supply chain resiliency," it added.

The claims came as MPL this week announced it had awarded a front-end engineering design contract to Technip USA, saying the move represents "one of the final milestones to moving the project into construction and operation".

MPL plans to build its 12m tonnes a year facility on a 1,100 acre site it owns in Puerto Libertad in Sonora, Mexico, which is about 125 miles south of the border with the US.

The proposed facility expects to receive low-cost natural gas from the Waha hub in the Permian Basin of West Texas through an already existing cross-border pipeline.

In December 2019, backed by the New York private equity firm Avaio Capital, MPL was approved by the US Department of Energy to export natural gas from the US to Mexico via pipeline and then sell it as LNG to customers in China, South Korea, Japan and India.

MPL last month burnished its credentials after hiring Doug Shanda as its new president and chief executive. Mr Shanda brings great experience to the company, having helped Cheniere Energy to develop its highly successful Sabine Pass LNG export terminal in Louisiana as well as the Corpus Christi LNG export terminal in Texas.

While MPL may be west of the Panama Canal, it shares that competitive advantage with California-based Sempra Energy that has been developing its Energía Costa Azul LNG Phase 1 and Phase 2, also in northwestern Mexico.

Besides Costa Azul, however, Sempra Energy has two other LNG export projects in North America, including Cameron LNG Phase 2 and Port Arthur LNG in Texas, which last week also announced new developments.

Sempra Energy and Bechtel subsidiaries — Port Arthur LNG and Bechtel Oil, Gas, and Chemicals — signed a fixed-price engineering, procurement

and construction contract for the 13.5m tonne a year Port Arthur LNG liquefaction plant.

Port Arthur LNG will include two liquefaction trains, two LNG storage tanks, a marine berth and associated loading equipment, and related infrastructure necessary to provide liquefaction services.

The project is sited on 3,000 acres of land along the Sabine-Neches waterway and could become one of the largest LNG export projects in North America, with the ability to expand to as many as eight liquefaction trains and 45m tonnes a year.

Just ahead of last week's agreement with Bechtel, Sempra LNG also said it had begun commercial operations from Cameron LNG's nearly 4m tonnes a year second liquefaction train in Hackberry, Louisiana.

Sempra said Train 3 remains on course to begin initial LNG production in the second quarter of the year, with commercial operations to start in the third quarter of 2020.

US companies are clearly racing to construct LNG export facilities to take advantage of the boom in low-cost natural gas production during the past decade in Louisiana, West Texas and southeastern New Mexico.

After years of being a net importer of natural gas, the US by 2017 became a net exporter and the International Energy Agency has predicted the country will become the world's top LNG exporter by 2024.

But some believe the US may be producing too much natural gas to support prices.

Russell Hardy, the head of energy trader Vitol, last month told the IP Week conference in London that global gas and LNG prices were approaching a level that could call into question the economics of US LNG exports.

"The market's got this feeling that we are not going to make it through 2020 with current supplies, and someone has to cut back," said Mr Hardy. "We are getting close to levels when it does not actually make sense to bring US LNG into the market because everybody is operating on pipeline gas."

Still, other people are clearly prepared to weather those risks and keep their bets on the upside potential of natural gas and its liquefied form, among them Sempra.

"Our confidence level in LNG remains the same — a long-term focus," said Sempra chief executive Jeff Martin in a conference call last month as the firm reported 2019 earnings of $2.1bn, more than double the $924m it posted in 2018.

"This year has been one of the strongest in our company's history," said Mr Martin said. "Our earnings results are a direct reflection of our sharper strategic focus and execution of our mission to be North America's premier energy infrastructure company."

IN OTHER NEWS

Torm sees strong two years for product tankers

DANISH product tanker owner Torm expects two strong years for the segment as market fundamentals are poised to move in the owners' favour.

The company said in its annual report that it expected supply-demand in the product tanker market to improve between 2020 and 2022, as vessel supply remains considerably low.

"During 2020-2022, the product tanker ton-mile demand is projected to grow at a compound annual rate of approximately 4%, exceeding growth in tonnage supply," Torm said. The company claimed that the demand boost was driven by "continued oil demand growth and increasing demand for transportation".

Torm saw net profits soar to $166m, including a $120m impairment reversal, compared to a $34.8m loss in 2019, as revenues grew by almost $60m to $692.6m, while operating, bunker and port costs dropped.

Cruise operators borrow big to ride out coronavirus

ROYAL Caribbean Cruise Lines and Norwegian Cruise Line Holdings have increased their credit facilities to boost liquidity as the coronavirus hits demand.

Royal Caribbean said on Tuesday it increased its credit capacity to $550m and withdrew its first-quarter and full-year guidance for 2020. The company said it was also cutting capital spending and operating costs, and was taking other actions to improve liquidity

by at least a further $1.7bn this year.

Norwegian said in a securities filing on Monday it had entered a $675m credit agreement with lenders, to be used for "general corporate purposes" and maturing on March 4, 2021. It said the loan was secured "given the continued uncertainty surrounding the Covid-19 coronavirus".

Heung-A Shipping undergoes KDB-led debt overhaul

SOUTH Korean shipping firm Heung-A Shipping will undergo debt restructuring by key creditor Korea Development Bank after its board approved the scheme.

Under the financial rescue package led by the South Korean policy lender, creditors will take control of the product tanker operator to help it avoid bankruptcy, the Korea Herald reported.

Amid tough operating conditions exacerbated by the coronavirus outbreak and snowballing debt, the package seeks to improve Heung-A's finances and normalise business operations.

The company has reported losses since 2016 and saw its debt-to-equity ratio spike fivefold over the past three quarters to the end of September 2019.

Amalie Essberger decision highlights demurrage time bar clause wordings, WFW argues

THE recent Amalie Essberger decision still leaves "lingering uncertainty" over the correct procedures for demurrage time bar claims, according to an analysis from Watson Farley & Williams.

The issue has long been controversial, with the High Court sometimes adopting a technical and demanding approach, and sometimes seeming to take a more commercially friendly stance, according to the firm's dispute resolution partner Andrew Hutcheon.

Tanker voyage charters are often stringent about the requirements for a valid claims, typically insisting on particulars of a demurrage claim in writing; all available supporting documentation; and a time limit, often set at 90 days, failing which the charterers will be relieved of liability to pay the claim.

Best practice dictates that owners consider very carefully the wording of their demurrage time bar clause, and submit all relevant and material supporting documentation within the required timeframe, Mr Hutcheon argued.

Under English law, courts and tribunals apply certain rules in construal, including requirements that the wording of the clause must be clear and unambiguous.

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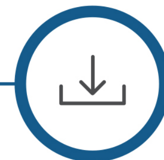

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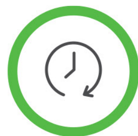

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