Thursday April 23, 2020

Lloyd's List
Maritime intelligence | informa

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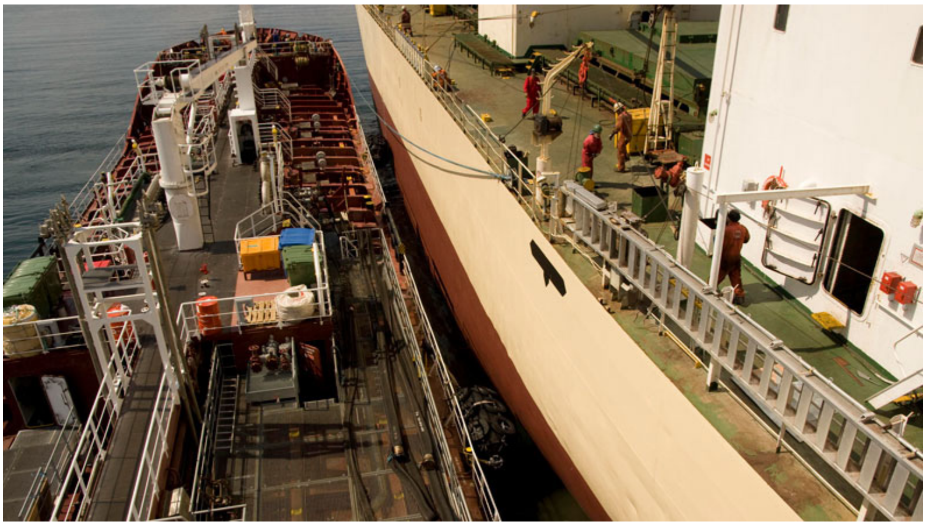
Singapore agencies back bunker sector amid Hin Leong fallout



KEY SINGAPORE GOVERNMENT agencies have come out in support of the bunkering sector which has been rocked by the troubles of major bunker player Hin Leong Trading over the past week.

Enterprise Singapore, the Maritime and Port Authority of Singapore and the Monetary Authority of Singapore said they are "closely monitoring developments related to Hin Leong Trading Pte Ltd and the broader oil trading and bunkering sectors".

Enterprise Singapore, the agency pushing enterprise development and keen to develop the city-state as a global trading hub said: "Singapore's oil trading sector remains resilient notwithstanding the challenges posed by the drop in global demand for energy."

It noted that the sector is sufficiently diversified with more than 130 significant global, regional and local companies that trade energy products, while Singapore is also an important regional storage, blending and distribution hub for refined oil products.

Addressing concerns about common storage facility Universal Terminals, in which Hin Leong has a 41% stake, Enterprise Singapore pointed out that other parties have shareholdings and the facility is operated independently of Hin Leong. In addition, there are other independent oil terminal operators in Singapore including Vopak, Oiltanking and Tankstore.

MPA assessed that there will be no serious impact on Singapore's bunkering industry. While acknowledging that there may be some short-term minor disruptions due to the lapse of contractual obligations by Ocean Bunkering Services and Hin Leong Marine International, MPA said the bunkering sector is well diversified with 43 other licensed bunker suppliers.

Both Enterprise Singapore and MPA said they would continue to work with stakeholders to ensure that Singapore's supply chain for oil products and bunkering operations continues to function without disruption.

The Monetary Authority of Singapore meanwhile said it is in close contact with the banks on developments related to Hin Leong. MAS said it agrees with the assessment by Enterprise Singapore and MPA.

The banks are well capitalised and diversified in their exposures to these sectors, MAS added.

Hin Leong has reportedly run up $3.85m of bank debts as of early April.

WHAT TO WATCH

China lands first deal from Qatar LNG shipbuilding bounty

QATAR Petroleum and China State Shipbuilding Corp have signed a landmark agreement to build up to $2.8bn worth of liquefied natural gas carriers as the energy giant presses ahead with its ambitious gas expansion projects.

The deal will allow the state-owned gas producer to reserve the slots at Hudong-Zhonghua Shipbuilding, part of CSSC, for eight 174,000 cu m ships with another optional octet, according to sources familiar with the matter. Delivery is scheduled from 2024.

Provided the options are exercised, total contract value was said to be topping Yuan20bn ($2.82bn), suggesting a price of about $180m per ship, which is slightly lower than the same type of newbuildings won by South Korean yards in their recent deals.

Sources said Qatar Petroleum was at the same time also in talks with shipowners who will eventually sign the newbuilding orders backed by its charters of 10-15 years. Chinese state owner Cosco Shipping, which owns a live fleet of 36 LNG tankers with its joint venture partners, was said to be among the contenders.

Wednesday's contract marks the first such deal penned between China and Qatar, which ranked among the world's top LNG importing and exporting countries. The two countries penned a 22-year offtake agreement two years ago for 3.4 tonnes of supplies annually.

The contract has also gone to the only Chinese yard with experience of building such sophisticated tanker vessels. Hudong-Zhonghua has delivered more than 20 large-size LNG carriers over the past 20 years. With the Qatar deal under its belt, the Chinese yard stands to narrow the lead long held by its rivals in South Korea.

South Korea's big three, Hyundai Heavy Industries, Samsung Heavy Industries and Daewoo Shipbuilding & Marine Engineering have so far divvied up most of the newbuilding spoils tied to Qatar's LNG export projects.

Qatar Petroleum's award to CSSC is for the first 16 of between 60 and 80 newbuilding LNG carriers tendered out to the market last year.

The fresh tonnage will be used to meet its demand for fleet renewal and in support of a planned expansion of its LNG production capacity over two stages to 110m tonnes and 126m tonnes during the second half of this decade.

Qatar Petroleum president and chief executive Saad al-Kaabi said on Monday his company would go ahead with its North Field gas project feeding the planned LNG expansion, despite fears over a further build-up in LNG supply glut as demand looks set to slacken following vast coronavirus-led disruption.

Earlier reports have suggested talks being held between the two countries over further LNG offtake. But China has made clear in recent years its intent to tie new term contracts for LNG cargoes to local shipbuilding content.

That said, Sophie Tan from Poten & Partners' Business Intelligence unit said that price would still be a key consideration for Chinese buyers when it came to negotiating for LNG supply.

"Any further increase in LNG sales to China from Qatar would have to be competitive in today's market conditions," she added.

Rystad Energy's vice-president Xi Nan estimated that China could import 94m tonnes of LNG in 2025, of which 41m tonnes were yet to be contracted. "Qatari LNG has, among others, the lowest costs, thus are more competitive to fight for market share," she said.

LNG prices have fallen to record lows as economies grind to a halt across the globe, triggered by disruption from the coronavirus pandemic.

Putting aside the vast uncertainty cast by the now months-long pandemic, one industry veteran suggested that well-endowed Qatar Petroleum stands to move ahead with its planned LNG expansion before securing offtake.

The founder of Singapore-based LNG Easy He Yiyong argued that the national oil company could choose to leverage on a growing spot market for the supercooled fossil fuel for the new capacity lined up.

Qatar, as a leading LNG exporter, would also want to hedge against the increasing use of renewables by monetising its domestic gas reserves sooner rather than later, he argued.

An online ceremony was held on Wednesday concurrently in Doha, Beijing and Shanghai, to commemorate the signing of the shipbuilding contract, according to a release. Those attending included Mr Kaabi and CSSC chairman Lei Fanpei.

Indian ship recycling yards resume operations

SHIP recycling activities in India — home to some of the biggest shipbreaking yards in the world — have resumed after almost a month, following a complete standstill when India announced a nationwide lockdown to slow the spread of the coronavirus.

However, the resumption of ship recycling activities is being strictly monitored through mandatory thermal screening, social distancing, handwashing at regular intervals and with adequate personal protective equipment for all workers.

In case of any suspected infection, the government has advised shipbreakers to hand over the worker to Gujarat Maritime Board's quarantine facilities or local health authorities with information passed on to relevant authorities as a priority.

GMS chief executive Anil Sharma believes social distancing can be easily maintained by workers while torching ships because there is always a safe distance when they work on a ship, with all of them performing different tasks.

"Reopening will take place in a slow and methodical manner, and only once it is absolutely safe to do so," cash buyer GMS said.

There are no cases of the virus reported in Alang in India — a major worldwide centre for ship breaking — so far.

Meanwhile, GMS said the resumption of work at the Alang ship recycling yards is expected to mean steel plates are stockpiled because the majority of plates are transported to different nations, which have currently sealed their borders.

It is the first time in history that all recycling locations were closed for the foreseeable future, stifling scrap prices in the run up to Ramadan.

A backlog of vessels continues to idle outside all subcontinent locations, with contracts and cancelling dates being frustrated by this unprecedented crisis.

The monsoon season and the start of the holy month of Ramadan will further dampens demolition activity in the Indian subcontinent.

Activities in Bangladesh and Pakistan are likely to restart on April 25 and May 5.

OPINION

Maritime sector is doing work of national importance — UK minister

THE coronavirus outbreak is among the biggest challenges our transport industry has ever faced, *writes UK Shipping Minister Kelly Tolhurst*.

While it's essential that the vast majority of the population stays at home, I recognise that it's not possible for many maritime and supply chain workers.

But despite the unprecedented difficulties, the industry has responded magnificently, working round the clock to keep the nation fuelled, fed and supplied with vital goods.

That means we have the medicines we need. It means supermarket shelves across the country can be replenished every night. It means the nation's provided with energy. And it means our ports can keep operating safely and efficiently.

So I want to pay tribute to all those in maritime who have gone out to work during this time of national crisis, from every port employee to every seafarer.

As workers doing a job of national importance, rest assured that your own health and safety remains of upmost importance. That is why we've issued guidance for those working at ports and at sea to protect themselves and minimise the potential for further infections.

Thanks to your diligence and professionalism in following these guidelines, you have not only helped reduce the spread of the virus. You have also strengthened the resilience of the country and saved countless lives.

I also know how hard the virus has hit the cruise sector. I'm immensely grateful to all the operators who have worked tirelessly with us to bring passengers home safely.

We're in constant dialogue with the maritime industry to monitor progress and the changing nature of the outbreak.

We've already made £330 billion available across the economy to help companies stay afloat, and we're providing non-working employees with up to 80% of their wage. And we stand ready to take further action and bolster our support for the industry as the pandemic develops.

I know how challenging these past few weeks have been for every part of the maritime sector. But the way in which you have rallied and risen to the challenge has been remarkable.

There will be more difficult months ahead. But when we recover from this crisis, the whole nation will owe you a debt of gratitude for your outstanding service.

'Now is the time to prepare for post-coronavirus world'

SHIPPING is already emerging from the sudden shock phase of the coronavirus pandemic, and now has to restructure contractual and supply chain arrangements in readiness for a new post-coronavirus reality, *writes Sebastiaan Moolenaar, a lawyer and partner at AKD.*

This will require industry players to not only take practical measures to troubleshoot current issues, but also consider steps to take when the industry reaches the third and final phase of recovery.

This phase will be about mitigating financial exposure, and finding alternative sources of supply and new markets, with the aim of preventing a prolonged crisis impacting your business.

Planning ahead is key, as commercial interests need to be ready to organise, or perhaps reorganise, their supply chains to meet new demands.

We currently find ourselves in a transition between phases one and two, with supply chains still severely interrupted.

Looking ahead — while it may be difficult to imagine today — there will be a stage where restrictions are lifted, customer demand will pick up again, and manufacturing and transport will be available.

Although it is not to be expected that the economy will recover entirely in a perfect V-shape, it is recommended to use the coming period to reflect on how to structure the supply chain in phase three.

The next few months should ideally be used to plan ahead, assess the lessons learnt, and consider three broad areas: dependency on customers and suppliers; the geographic stretch of the supply chain; and re-evaluation of contracts in terms of exclusivity, delivery conditions, duration, cancellation options, excusable non-performance.

On the first issue of dependency, the crisis has shown the vulnerability of the global trade system where, if manufacturing in one country or region stops entirely, finished goods or parts necessary for the assembly of products may not be available, potentially bringing the business to a standstill.

AKD is recommending shipping companies look into potential multiple sources of supply and sale to spread risk, even if abandoning of exclusivity may come at a higher overall cost.

Finally, look again at existing contracts. Do they provide the required flexibility to adapt in times of crisis? Are risks properly allocated, and are the agreed duration and termination possibilities still in line with possible changes that are to be made in the supply chain? Is exclusivity an absolute necessity, and do any other commitments as to volumes, pricing and quality standards still apply?

Also, one could consider reviewing existing agreements with banks and export/credit insurers, in order to have adequate financial backup when it is necessary again in the future.

AKD has set up a taskforce specifically designed to provide swift and answers to questions arising from the uncertainty over by the coronavirus outbreak.

The firm is also urging companies take several practical measures in the current phase two period. Key here is to look at the existing contracts and check: Which obligations do you have? Which of those obligations are at risk of not being performed correctly? What possible contractual excuses do you have in case of your own non-performance? Which contractual remedies do you have in case the other party is not performing?

The obvious short-term advice is to go through your existing contact documentation and make an assessment of risks. This would apply not only to main contracts with your suppliers, customers and logistics service providers, but also to your general terms and conditions and agreements with banks and insurers.

We have seen that most contracts do not have uniform solutions addressing issues of remedies in case of non-performance, early termination rights, payment obligations and force majeure clauses.

The specific text and the underlying intention is central to properly understanding their legal effect.

Common problems include:

• Are there any ongoing commitments as to minimum quantities?

• What is the effect of the shortages in supply and logistics on just-in-time obligations?

• How do various sets of national legislation affect complying with specific Incoterms delivery conditions?

• Do today's circumstances affect the cost price of products or services, and is it possible to forward such extra costs to the customer under the contract?

• Do closed borders or export bans on specific goods affect the availability of goods and staff on site where they are contractually required?

Such non-performance of obligations needs to be assessed from a contractual point of view — what is your legal position in case you or you your opposite party defaults — but also from a practical and commercial point of view.

Companies want to keep a commercial relationship which was good and profitable before the coronavirus crisis intact for future purposes, and sometimes accepting late payment is better than enforcing direct and full payment with the risk of putting your debtor into bankruptcy.

Capital Link transforms shipping forums by going digital

AS producer of the 14th Annual Capital Link International Shipping Forum, Nicolas Bornozis had to make a tough decision — whether to continue the event or cancel it just as the coronavirus outbreak was spreading across the world, *writes Eric Watkins*.

The event was scheduled for March 30-31 in New York. It was around March 10, he says, that "we got a number of speakers" calling to express "concern" and "hesitation" about flying to the US to attend the event — especially in New York City, then fast-becoming a centre of the growing pandemic.

That concern and hesitation made Mr Bornozis and his team stop and think about what to do.

"And that is when we said we either cancel, as other events have done, or we bite the bullet and we do something different. So we bit the bullet and we turned immediately around and produced this digital conference," he told Lloyd's List.

As it happens, according to Mr Bornozis, the event turned out to be the first digital shipping conference ever held and it was achieved in record time.

Capital Link had about three weeks to make the necessary changes to transform the event from its traditional in-person gathering in New York, into a digital event with speakers and participants dispersed all over the world.

"It was nerve wracking, I have to confess, because we had to cope with the technology, we had to revamp the panels and networking, and come up with a different audience development approach. I mean, it was an amazing process, a logistical challenge, but it worked," he says.

It was no small decision for such a prestigious event.

Organised in partnership with Citi and in co-operation with Nasdaq and the New York Stock Exchange, the forum examines the major issues that shape and transform international shipping markets.

It is also a timely event, especially in terms of investing and finance, by providing a comprehensive review and outlook of the various energy, commodity and shipping markets, made even more relevant by the release of companies' annual results.

The forum discusses topics of critical relevance to the industry such as restructuring and consolidation, various channels and methods of raising capital as well as the impact of regulation, new technologies and trading routes.

Not least, for C-level executives from the industry and the finance and investment communities involved with shipping, the annual forum offers the opportunity to make personal connections.

Long experience

Mr Bornozis has been putting on conferences since around 2005, when shipping became "a bigger part" of capital markets. But his experience with the industry goes back much farther.

A native of Greece, with a law degree from Athens and an MBA from Harvard Business School, he has been living in New York since 1980.

In 1995, he formed his own investor relations and advisory firm, Capital Link, after working in banking, finance, investments, capital markets and shipping.

At the time, he says, Americans did not have a clear idea of shipping as an industry or as an investment vehicle. Capital Link's core activity has been in investor relations, assisting companies to reach out to the financial and investment community, as well as to analysts and the media.

"So, we felt that a very large part of our mission was to educate the US investment community of the role and potential of shipping. And that's how we came up with the idea of organising conferences," he says.

Since then, Capital Link has gone from strength to strength, putting on 18 conferences a year, 14 of them involving the shipping industry, in major industry centres around the globe, from Athens to Shanghai, Singapore to London and, naturally, New York.

"When it comes to putting together conferences, our investor relations practice and expertise comes into play, as we know which are the relevant topics, how to put together a relevant agenda, how to reach out to the proper panelists and how to reach out to invite the proper audience," he says.

But this time was different. The decision to go digital even in the face of the pandemic was not universally accepted, he says.

"When we went to people and we said we are going to host a digital conference, well, because it was not something that already had been tested, a lot of people understandably were very sceptical — the sponsors and the participants — they were sceptical."

"But we had credibility with them, they trusted us and backed us, which made the difference," he says.

Mr Bornozis understood their initial hesitation. The forum has been a highly successful event for many years, not least because it is a "physical event" where people from all over the globe "come to shake hands", "network" and "meet with each other".

"This has been the norm and that's what we were set up to do," he says, underlining what must have been the view of many people sceptical of the change that he and his team had in mind.

Still, attitudes changed markedly after the two-day digital event when some 3,036 global delegates registered to watch and listen to more than 90 distinguished speakers discussing their ideas in at least 20 different sessions, including top executives from more than 30 listed shipping companies.

Participants, sponsors and speakers were able to connect and network online while participating in the conference. The event was a global phenomenon as the networking took place digitally, opening up new ways of reaching out to a wider audience.

"Ultimately, after we delivered it, I think everybody was particularly happy that they participated in an innovative, pioneering event and they supported it," he says. Everyone had a sense of accomplishment and pride.

Among other things, the pioneering work also included a new departure that came with the decision to go digital: the creation of a lasting "library" of the information that came out of the conference.

"When we changed the conference from physical to digital, given the circumstances, we said it is an opportunity to create also a library of knowledge that people can come and tap even after the conference," he says.

"The information is there and will be there for some time and it will be relevant." Indeed, close to 400 people have already visited the forum replays.

Over and above the information that came out of the conference, though, there were other major takeaways.

"At that moment, everybody was at home. Everybody was in lockdown all over the world. So, it was a particularly sensitive point of time and I think one of the major things that came out of this conference is that 'yes, we're home, but we're all connected and on a global basis'."

Not least, he says, the digital Forum met the need to connect, to maintain the flow of information and to listen to the insight of industry leaders — a need that is at its highest especially in moments of crisis.

"At the end of the day," says Mr Bornozis, "that's what people wanted at that moment: the feeling that we're all connected and that we move on."

"It was a unique combination of humility and greatness, a show of strength that ultimately we will get through this. And it underscored the vital role shipping is playing as the main artery of global trade. When we are all in lockdown, still ships continue to sail, to pick up and deliver trade all over the world. And we cannot do without them."

Indeed, in the midst of a pandemic taking lives all around the world, that sense of unity and purpose was actually enabled by the decision of Mr Bornozis and his team to produce a digital version of their annual conference.

It showed that the ravages of a global pandemic actually could be overcome and that the shipping industry could indeed move forward.

ANALYSIS

Crisis and innovation in bulk shipping

AN increase in the number of ships at anchor at ports is often a sign that problems exist in a maritime supply chain, much like a rash is evidence of measles, *writes Trevor Heaver.*

Anchorage is uncommon in container trades because the value of goods warrants scheduled services. It is common in bulk trades however; here, the focus is on dry bulk trades.

One reason for the number of ships waiting at ports is the uncertainty surrounding the actual time of arrival of ships. Consequently, fluidity of the logistics chain warrants some inventory of ships close to a terminal. However, delays in the movement of goods at a port or inland too often cause ships to wait at anchor for an opportunity to load or unload.

Sometimes, it is easy to pinpoint the immediate cause of congestion: a strike at a port or affecting inland carriers; or a natural event such as an earthquake, flood or landslide.

At other times, the reason for congestion is not obvious but it is commonly a capacity constraint or other problem at "the weakest link" in the supply chain. Attention then turns to solving this problem. But this simply transfers the problem along — shifting the next problem to the next weakest link.

It is not enough to recognise that a logistics chain is as strong as its weakest link. It is not enough because such thinking induces a focus on individual links and related contractual conditions rather than considering the chain as a whole. Bulk trades are commonly subject to fragmented control; the Pilbara iron ore logistics controlled by Rio Tinto in Western Australia is exceptional.

In bulk trades, when a new producer, say a coal mine, is seeking to come into production, it is necessary to establish that capacity exists in each component of its potential chain. Meetings with potential service suppliers, sometimes joint, are necessary to establish the broad parameters of services.

Subsequently, it is usual for negotiations of rates and details of capacity and service conditions to be carried out separately with each service provider in the logistics chain.

Once established, producers often have limited choice of inland carrier and export terminal. The result has been referred to as a "muscular relationship" in which a dominant party (the railway or terminal) may adopt a "take it or leave it" negotiating strategy.

Although the parties have a mutual interest in the continuity of the trade, they typically negotiate to maximise their share of the profit that exists in the trade, as reflected in the "value of service" pricing philosophy.

Service providers push for higher rates, or for service conditions that are favourable to their costs, at the expense of the shipper. A railway may push for maximum-sized trains even though the costs for shippers are excessive. The parties fall into the trap of giving insufficient attention to contractual terms yielding mutual gains.

Such relationships also result in reluctance to be proactive in sharing information about operating conditions so that operational visibility along the chain is limited. Shippers, having ordered capacity days or even weeks ahead, may not warn carriers that they will not need all the capacity.

Carriers may not warn of a shortfall in capacity to be provided or of delays in delivery of part or all of a shipment. Such lack or delay of shared information inhibits responsiveness to the variable conditions that inevitably affect operations.

The negotiating environment also leads to the trap of considering each contractual relationship separate from the whole. (Nor does the literature on contract negotiation encourage a perspective on sequential contracts.)

The sequence of services is consequently knit together in the chain with limited sensitivity to their consequences for other parts of the chain. The negative or positive flow on effects, along with possible feedback effects, get overlooked.

Past experiences become reflected in personal and institutional perceptions and attitudes in private firms and public bodies. Real change in the negotiating practices is often difficult to achieve because there is insufficient personal and institutional trust. Also, the shape and benefits of a more inclusive and collaborative approach along the supply chain are not obvious.

It can take a crisis for an innovative approach to gain traction. Such has been the case with the management of anchorage in the coal trade through Newcastle, New South Wales. The new approach in the Hunter Valley coal chain is one from which many chains can learn, including from where I write in Vancouver, Canada.

The major change in Newcastle followed the grounding of *Pasha Bulker* on Nobbys Beach, June 8, 2007.

Among the findings of the Australian Transport Safety Bureau, in May 2008, was support for "any measure which effectively controls the congestion and reduces the number of ships, waiting at anchor, in the queue also reduces the risks to the ships, the port and the environment".

In January 2008, the NSW government appointed an outsider, former Premier Nick Greiner, to review the development of the Hunter Valley coal chain. Crucial to the outcome of his review was the involvement of all parties from the mining companies, the railway companies, the terminals, the port corporation and the main international buyers.

The resulting plan, built on previous co-operation, is founded on collaboration that facilitates efficient contracting with mutual responsibilities, and on effective visibility to enable responsiveness. Commercial aspects of contracts remain confidential to the parties involved. Certain co-operative arrangements and sharing of information required the approval of the Australian Competition and Consumer Commission.

The purposes of the resulting plan were to improve the utilisation of existing and additional capacity as well as an increase the efficiency and reliability of product flow through terminals. However, the plan also enables economic operational benefits to shipping and enhances the safety of shipping and the environment. Nobbys Beach is only for bathers.

The involvement of the buyers was important for two reasons. First, shifting expectations to a more reliable supply chain and loading rates, stopped the producers and buyers entering into contracts geared to peak capacities; throughputs that too often turned out to be unrealistic. Second, as sales are dominantly on fob terms, buyers needed to ensure that the vessels used (usually chartered), adhered to the information requirements and instructions of the Newcastle Port Corporation, which is responsible for maritime safety and anchorage. (Note that under fob sales terms, demurrage charges in the coal trade are commonly transferred from the ship to the seller so the buyer has little incentive to avoid demurrage.)

In 2009, consistent with the agreement between the parties, NPC commenced to manage vessel movement and anchorage under the Vessel Arrival System. This system has been applied only to the coal trade as anchorage is not a problem in other trades.

Under VAS, the NPC proactively monitors vessel movement from 14 days out to ascertain the reliability of the vessel's estimated time of arrival. When VAS is confident of the vessels progress, usually seven days out, a Notified Arrival Time places the vessel in the coal loading queue. This has been taken as the Notice of Readiness under some contracts.

The objective is to have vessels at anchor for a maximum of 48 hours and to enable vessels to slow steam for the last week of their voyage. Consistent with the open and collaborative nature of the coal chain, VAS is an on-line document as are the operational handbooks of the coal terminals.

The Hunter Valley coal chain has distinctive geographic, corporate, public policy and historical characteristics. It is not like other bulk trades with which I am familiar. But the experience and current practices there carry lessons for other bulk trades.

First, an environment of collaboration by all parties along a supply chain enables additive benefits to be realised. The outcome of negotiation at one stage of a chain has implications for the outcome to be realised at other stages. Negotiations are "one on one" but the benefits and costs of outcomes should be considered in the context of the sequential negotiations inherent in supply chains. Efficiencies from one negotiation enable further benefits and feed — back from negotiations along the chain. The timing of sales and the scheduling of vessels is affected by and affects the reliability of the mine and rail interface and the rail and terminal interface.

Second, improved visibility along a chain enables enhanced performance. This applies to long-term capacity planning, medium-term operations planning, for example the timing of maintenance, and short-term operations. These are foundations for better capacity utilisation and better reliability and responsiveness in operations so that expectations can be met. In NSW, better coordinated timing of maintenance work was a low-hanging fruit. Of course, last minute break downs and failures occur but exit from these situations is better in a collaborative environment.

Third, supply chains must be viewed to include the maritime component and to include both buyers and sellers as it is the sales contracts that determine the required timing of shipments. Also, under the charter terms, the charterer may have to require the co-operation of a vessel with the VAS process.

Fourth, because anchorage is an economic and environmental cost, it needs to be managed proactively when possible. NPC demonstrates that given AIS and information technologies, new opportunities exist for the management of ships approaching a port. The VAS system offers savings to ships equivalent to the virtual arrival clause possible in charter parties.

A VAS-like system could be applied by the port authority to ships in certain trades or it could be applied by a terminal to vessels it will service. However, whether the company chartering a vessel would be willing to have its vessels' movements "managed" by the counter party is uncertain.

Also, the immediate interest then is only economic and excludes the environmental interests. Given the public interest in anchorage of ships safe for the vessels and the environment, it seems reasonable to expect a port authority to assume responsibility for it. As in Newcastle, this may be done differentially across trades.

Finally, since the complexity and number of negotiations is affected by ownership interests along a chain, strategies to internalise parts of logistics to producers can be appropriate.

While a Pilbara-type ownership and control may not be practical, there are examples in both the NSW coal chain and in the bulk trades through Vancouver where collaboration among commodity producers enables operation of logistics services: terminals in both ports and the ownership of rail cars in Canada. Change in terminal ownership is not readily achievable. Changes in rail equipment ownership can be.

The grounding of *Pasha Bulker* led to revisions and to innovation in the Newcastle coal chain. The coronavirus crisis has had serious ramifications for ports which should encourage a review of relationships and a search for innovation. It is time to apply the lessons from the Newcastle coal chain to more dry bulk trades.

Health crisis could drive transition to greener shipping, says Stopford

SHIPPING should use the coronavirus pandemic to hasten its transition to smarter, greener technologies, the president of Clarkson Research has said.

British shipping economist Martin Stopford said that despite much discussion of climate change and digitalisation, practical progress had been "patchy and disjointed".

"By shaking up the status quo, the pandemic might be a catalyst for the radical measures needed," Dr Stopford said in a paper that modelled three scenarios for shipping's recovery from coronavirus, from mild to severe.

The first has shipping following China's pattern, returning to normal after 2021 with 3.2% growth to 2050. The second has the recession taking longer, with sea trade pickup up in 2024 and growing at 2.2% per year, to reach 20bn tonnes in 2050.

The third, worst case envisages a deep economic downturn, a 15% fall in seaborne trade by 2024, and 0.7%-per-year cargo growth in 2025-2050 — a scenario resembling the shipping recession after the second oil crisis in the early 1980s.

Dr Stopford said shipbuilding would face a sharp downturn in the next two or three years. But longer-term trade growth and climate change rules would create need for greener vessels.

"In the next 20 years the maritime industry must rebuild its cargo fleet," Dr Stopford said. "If this is done with the radical technologies now available, it will lead to the biggest change in ship design since steam replaced sail in the 19th century."

He said the climate crisis could benefit the supply side since slow steaming to reduce carbon emissions could reduce performance, soaking up surplus shipping capacity.

The second and third scenarios also predicted big falls in carbon emissions to well below the International Maritime Organization's target of half 2008 levels, he added.

Dr Stopford said the pandemic would lead to some sort of recession, which could be mild or severe. "But this should not divert attention from the task of progressing the transition to smart ship design and climate friendly sea transport," he said.

"We know we cannot predict the future. But we can try to prepare for changes that are clearly 'on the cards'. Not preparing can be riskier and more expensive than the 'safe' option of doing nothing."

Carriers take advantage of low fuel costs to reroute

THE collapse in the price of oil has not stopped container lines' efforts to retrofit exhaust scrubbers to their vessels, but it is giving them an incentive to save on canal costs by rerouting many of their services.

With oil prices hitting record lows in the past week as demand collapsed, bunker prices are also falling.

IFO380 fuel oil prices have fallen to $190 per tonne in Singapore and $163 per tonne in Rotterdam, while low-sulphur fuel prices are at $262 per tonne and $218 per tonne, according to Alphaliner.

"Despite a reduction in the low-sulphur fuel price spread to only $50-$70 per tonne, containership owners do proceed with their scrubber retrofit programmes," Alphaliner said. "At least 20 vessels have entered shipyards for retrofitting in April, joining some 35 units that entered the yards in March."

But while vessels continued to go to yards for retrofits, the total number of boxships undergoing retrofit work had fallen from a peak of 119 units in mid-March to 90 units, it added.

"Retrofits are expected to continue in the coming months, with scrubber fabrication and engineering works already well advanced for units that were ordered several months in advance, before the fuel price dropped to the current lows."

Meanwhile, more carriers are set to benefit from using the lower cost of oil to reroute several services around the Cape of Good Hope in an effort to avoid the Suez Canal and its associated costs.

With the fees for a 20,000 teu boxship to transit the Suez Canal costing around $700,000, the amount saved by rerouting easily covers the additional fuel costs even on non-scrubber fitted vessels burning low-sulphur fuel.

French carrier CMA CGM has to date been the only carrier to use the longer route on the westbound headhaul route from Asia to northern Europe, but Alphaliner said others would be following suit, particularly for backhaul voyages.

2M alliance carriers Maersk and Mediterranean Shipping Co are expected to reroute the last of its suspended AE2/Swan voyages via South Africa, while Evergreen is also taking the Cape routing for one of its return voyages.

Meanwhile, a number of Ocean Alliance and The Alliance voyages from the east coast of North America are also being routed directly to Asia on the backhaul.

Singapore yards hampered by new restrictions on foreign workers

BARELY a week after they got a slight reprieve from anti-coronavirus measures, Singapore's yards look like they will have to practically stop operations in practice, if not in theory.

Singapore announced increased restrictions this week, broadening the curbs on movement of workers to all foreign workers in dormitories, who will now have to stop working and will be barred from entering and leaving the facilities until May 4. The order also applies to factory-converted dormitories and on-site temporary quarters.

While the Ministry of Trade and Industry has not disclosed which shipyards will have to stop operations, the new restrictions on movements of foreign workers in and out of the dormitories essentially makes the question moot in the heavily foreign worker-dependent sector.

It is estimated some 200,000 foreign workers are housed in 43 major dormitory complexes in Singapore, 28 of which have known clusters of coronavirus cases.

Some 10,000 people deemed essential workers had previously been moved out of the dormitories and are housed separately in a variety of locations including vacant flats at housing estates, military bases and two floatels anchored offshore.

However, no details were disclosed about which sectors or companies these workers come from, or what is deemed essential.

Lloyd's List has learnt that some yards have been emailed directly to stop all work, while others are able to continue with limited operations. MTI did not respond by the close of business yesterday.

Even the shipyards are apparently unclear of their position. Sembcorp Marine, which on Sunday had another cluster discovered at one of its yards which previously saw seven confirmed cases also linked to it, was unsure of the effects on its operations.

SembMarine has previously said it had been told to suspend all on-site activities with effect from April 21, with no further specifics and only a vague proviso that work to ensure the safety of the ships and facilities at its facilities could be carried out.

"We are checking with MTI if the new circuit breaker measures will affect yard operations, i.e. whether we can stay open and how many workers are allowed to work in the yards," said a SembMarine spokesman.

Keppel Offshore and Marine, the other main yard operator in Singapore, declined to comment, citing a blackout period until its results announcement at the end of April. One of its units, Keppel Shipyard, has been linked to at least 21 cases as of two weeks ago.

The shipyards have been reluctant to disclose the actual numbers of foreign workers employed at their yards.

"The total number of employees in our yards varies according to work volume and they comprise direct employees of Sembcorp Marine or those employed by our sub-contractors," said the SembMarine spokesman. "Given the new circuit breaker measures, we expect the number of migrant workers to be reduced considerably," he added.

In the government's latest Budget speech, it was revealed that the foreign worker quota for the marine shipyard sector is 77.8% of the total. Industry figures estimate there are some 150,000 workers employed in the sector.

Forwarders face storage capacity shortage

A SHORTAGE of storage capacity for ocean freight imports into Europe is proving a major headache for forwarders and the onus is on finding a mix of different solutions to avoid unnecessary costs and delays in transit for shippers, according to a senior freight forwarding industry executive.

The issue has arisen because of orders that were placed during the initial outbreak of the coronavirus in China, which saw the supply side virtually shut down.

This led to pent-up demand in consumer markets; but fulfilment of these orders only began as the pandemic spread to these markets, leading to lockdowns and a collapse of demand.

Maersk, CMA CGM and Mediterranean Shipping Co have each taken steps to avoid congestion in the supply chain as cargoes reach their destinations.

In a letter to customers, Maersk urged shippers to minimise port stays and the detention of containers as much as possible, to reduce the risk of congestion and maintain the flow of goods.

MSC has introduced a Suspension of Transit programme that allows containers to be stored at several transhipment hubs in advance of renewed customer demand.

French carrier CMA CGM followed MSC's lead and introduced a delay in transit option for shippers seeking to delay to final delivery of their goods to import destinations.

"In an environment of reduced capacity, blank sailings and combined loops forwarders have to keep their options open when it comes to storage solutions and choose which is the best on a case-by-case basis," said Hellmann Worldwide Logistics chief commercial officer Jochen Freese.

"MSC's SOT is not new, but has been extended to 10 ports worldwide and you have to book it with the fixed schedule before the movement of goods, so that may not give the room for manoeuvre the shipper requires," he said.

"As far as Hellmann is concerned, our focus is on getting shipments into warehouses rather than have them held over at transhipment points offered by the shipping lines or at destination ports, because this makes us much more flexible and corresponds to customer preferences.

"Very often customers do not have an urgent need for all of the contents in a single container, but only certain parts, components and boxes packed in it."

However, Mr Freese underlined that Hellmann would not rule out "delay in transit" options.

"For example, we've brought containers into Dubai's seaport, positioning them in a warehouse there and can respond to customer requirements in Europe for these goods in 24 or 48 hours by flying them in," he said.

"Finding warehousing capacity is a challenge, but we still have some space available. It depends on how much is required, for how long and what kind of goods has to be stored. Our warehouses are starting to fill up now and we are also renting additional space on a short-term basis.

"But with lockdowns in Europe being extended in certain countries, if cargo continues to arrive, the shortage of space could reach critical levels."

IN OTHER NEWS

Seaborne trade decline could be biggest in 35 years

SEABORNE trade could shrink as much as 5% this year, which would be the biggest annual decline for more than 35 years, according to Clarksons Research.

The sector faces "demand shock and a bumpy ride ahead," said the analyst's managing director Steve Gordon, citing deepening concerns for the cruise, ferry, container, offshore and car carrier sectors.

Tankers remain strong, supported by demand for floating storage, while bulkers may "have some recovery potential," he added.

Norwegian shipowners' losses close to 25%

NORWAY's shipowners have already seen a 25% drop in revenue and expect the number of vessel layups to triple and ship recycling to double in 2020, because of the coronavirus pandemic.

The country's shipping companies are among the first to collectively indicate the damaging impact of the coronavirus on their industry.

Norway is one of the largest shipowning nations in the world, with an estimated $48.9bn fleet in 2019, according to VesselsValue.

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