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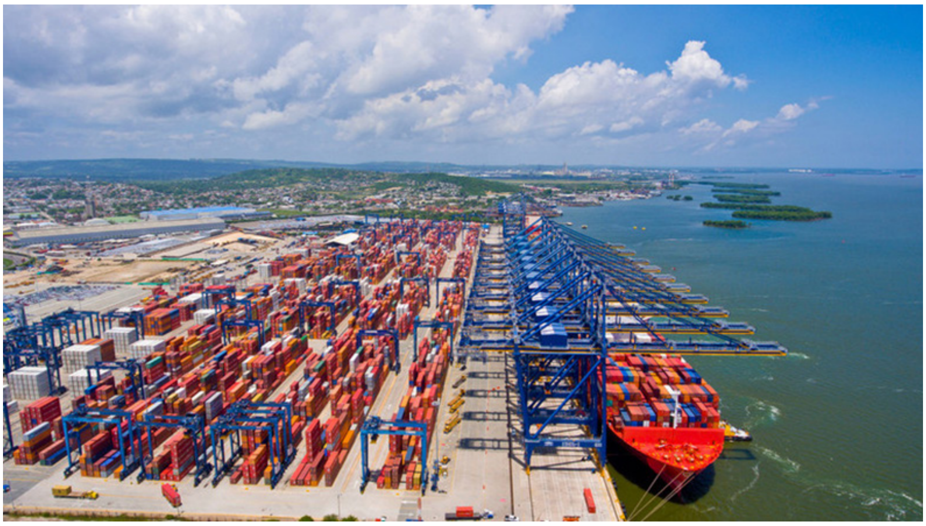
Carriers may have hit peak capacity reductions on main trades



THE VOLUME OF capacity withdrawn from container lines' capacity may be about to peak, according to analysis.

Recorded blanked sailings as a result of the coronavirus pandemic now stand at 456, of which 342 were on the main deepsea trade lanes.

"For the Asia-Europe and transpacific trades alone, the amount of removed weekly carrying capacity increased from 3.1m teu last week, to 3.4m teu this week," Sea-Intelligence said. "Compared with the typical downturn during Chinese New Year, this implies a potential global loss of volume of 7.4m teu in 2020."

As the pandemic has progressed, blanked sailings have increased at different rates on different routes and have had a wider impact than just the main east-west trades.

The Asia-South America east coast trades had even more capacity removed than on services ex-Asia to Europe or North America, with capacity reductions of almost 60% forecast for week 20.

"Given that this particular trade is also heavily reliant on reefer exports from South America, the substantial amount of blank sailings happening in these weeks is likely to cause significant problems in relation to the export capacity for reefer cargo, four to eight weeks into the future," Sea-Intelligence said.

On the transatlantic trade, capacity reductions were staggered, with Mediterranean capacity falling sooner than that on northern Europe routes.

"The difference in timing is clearly caused by the nature of the pandemic spread, which impacted the Mediterranean countries a little earlier than the North European countries," Sea-Intelligence said. "We also see that the amount of blank sailings declines again earlier in the Mediterranean than for North Europe.

"However, if we look at the development of the pandemic, we are seeing more of a gradual re-opening in some of the northern European countries, whereas some of the southern European countries are still struggling, despite the infection data clearly declining. This indicates that we might expect more blank sailings to be announced for the South Atlantic trade coming out of the Mediterranean."

But by viewing a rolling three-week average of announced blanked sailings, Sea-Intelligence noted that week 17 appeared to be the "peak impact" for the Asia-northern Europe and northern Europe-US east coast trades.

Other trades are expected to reach peak capacity removal in weeks 19 and 20.

Analysts at Platts also suggested that some container demand could start to re-emerge now that pandemic containment measures were starting o be eased.

"With some lockdown restrictions starting to lift, especially across much of Europe, there is hope in the market that there could be a boost in container freight demand, but this is likely to be a short-term rather than a more comprehensive outlook, as many importers and retail outlets are wary of a potential second-string of lockdown measures should coronavirus case numbers start to see more increases," Platts said.

WHAT TO WATCH

Lines under pressure to cut obsolete low sulphur surcharges

CONTAINER lines are facing growing pressure to suspend low-sulphur fuel surcharges and drastically cut other fuel charges levied on shippers as the fall in oil prices reduces the cost of bunker fuels.

Lines pass on the cost of fuel to customers through bunker adjustment factor fees and several low-sulphur surcharges using complicated methodologies, which typically means there is a lengthy lag between changes in the fuel price being reflected in revised surcharges for customers.

Shippers and forwarders say current bafs are far too high and should be cut to reflect the rapid drop in bunker prices.

They also claim low-sulphur surcharges should be removed given that the price differentials between very low sulphur fuel oil and standard IFO380 are now so narrow.

"We're being asked to pay bunker surcharges at pre-crude crash prices and, on top of that, we're being charged for the use of low-sulphur fuels when the price of these fuels is now more or less the same as heavy fuel oil," said one shipper source. "Low-sulphur surcharges are now obsolete."

A UK-based forwarder said it was "a bit rich" for lines to charge environmental surcharges for the use of low-sulphur fuels when they were now taking advantage of low bunker prices by routing vessels from Asia to Europe via the Cape of Good Hope to avoid paying Suez Canal fees.

"They're burning fuel in the least sustainable way and charging us environmental fees to pay for it," he said.

Shippers feared that lines would use low-sulphur fuel surcharges to bolster profits once International Maritime Organization rules, which made it mandatory for ships to use low-sulphur fuels unless fitted with emission abatement technology such as scrubbers, came into force in January 1. The recent slump in oil and bunker prices has done nothing to assuage those fears.

The price differential between low-sulphur and heavy fuel oil is becoming increasingly marginal with some regional indexes now reporting that the price of VSLFO has fallen below the cost of HFO.

According to Ship&Bunker, the average bunker price at the global top 20 ports is $225 per tonne for VLSFO and $164.50 per tonne for IFO380.

In the Americas, the differential is even narrower with average VLSFO now priced at $309 compared with $288 per tonne for IFO380.

CMA CGM is so far the only leading line to commit to suspending its low-sulphur surcharge. The French carrier announced earlier this month that "taking into consideration the current price of VLSFO" it would not levy a low-sulphur surcharge on any trades with the exception of intra-Asia from 1 May until further notice.

One liner source said that carriers would eventually be forced to follow CMA CGM's lead.

"If they don't they will lose their credibility when the spread (between VLSFO and heavy fuel oil) comes back," he said. "They simply have to. They won't scrap them after fighting for so long for them. But they'll suspend them."

The UK-based forwarder said he simply wanted "some fairness and transparency" from carriers.

One Asia-based forwarder executive illustrated what he called "exorbitant carrier fuel pricing" by outlining some of the bunker-related fees he is being charged by one of the world's leading carriers.

For a shipment from Asia to the US East Coast, the line is charging him an LSS of $100 per 40 ft high-cube container based on its calculation of a 13-week average marine gas oil fuel price covering December 2019 through to February 2020 of $610.82.

The current price of MGO according to Ship & Bunker's Global 4 Ports Average is $253.50.

The same line is also levying a bunker charge of $955 per 40 ft high-cube box shipped to the US East Coast and, from the start of May, an IMO SOx Compliance Charge of $297.

MSC did not reply to enquiries about LSS plans.

Maersk said it had no plans to diverge from the baf and low-sulphur fuel surcharge [Maersk calls this an environmental fuel fee] regimes already announced, which he said gave customers "predictability" and would be adjusted to reflect lower bunker prices from May 1.

Hapag Lloyd, which uses a marine fuel recovery bunker regime, said the LSFO 0.5 price was currently around $200 per tonne.

"We have adjusted our MFR recently as of April 1 and there are no plans to cancel the MFR as we are still paying this money for fuel," a spokesman said. "The next quarterly adjustment is planned for July 1."

The liner source said carriers were justified in not passing on lower fuel costs immediately.

"There is an argument for a lag because for low-sulphur fuels, the lines were already buying this at very expensive prices back in November to be ready," he said. "No one was paying that additional cost until January. So they are justified in a lag for at least a month. But too long beyond that, it will be difficult to justify."

SeaIntelligence Consulting chief executive Lars Jensen said that shippers had no reason to assume they were unfairly losing out on liner fuel surcharges following the collapse of oil prices.

"It would be true that right now [shippers] will be paying a baf based on an oil price that is much higher than the current reality, but to complain that this is a profit centre is simply a misunderstanding of the baf mechanism in general," he said.

"A baf will always have a time lag. In order to change the baf you have to know what the oil price actually was — and therefore a current baf is always based on what the oil price was in the past, not the present."

Cosco's $600m LNG tanker investment linked to US export projects

COSCO Shipping has embarked on a $600m newbuilding plan to expand its liquefied natural gas carrier fleet, which will be backed by PetroChina's charters linked to US projects.

Its listed oil and gas shipping arm, Cosco Shipping Energy Transport, revealed the plan in an exchange filing on Friday evening to build three 174,000 cu m liquefied natural gas carriers together with the state-owned energy giant. The deal appears to be a harbinger of more LNG flows into China from the other side of the Pacific Ocean, as expected by analysts after the world's two largest economies agreed to temporarily halt their trade war.

The orders will be placed at Hudong-Zhonghua Shipbuilding, the only Chinese shipyard with experience of constructing such sophisticated tanker ships. The trio are priced at $185m per ship, or $200m if other expenses, such as financing costs, are included.

Speculation arose earlier that these newbuildings were in relation to the LNG expansion projects of Qatar Petroleum. The company just signed a slot booking agreement with the same builder, part of China State Shipbuilding Corp, last week for eight LNG tankers of the same size and options for another octet worth $2.8bn altogether.

However, sources familiar with the matter told Lloyd's List that the ships to be ordered by CSET are a separate deal to the Qatar programme. They will be used instead to ship LNG exports from the US for oil and gas company PetroChina under long-term charters of more than 20 years. Delivery is scheduled for 2023.

"It is China LNG, the 50-50 joint venture between Cosco and China Merchants Energy Shipping, that is bidding for the Qatar newbuidings," one of the sources added.

Lloyd's List has sought comments from CSET, PetroChina and CMES.

PetroChina has two long-term offtake contracts signed with Cheniere Energy in 2018 for a combined 1.2m tonnes per annum of LNG. Only a small portion of the contracts is in effect, with the remainder beginning in 2023.

The US firm's chief executive Jack Fusco said earlier that these agreements were expected to support the development of Train 3 at its Corpus Christi plant on the US Gulf Coast. The export facilities, including the Midscale Trains 1-7, boast a combined production capacity of 23 mtpa when completed.

One person close to CSET said the newbuilding project was initiated several years ago but suspended later due to the outbreak of the US-China trade war. "It was then brought back after the two countries signed the Phase-One agreement," the person said.

As part of the agreement, China has pledged to spend another $200bn on purchases from the US, including $52bn on energy, beyond the 2017 level over the next two years. Beijing also reportedly started granting tax waivers recently to domestic importers for buying US LNG.

The latest newbuilding deal also echoed the comments made by CSET's top management last month when they told analysts that the company was also keeping an eye on new projects involving clean energy, including LNG and ethane.

They said at the time that the Phase-One trade deal between the world's two largest economies had paved the way for China to import more energy products from the US.

The three LNG carriers announced this time will be built to cater to the shipping demand of PetroChina and its units for LNG cargo under the sale and purchase agreements they have signed, the filing said.

The vessels will be owned and operated by a Hong Kong-based, three-party venture, in which CSET's wholly owned subsidiary Cosco Shipping LNG Investment (Shanghai) will hold a 60% stake and PetroChina's wholly owned unit Glasford Shipping (Hong Kong) will have 19%.

The remaining 21% will be held by another 51-49 joint venture between CSET and PetroChina.

At present, Shanghai-and-Hong Kong-listed CSET and its partners own a live LNG carrier fleet of 36 ships, with the remaining two on order to be delivered this year. All the vessels are backed by long-term contracts.

Sounding the horn for seafarers

THE coronavirus pandemic has raised awareness globally of the value to society of many of the unsung heroes that often go unnoticed.

Chief among these has been the healthcare workers who have come to the fore in this time of crisis. Not only doctors, but nursing staff, ambulance drivers, hospital porters and care workers have been recognised as delivering a vital service in an extremely challenging environment.

That service has been noted. In the UK every Thursday evening, millions take to the streets, windows and balconies to show their appreciation through the "Clap for the National Health Service" initiative, with similar events taking place around the world as populations show their appreciation for these often overlooked essential workers.

There is another group of hidden workers, however, that is keeping vital supply lines open and which also goes virtually unrecognised, in both good times and bad.

On the oceans of the world, many thousands of seafarers already live in a state of extended lockdown, kept from their families for months at a time, often with little opportunity to communicate with those not on their ship.

Thus it ever was for seafarers, a particular breed of hardy individual that can forsake the comforts of home for the rigours of life on board.

But many now are working beyond their contracts, due to the difficulties involved in disembarking them from their vessels and the near impossibility of repatriating them to their home countries.

As global economies go into freefall and supplies of some goods run short, it is the seafarers who drive the engines of global trade. It is their sacrifices now that feed us, clothe us and keep us warm, as they have done for generations.

To mark that contribution, the International Chamber of Shipping and the International Transport Workers' Federation are calling on seafarers across the world to sound their ships' horns when in port at 12.00 local time on International Workers' Day on May 1.

"Our seafarers are the unsung heroes of global trade and we must not forget the contribution that they are making every day to keep our countries supplied with the goods that we need," said ICS secretary-general Guy Platten. "The sounding of a ships' horn in ports on the day that the world recognises the contribution of workers is an ideal way to remind us all of their sacrifice. They are all Heroes at Sea."

The #HeroesAtSeaShoutout has support across the world from New Zealand to Canada, with a number of large fleets already committed to joining in.

Lloyd's List offers its full support to this gesture of recognition of these bastions of our industry.

Along with the healthcare workers and so many other overlooked workers, seafarers are among the true heroes of this crisis and we could not do without them.

OPINION

Shipping can help the world avoid mistakes of the 1930s

ONLY the oldest people now living have personal recollections of the Great Depression. Yet the imagery of the period is still burnt into the popular imagination, even nine decades later, *writes David Osler*.

In Britain, we think of the iconic black and white photographs of the Jarrow hunger marchers, or that cloth-cap-clad unemployed man on a street corner in Wigan; the US has the film version of John Steinbeck's classic novel The Grapes of Wrath; in numerous other countries, the 1930s were bleaker times still.

The question on many minds right now is whether the coronavirus condemns us to rerun the economic — and perhaps even political — horrors our grandparents somehow lived through. This does not have to happen, nor should it be allowed to.

At this stage, the prognoses are undeniably grim. On the World Trade Organisation's projections, world trade will fall anywhere between 13% and 32% this year before a rebound in 2021.

Even at the milder end of that spectrum, the reversal of fortune will exceed the 12.5% decline witnessed in the aftermath of the global financial crisis of 2008-2009.

Our industry is still living with the outcome; just ask the devastated north German maritime cluster. If we get even close to the top end of that range, we are indeed reopening the history books. As Martin Stopford points out in his well-known work Maritime Economics, trade by sea declined by 26% between 1929 and 1932.

More than 20% of the world fleet went into lay-up and, by 1933, vessel values plummeted by as much as 99%.

The onus now must be on how governments respond to the challenges we collectively face, and finding the best way to bring about a rapid rebound.

Ninety years ago, that response was scarred by nationalist and protectionist impulses — and, when we survey the current crop of world leaders, there are many who seem all too obviously susceptible to similar temptations.

The priority will be to make certain that monetary, fiscal and trade policies are both set on an expansionary course and properly co-ordinated, across the G20 and beyond.

Given the chance, shipping can be depended upon to play its part in keeping goods moving, motivated not just by obvious self-interest but by an awareness of its real responsibilities.

To stand a cliché on its head, this time we really do have the opportunity to learn from history, rather than repeat it.

ANALYSIS

Shipmanagers adapt to the new normal, some of it for the better

THE health crisis has changed the maritime corporate landscape.

In a few short weeks it has transformed the pace of change from what had been evolutionary to revolutionary. Technologies that were non-essential have become indispensable. The quality of communication throughout the business is the difference between efficiency and just making do.

Leadership is being tested more soberly than at any time since the financial crash.

Since taking over the helm of V.Group, Graham Westgarth reflects on a maritime world in transition. He now spends eight hours a day on team calls, hosts three coronavirus executive meetings a week, and talks with ships' crews to update them on what is being done to keep their situation uppermost in the minds of political leaders and seafarers' own families.

That was not in the script when he joined V.Group, yet in spite of the many difficulties he has embraced the new demands on his time.

He enjoys the positive energy of the V.Group meetings to discuss coronavirus; it plays to his innate sense of the vital importance of teamwork in business.

"There are a lot of competent people in shipping, but competence is the lowest hurdle in leadership," he tells Lloyd's List. "You must also have attitude, resilience and positive energy."

Shipping is an unforgiving industry where mistakes have significant consequences, he add. "When things go wrong, you have to show that positive energy."

Mr Westgarth has a master mariner's ability to hold in tension many interests that do not always appear aligned. He talks of the seafarers on V.Group's 600 managed ships as if they are front-line employees, the coronavirus key workers, because he sincerely believes they are.

At the same time he is deeply impressed by the talent brought to the company by graduates from many disciplines; and he is surrounded by managers and customer-facing colleagues who take taken on board the mantra "Your ship — our responsibility". Meanwhile, with V.Group now an important member of the Advent International portfolio of companies, he can draw on the skills of the wider corporate team.

"All [Advent] companies have put Covid-19 plans in place with, for example, HR managers collaborating. We are open to learning from other industries," says Mr Westgarth. "What are other companies, such as logistics companies, doing that has relevance to us?"

V.Group had been working to secure several pillars of corporate strength even before the outbreak arrived. While the graduate programme was already in place, the ShipSure data platform roll-out had been completed at the end of the year.

Meanwhile, co-ordination with colleagues at Advent had begun, and leadership training was well underway. Together, all these were supporting V.Group's placing of their customers "front and centre; knowing your customer and delivering a good service".

It is a simple idea, responding to push and pull stimuli from the company and its customers which, Mr Westgarth, notes, has had "extremely positive feedback" from customers. More resources have been made available to customer-facing teams in fleet operating cells. ShipSure is there to ensure there is consistency of service and provide transparency.

"Customers have ShipSure in their offices. We have created a custom-made dashboard that enables shipowners to follow vetting approvals, operating expense, inspections, and speed and consumption. It's pretty simple — you don't need data analysts."

What has alarmed Mr Westgarth is that the pandemic has revealed a "complete lack of understanding that the global supply chain is dependent on shipping. Seafarers make it happen".

This is not a new complaint, however coronavirus has taken it to a different level. "Many industry bodies have been trying to raise awareness of shipping, although with limited success. Seafarers are human beings; we must illuminate the current state of affairs. They are a vital link, bringing in medical supplies and food."

The new normal for shipmanagement, Mr Westgarth concluded, is a new way of thinking opened up by technology, new resources being made available to support the critical customer-focused teams, and a new appreciation of the role played by seafarers in the global supply chain.

Behind all this lies leadership powered by positive energy.

IN OTHER NEWS

Most ships calling at Singapore now using compliant fuel

FIRST quarter of the year figures from the Maritime and Port Authority of Singapore revealed the predominant fuel choices of shipowners on Asian trading routes who mainly bunker in the city-state, with 96% of the ships that arrived in the Port of Singapore using compliant fuel.

The figures, based on pre-arrival notifications submitted to MPA from January 2020 to March 2020, excludes ships installed with open-loop scrubbers that are required to switch to using compliant fuel upon arriving because of Singapore's ban on such scrubber types, suggesting actual compliant fuel usage may have been even higher.

Out of the 326 Port State Control and Flag State Control inspections that MPA conducted in the first quarter of 2020, two foreign-flagged vessels were found outright to be using non-compliant fuel while 12 ships, which were not fitted with scrubbers, were found with fuel that marginally exceeded the sulphur limit.

VLCC charter breaks 300,000 a day on Egyptian hire

SPOT rates for very large crude carriers may be on the decline, but Egypt's national oil company has chartered a VLCC for a contract worth far above $300,000 per day.

The Egyptian General Petroleum Corporation has finalised the charter-in of the 2019-built and scrubber-fitted Hunter Laga for a Middle East Gulf to Red Sea voyage for 265 points on the Worldscale, VLCC pools Tankers International reported.

This means the actual time charter equivalent is $308,782 per day. The round voyage TCE, the measurement that TI uses as a way to compare different charter rates, is worth $340,155.

TOP Ships and Gunvor go halves on two new MR2s

TOP Ships, the Nasdaq-listed tanker owner, has acquired two newly-built medium range two tankers from chief executive Evangelos Pistiolis in a joint venture with Gunvor Group.

Greece-based TOP and Switzerland-based trader Gunvor will each own 50% of the two vessels that will go on to five-year charters to Gunvor subsidiary Clearlake Shipping.

TOP said that the potential total gross revenue under the contracts, including two additional optional years, could reach $91.7m.

Green tech investor ETF Partners takes stake in DeepSea Technologies

ETF Partners, a UK-based venture capital firm that manages the Environmental Technologies Fund, has completed its first deal in the maritime sector with a $3m investment in Greece-based DeepSea Technologies.

DeepSea, which describes itself as a "maritime optimisation" company bringing artificial intelligence to bear on shipping performance applications, said that the investment will be used to fund additional customer deployments around the world, as well as further new product development.

"It will help us bring more owners and charterers to the table and provide solutions to clients globally," chief executive Roberto Coustas told Lloyd's List.

Cosco's port business feels impact of health crisis

COSCO Shipping Ports has seen its first quarter results weighed down by the coronavirus impact, but has said it will not stop expanding globally.

The Hong Kong-listed firm, which has about 40 terminals in its port portfolio, reported an 11% drop in revenue as its total throughput contracted 4.4% in the first quarter of 2020, compared with the year-ago period.

Its business in the Greater China area has borne the brunt, with handling volume down 6.6% to 20.7m teu in the three months during which the outbreak was mainly concentrated in China. By comparison, the volume at its terminals in the rest of the world grew 3% to 6.8m teu.

Misdeclared container weights still a concern says UK marine accident report

THE spectre of overweight containers has again reared its head in a Marine Accident Investigation Bureau report into the collapse of three container stacks on a CMA CGM vessel.

The 14,414 teu CMA CGM G. Washington was en route between Xiamen and Los Angeles when the UK-flagged vessel suffered a 20 degree roll in heavy weather, leading to the loss of 137 containers overboard and damage to another 85.

An investigation into the incident by the MAIB identified several factors that would have adversely affected the safety of the container stows on deck. These included reduced structural strength of non-standard 53 ft containers, inaccurate container weight declarations, mis-stowed containers and loose lashings.

Unctad sets out trade plan to weather coronavirus

THE United Nations' intergovernmental trade body has set out a policy plan calling to protect maritime and other transport sectors to ensure the movement of goods during the coronavirus pandemic.

The UN Conference on Trade and Development's 10-point plan, published on Monday, calls on governments to ensure uninterrupted shipping, keep ports open, quicken customs checks, ensure transit rights for landlocked countries, and move trade and customs processes online where possible.

It calls for action to prevent costly legal disputes between commercial parties, protection for shippers and transport service workers, and technical help for developing countries.

Gothenburg reports steady first quarter throughput

LIKE much of Sweden, the port of Gothenburg has remained fully open during the coronavirus pandemic, in line with government strategy. All loading, discharge and maritime services are operating as normal and a quick glance at the recently released figures for throughput indicate that not much has changed compared with the same period last year.

The headline statistics show an 8% year-on-year increase in containers to 203,000 teu, from 188,000 in 2019, and rail teu up 3% to 119,000 teu. On the other hand, ro-ro units registered a 6% decline and there was a steep 14% drop in passenger numbers.

A closer look at the numbers for containers, however, show that the rise has been fuelled by a jump on the export side, with a 10% year-on-year increase recorded in March.