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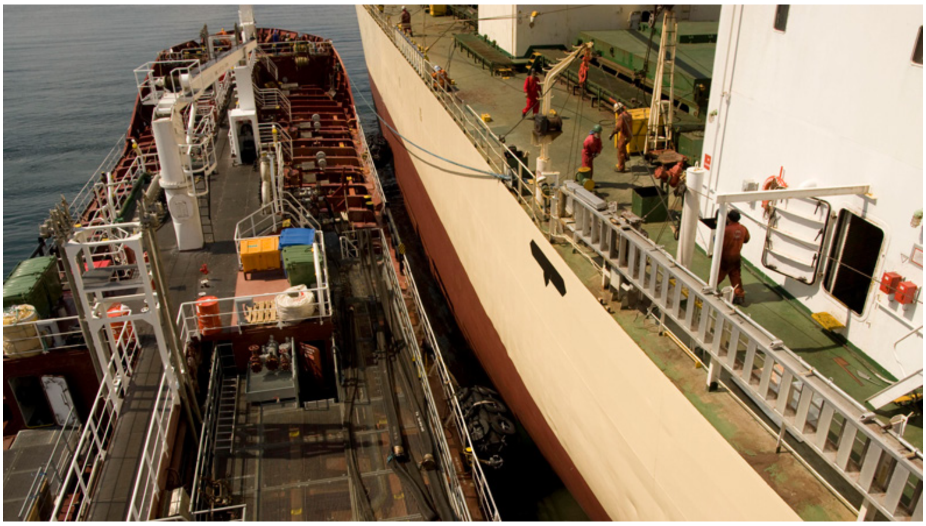
Hin Leong insolvency leaves traders and shippers exposed



HIN LEONG'S INSOLVENCY filing is likely to stoke legal battles over millions of barrels of oil products held in one of Asia's largest onshore tank terminals and floating storage off Singapore, the world's top bunkering hub by marine fuel sales.

ICICI Bank has already issued writs on two very large crude carriers — *Chang Bai San* and *Wu Yi San*, which are operated by Hin Leong's shipping affiliate, Ocean Tankers — for cargoes with an estimated value of over S$100m ($70.6m).

The two vessels are among at least six tankers at Tanjung Pelepas anchorage believed to be deployed by Ocean Tankers to store mainly compliant marine fuel.

Lloyd's List Intelligence data showed *Wu Yi San* has set sail from the Malaysian anchorage near Singapore but five others operated by Ocean Tankers, including *Chang Bai San*, have stayed put so far — *Sea Coral, Sea Equatorial, Sea Horizon* and *Sea Latitude*. All six vessels have been in the vicinity of Tanjung Pelepas anchorage for varying periods from about August 2019, according to the data.

A criminal investigation into Hin Leong's trades is underway alongside a judicial management process that will see a court-appointed supervisor take control while the company seeks to restructure billions of dollars of debt.

If banks and other creditors start making claims on Hin Leong's assets — as they are expected to do when the judicial management process gets under way in earnest — these assets will become part of the legal bargaining process between banks, lawyers and competing cargo claimants.

Oil major Shell is one of a number of cargo owners exposed to litigation risks linked to storage arrangements with Ocean Tankers and its affiliates.

Three separate sources familiar with Ocean Tankers' chartering obligations have told Lloyd's List that Shell had chartered three of the company's VLCCS for floating storage in the Singapore and Malaysia area.

Shell declined to comment on whether it had any exposure to Hin Leong's insolvency.

The founding Lim family behind Hin Leong and Ocean Tankers owns 41% of Universal Terminal on Singapore's Jurong Island, with PetroChina and Macquarie Capital holding the remaining interest.

The terminal boasts a volume of 2.33m cu m, or one-sixth of Singapore's onshore tank capacity, and is partially leased out to third parties to store oil products.

Trading sources have told Lloyd's List that some of these lessors have already explored alternative storage because they are concerned creditors will lodge competing claims on cargoes held at Universal Terminal.

Media reports citing an affidavit in court filings claim that Hin Leong has already sold some cargoes that could no longer be delivered to the banks holding the bills of lading. The reports claim that Ocean Tankers could therefore be exposed to misdelivered cargo claims as high as $600m.

The details of the claims stem from an affidavit in Singaporean court filings that have been widely circulated in the industry and reviewed by Lloyd's List, but the documents have not been made public and can therefore not be authenticated.

ICICI Bank has also been identified in reports as one bank lender to have already issued a letter of demand to Ocean Tankers for the delivery of cargoes held in the two said tankers *Chang Bai* San and *Wu Yi San*.

Legal sources have advised Lloyd's List that they consider it likely other creditors will quickly follow suit, leading to competing claims for Hin Leong's assets, including cargoes held on its tankers.

When companies become insolvent and apply to be put under judicial management, the court will appoint a judicial manager with the set objectives of either rehabilitating or orderly recover debts owed by the companies.

During the judicial management process, creditors may stake claims on overlapping assets in seeking to maximise their recoveries.

That process means there is a likelihood of more competing claims surfacing on Hin Leong's cargoes held at the Universal Terminal and floating storage straddling Singapore and Malaysia's maritime waters.

Robson Lee, a Singapore-based partner of US law firm, Gibson Dunn, however, pointed out that Shell and other cargo owners have legal options including mitigating their exposure by filing court injunctions to protect their assets.

Mr Lee is not directly involved in any of the Ocean Tankers legal proceedings.

A unit of Singapore-listed Sembcorp Industries has already sought such possible legal recourse by obtaining a court order to secure its gasoil stocks stored at the terminal.

Still, the court is obliged to take in any competing claims filed through the now appointed interim judicial manager at PwC before approving the release of cargoes to their owners.

Such legal proceedings can take months to resolve.

One trader told Lloyd's List that Hin Leong's insolvency would only push tanker rates even higher as those struggling to cover their positions at Universal Terminal may seek to sublease tankers, but there are limited floating storage options still available off Singapore.

WHAT TO WATCH

Ports accused of denying hospital treatment for seafarers

CASES of seafarers being denied emergency medical treatment ashore due to port authorities' fears of coronavirus infection have prompted labour and maritime employer groups to issue an urgent call for crew rights to be respected.

The International Transport Workers' Federation and Joint Negotiating Group, representing maritime employers, have called on governments to "step up".

A joint statement highlighted two recent cases in ports in Indonesia but clearly implied that other countries were at fault, too.

Independently, Lloyd's List has verified two comparable cases that have occurred in recent weeks in ports in China.

Meanwhile, further cases of seafarers not being allowed to disembark raise different types of humanitarian concerns.

The spotlight on crew medical emergencies comes as the industry wrestles with the wider problem of seafarers being forced to remain on board beyond their contractual dates as a result of widespread restrictions and logistical problems resulting from the coronavirus pandemic.

A task force under the leadership of the International Chamber of Shipping has been preparing a global plan to ease crew changes to be put into effect as soon as opportune.

It is understood that this focuses on using a relatively small number of hub ports that are also key airport locations. However, there are concerns about certain ports.

One of these is Singapore, envisaged as one of the key ports for the repatriation operation, which is currently struggling to control its outbreak.

A senior executive at one shipping organisation also said that there are misgivings as to whether the plan will work efficiently for bulkers and tankers.

"Limiting the number of ports can be good for major liner services. I'm not sure that it will be so good for tramp shipping, as it is much more fragmented and serves so many different ports," Lloyd's List was told.

The ITF and JNG says "many seafarers" are being denied necessary emergency medical care unrelated to coronavirus. Some of the medical issues were minor but others were "serious and potentially life-threatening requiring immediate medical attention."

"Governments cannot use the current coronavirus to refuse seafarers' human rights as enshrined in international and national legislation," they said.

One specific case cited was that of a local Indonesian port authority that refused to allow a seafarer to disembark for treatment to a worsening eye ailment, despite an ophthalmologist recommending immediate medical evacuation.

The port authority in Morowali eventually let the crew member disembark after "strong intervention" by the national ITF affiliate.

The other case, described as "potentially a life or death situation", involved a seafarer with stroke symptoms on a vessel off Sumatra who was not allowed to disembark for almost four days due to Covid-19 restrictions.

He eventually received hospital treatment ashore after intervention by unions, the International Labour Organization and the International Maritime Organization.

Shipping sources have also spoken to Lloyd's List about cases in China.

One of these saw a seafarer with a hernia being denied treatment ashore at the end of last month when the Greek bulker on which he was serving was in the northern Chinese port of Tianjin.

Hernias are not considered immediately life-threatening but can cause dangerous complications if left untreated.

Another case in China involved a crew member on board an international tanker.

A number of Chinese ports, including Zhoushan, have been preventing sick crew members from going ashore if the illness is not critical, shipmanagement sources have said.

Such experiences are mainly put down to restrictions imposed by local ports and governments.

In recent weeks, the central government in Beijing has encouraged a relaxation of the ban on crew movements but there has been resistance at local level as officials fear being held to account for any imported infection cases, industry sources say.

Lloyd's List is aware of other cases that point to a range of humanitarian concerns that shipowners and unions fear may proliferate the longer coronavirus restrictions are applied at a wide range of ports across the world.

In one case, the chief engineer on a bulk carrier was prevented from leaving the ship to travel home for his son's funeral, while a vessel that installed a scrubber in a Chinese shipyard was not allowed to disembark the body of the ship's master who died shortly before sailing. The body was eventually disembarked in Singapore after extensive lobbying, a company executive said.

"The human side should come first," said Dimitris Fafalios, chairman of Intercargo, whose membership includes more than 25% of the global dry bulk fleet.

"One of the things that should be respected by ports is that many crews have effectively served their quarantine period on board the vessel. If the crew have been isolated on board for 17 days since the last port of call, that should be taken into account and it is not," said Mr Fafalios.

Dozens of aframax-sized tankers needed for clean floating storage peak

FLOATING storage of refined products such as gasoline and jet fuel is forecast to hit fresh records over the next six weeks, but estimates of that volume vary as the market struggles to accurately define and measure demand.

Based on the latest forecasts, between 30 and 114 aframax-sized tankers will be needed to accommodate accelerating floating storage demand over the next six weeks. Despite the wide disparity, those numbers represent a phenomenal surge in demand for clean tankers, with the largest vessels already banking record earnings above $160,000 daily.

Estimates of current clean floating storage levels range from 40m to 65m barrels, substantially less than crude oil volumes. Some 163m barrels of crude and condensate is measured on 114 tankers over the past 20 days or more, according to Lloyd's List Intelligence, which does not collect data on clean storage.

The global surplus of land and air transport fuels that has overwhelmed land-based tank capacity is not expected to recede for another two months. The coronavirus pandemic and global lockdown that has cut oil demand by as much as one third has also triggered a collapse in prices for land and air transport fuels to the lowest in more than two decades. Although refineries are scaling back runs, the existing products overhang is leading to unwanted cargoes and widespread delays at discharge ports.

Alphatanker estimates refined products in floating storage as currently at 40m barrels, with crude at 130m barrels and fuel oil at 50m barrels. The research arm of shipbroker BRS predicts clean volumes in floating storage are rising by about 20m barrels each week, peaking in late May or early June. That equates to a further 80m to 100m barrels — or about 114 gasoline cargoes on a long range two or aframax-sized tanker — added to its floating storage tally.

Volumes held on tankers at sea could collectively total as much as 400m barrels at any peak, and products will take six to nine months to come ashore under Alphatanker's forecasts. The shipbroker's projections suggest some 120m barrels of this would be of refined products.

There are 699 aframax crude tankers in the global fleet and some have tank coatings allowing them to trade clean products. There are another 351 long range two tankers, aframax vessels with tanks for refined products transport.

Shipbroker Braemar ACM is tracking just under 250 tankers storing some 65m barrels of clean petroleum products, which it said comprised just over 8% of the clean trading fleet. Gasoline accounts for about 30m barrels of these volumes, which have more than doubled in the last four weeks, data compiled by the London-based shipbroker show.

"We forecast CPP in floating storage to rise by another 15 to 20 LR2-equivalent vessels by the end of May, with a similar build likely in June," Braemar said in a report published April 25. That equates to some 14m barrels each month, taking its estimate to just over 100m barrels of clean floating storage by the end of June.

LR2 tankers can each hold up to 600,000 to 800,000 barrels of refined product depending on the cargo density.

Both Braemar ACM and Alphatanker define floating storage as vessels at anchor for seven days or longer. This duration is one third of the normal, 20-day parameter used. Forecasters are throwing out the 20-day methodology in order to immediately capture those tankers at congested ports where there are coronavirus-related discharge delays. This change is made on the basis that the cargo will ultimately end up in floating storage because delays reflect difficulties securing land-based storage.

Some cargoes also form part of traders' contango plays. When the spot price is lower than the future price, traders will buy the physical cargo and simultaneously take out a futures position that will allow them to store and sell later at a profit. It is not possible to easily categorise vessels holding distressed or unsold cargoes from those chartered specifically for contango plays. The absence of tankers from traditional areas where clean floating storage is often kept by oil traders, such as Southwold off England's eastern coast, suggests there are more distressed cargoes than contango cargoes.

Land-based commercial tank storage shortages are leading to rising port bottlenecks in Singapore, from several days normally to as much as a fortnight, traders contacted by Lloyd's List said.

The area is one of many choke points emerging for unwanted or unsold cargoes over the past week. Some 36 tankers are reportedly at anchor off the US west coast, unable to discharge some 20m barrels of crude as refineries there have either shut down, or have sharply reduced throughput. Shipbrokers identified some 60 tankers laden with clean products at anchor in waters off Singapore. Some of these are cargoes for which a buyer has yet to be secured, while others are waiting for onshore tanks to be available.

Braemar has identified 186 medium range tankers or handysize tankers used for floating storage, a size that is not normally designated for this task. These numbers reflect port discharge delays at choke points as well as Mexico, Brazil and in the Amsterdam-Rotterdam-Antwerp hub because of the change to seven-day methodology.

Cleaves Securities estimates that floating storage will peak at 362m barrels, or 8.9% of total oil tanker fleet, by July under its base case scenario. The Norwegian bank did not define which volumes were clean or dirty, or what volumes are currently. The 362m-barrel figure represented the onshore storage deficit, assuming that capacity is seen to be full by early May, analyst Joakim Hannisdahl told Lloyd's List.

Braemar estimates there will a second round of product oversupply developing as refineries increase runs once prices recover. Gasoline blendstocks, such as alkylates used in summer grades, are more likely to remain in storage beyond nine months. Gasoil and diesel floating storage is anticipated to be shorter-lived, lasting about six months.

Shipowners and operators are closely analysing the pace and timing of any recovery in crude and product demand to help establish when floating storage begins to unwind, pressuring earnings. Evidence suggests that the crash will be as deep as the rise has been steep.

ANALYSIS

Cyprus' hopes easing of lockdown will facilitate crew changes

THE full effects of the coronavirus pandemic are difficult to predict, but its continuation could cause severe challenges for seafarers, Cyprus' shipping deputy minister Natasa Pilides has warned.

Cyprus, which is currently under lockdown, has been accommodating crew changes on a case-by-case basis, Ms Pilides told Lloyd's List during a recent interview.

The number of crew change demands have been fewer than Cyprus would usually see during this time of the year.

The real challenge the deputy minister is currently overseeing is seafarer repatriation. Flights have been restricted or limited by different nations, including Cyprus, so returning home is not a straightforward matter of one direct flight.

The obstruction to crew changes due to coronavirus and the lockdown measures that countries have implemented to combat it has become one of the most pressing challenges for the shipping industry. The backdrop can threaten the physical and mental health of seafarers on board ships. On average, each month about 100,000 seafarers finish their contracts at sea.

Both the International Maritime Organization and the European Commission have called on their respective member states to recognise seafarers as essential workers, a status that would allow them to embark, disembark and return to their home nations.

Ms Pilides said that Cyprus does recognise seafarers as essential workers.

So far the Mediterranean nation has received a very small number of repatriation requests from Cypriot seafarers, measuring below 20, Ms Pilides noted. Those that have been made, have been or are currently being accommodated.

The deputy minister said that thus far she has not seen crew spending excessive amounts of time on board to the point where it has become a problem.

"But if we have a continuation of the pandemic into the winter season that could very well become a much more severe problem," she warned.

With governments either pondering or already loosening lockdown measures, Ms Pilides said she hopes this will mean crew changes will be facilitated in these countries.

Cyprus, which is currently under lockdown, has had 822 coronavirus cases and 15 deaths as of Monday. The Cypriot government is considering this week a plan for gradually lifting lockdown measures.

Cyprus' fleet currently comprises about 23.4m gross tonnes from approximately 1,430 ships across all vessel types, according to data from Lloyd's List Intelligence.

Apart from restricting crew changes, national lockdowns have meant that fundamental safety procedures such as vessel surveys have been difficult carry out, not least because of the challenge of getting surveyors from classification societies to fly to a dry dock yard. Classification societies are trying to address the issue through a new common initiative that could see them share surveyors.

Cyprus' head of flag state control department Christos Atalianis noted that since the Cypriot government realised the potential impact of the pandemic on the shipping industry, it began issuing advice to the sector, especially around certification and survey issues.

Cyprus has already extended the various mandatory certifications; the certificates of seafarers that joined a vessel before March 1 and remain onboard with a renewed contract valid until September 1 if they have expired.

"Just like the nurses and doctors are fighting on the first line in hospitals, we believe our seafarers are fighting on the second line," Mr Atalianis told Lloyd's List.

Additionally, following requests by industry — particularly around the delay of drydocking surveys — Cyprus has pushed back deadlines for mandatory surveys on Cyprus-flagged vessels by three months.

Mr Atalianis said that on Friday morning the deputy ministry discussed the issue of International Safety Management code-related inspections, and noted that with the three month extension soon running up, Cyprus will "definitely" extend it further.

No demand for industry bailout

The financial fallout for the shipping industry from the global economic recession caused by the coronavirus is already on display across different sectors.

South Korea is offering financial assistance to shipping companies, ferry operators have already called for government bailouts and maritime companies across the globe are laying off employees and freezing dividend payments to shareholders.

Ms Pilides said that so far, the Cypriot government has not received requests from maritime companies and industry bodies for direct financial assistance.

The deputy ministry has prolonged the deadline for the annual tonnage tax payments to the Cypriot registry from March 31 to May 31.

Loan instalment payments to Cypriot banks were deferred in late March for nine months and the Cypriot government has adopted measures to support companies and employees affected by the coronavirus.

The government is also seeking to pass a bill that would allow state guarantees for additional loan schemes that companies could apply for.

"We hope that the development of the crisis will be such that these measures will be sufficient in addressing the liquidity issues and [other] issues companies are facing at the moment," Ms Pilides said.

MARKETS

Falling petcoke trades could dent prospects for smaller bulkers

POTENTIAL lower petroleum coke trades may dent supramax and handysize demand and earnings in an already sluggish market.

Petcoke, as the commodity is known for short, is a waste product of the oil-refining process. It is energy-rich and used in power plants for electricity generation. It is also used in some industries involving steel, aluminium and cement.

The cargoes are often carried in smaller bulkers, such as supramaxes and handysizes, as the holds need to be thoroughly cleaned following voyage as the product is viewed as "dirty". From an environmental perspective, it is viewed as worse than coal.

The coronavirus is causing refinery run cuts and shutdowns in all regions as demand for oil products, especially jet fuel, slumps amid travel restrictions, according to the International Energy Agency.

The Paris-based IEA expects refinery throughput to fall by 7.6m barrels per day to 74m bpd this year versus 2019.

"Even assuming that travel restrictions are eased in the second half of the year, we expect that global oil demand in 2020 will fall by 9.3m bpd versus 2019, erasing almost a decade of growth," it said in a report this month.

The drop in April is estimated at 29m bpd year on year, followed by a fall of 26m bpd in May, while a gradual recovery likely begins to gain traction in June, although demand will still be 15m bpd lower than a year ago, it added.

Shipbroker Braemar said top petcoke exporters such as the US and Saudi Arabia have cut refinery output or are undergoing extended maintenance. These two countries accounted for 63% and 9% of seaborne petcoke trade last year, respectively, so it seems likely that refinery output cuts in these and other countries will lead to a fall in petcoke cargoes.

Since petcoke accounted for around 1% of seaborne trade in 2019, and sulphur around 0.5%, a reduction in refinery cargoes is unlikely to have a noticeable effect though, Braemar's lead analyst Nick Ristic said.

"While we cannot ignore a decline in these trades, and yes, a long-term loss of this trade will be felt in regional markets, there are much more fundamental problems hitting the supramax markets right now," he said.

Both Atlantic and Pacific markets are struggling, with a shortage of cargoes across all of the major commodities, apart from grains loading in coastal south America, he added.

BIMCO's chief shipping analyst Peter Sand echoed this view, saying that if refinery runs come down in the midst of the current crisis, US petcoke exports will likely decline and it is "unlikely we will see profitable freight rates in the coming months."

The average weighted time-charter on the Baltic Exchange was at $4,313 per day at the close on Monday compared to the year's high of $8,304 on March 18.

The US exported 4m tonnes in January, falling to about 3.3m tonnes in February, according to BIMCO and US census data.

India was the biggest buyer of US petcoke in the last two years, followed by Japan and Mexico. In the first two months of this year, India took a greater share of the cargoes.

According to Banchero Costa's head of research Ralph Leszczynski, any shortage of petcoke could be replaced with more coal.

Low oil prices caused bunker prices to fall, which could, in theory, help exporters who are in "more geographically challenged" areas such as Colombia and Brazil, he said, which could be a positive for trade in terms of tonne-miles.

"Low bunker costs open up opportunities for more long-haul shipments," he said, noting that there has been a jump in coal shipments, of some 2m tonnes, to India from Colombia in the first quarter of this year. In addition, capesizes had been employed for shipments to Poland from Colombia, which is surprising given that Poland is a coal producer and neighbours Russia, an even bigger coal producer.

A Hong Kong-based operator said the immediate fallout from low oil prices would be on coal, which will have a more significant impact on dry bulk market.

Coal trades have already been very low due to the pandemic, and cheaper oil can further decelerate demand, he warned.

IN OTHER NEWS

Credit rating outlooks on leading box lines downgraded

CREDIT rating agency Standard and Poor's has downgraded its outlook for the future health of three of the major European container carriers as the prospects for the sector darken.

"The coronavirus pandemic is depressing consumer confidence, disrupting supply chains, and causing global trade to slow," S&P said in its assessment of Maersk, Hapag-Lloyd and CMA CGM. "We expect a significant contraction in demand for container transport for at least the next several months."

A weaker macroeconomic forecast that now expects global gross domestic product to fall by 2.4% this year will lead to recessionary trends that will weaken the container shipping sector this year.

Transport union demands health protection for all workers

SEAFARERS, dockers and other transport workers need better protection from coronavirus if they are to continue their vital part in the fightback against the pandemic, according to the International Transport Workers' Federation.

Inadequate health and safety standards have increased the risks they face, sometimes putting their mental health under strain, and women who work in customer-facing or cleaning roles have been disproportionally impacted, the trade union grouping alleged.

Governments and employers were particularly enjoined to ensure employees are issued with the right personal protective equipment, at no cost to workers, and to ensure social distancing and sanitation measures are in placing, and that testing, tracing and tracking is widely available.

China Merchants Group 'mulls delisting port arm' — report

CHINA Merchants Group is considering privatising its Hong Kong-listed port arm China Merchants Port Holdings, according to a report.

Talks are at an early stage, while the conglomerate has begun the feasibility study of buying up the unit's remaining shares that it has yet to own, Bloomberg reported citing unidentified sources familiar with the matter. A spokesperson for the port operator declined to comment when reached by Lloyd's List.

The report comes after a filing from the Hong Kong Stock Exchange that shows CMG acquired another 5.8m shares of CMPH at about HK$9.07 ($1.17) per share on April 20, sending its total holding to nearly 2.2bn shares, or a 63.1% stake in the subsidiary.

OOCL results better than expected, but full virus impact yet to be felt

ORIENT Overseas Container Line, now part of state conglomerate China Cosco Shipping Corp, has seen volume on the main east-west trade lanes increase in the first quarter of this year, despite the coronavirus fallout.

Liftings on transpacific and Asia-Europe trades both edged up 2% in the first three months of 2020, compared with the year-ago period, according to an exchange filing of its Hong Kong-listed parent Orient Overseas International Ltd.

The results were "better than expected" given the harsh market conditions, said Alphaliner principal consultant Tan Hua Joo.

New Cork-Zeebrugge ro-ro route launched

COMPAGNIE Luxembourgeoise de Navigation has launched a new weekly ro-ro freight route between Cork and Zeebrugge, which will strengthen the Irish port's connectivity with the mainland Europe.

The new service, which is already operational, will leave Zeebrugge every Friday and arrive in Cork on Sunday, prior to a return sailing on Tuesday, which gets back to Belgium each Thursday.

Port of Cork chief executive Brendan Keating, said: "This announcement by CLdN will greatly support our efforts in the Port of Cork to keep supply chains moving during the current coronavirus pandemic."

Port of Oakland predicts 15% mid-year drop in imports

PORT of Oakland officials expect a decrease of up to 15% in containerised cargo during May and June this year due to 20 blank sailings during that period.

The decline is part of a continued downward trend that has affected the port — as well as others around the globe — over the past several months as the coronavirus outbreak has adversely impacted both supply and demand.

"It's a clouded picture," Port of Oakland business development manager Andrew Hwang told a video conference. "About 10% of our scheduled vessel arrivals have been cancelled by shipping lines, but we don't know if that will translate into a similar drop in volume."

Classified notices follow