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**LEAD STORY:**
Cargo cancellations and low prices sink LNG rates

**WHAT TO WATCH:**
Singapore bunker premium rises as fleet tightens on Hin Leong fallout

P&I clubs' co-operation helps shipping to be sustainable

**OPINION:**
Decision over going private will reflect China Merchants' vision on port business

One storm too many for box carriers?

**ANALYSIS:**
Carriers likely to face high seas after coronavirus crisis

Shipowners look to force majeure as BI cover fails against coronavirus

**MARKETS:**
Long-term ocean freight contract rates remain stable

**IN OTHER NEWS:**
Court bid fails to halt Maersk's New York terminal exit

Scandlines braces for severe hit to passenger traffic

Keppel Offshore Marine cuts workforce by 95%

Vale to phase out 25 converted VLOCs from its fleet

Bocomm Leasing signs tanker charter deal with Shell

Costamare taps $165m in new European bank financing

California urged to avoid port air control rules delay

Singapore approves commercial BVLOS drone deliveries

US to review primary purpose of detention and demurrage

Dutch court overrules London on email charterparty agreements

Tanker rates rebound boosts China Merchants Energy Shipping

Port of Houston to expand as it faces declining throughput

# Cargo cancellations and low prices sink LNG rates

THE MARKET FOR liquefied natural gas carriers is set for a challenging few months as cargo cancellations have hit unprecedented levels and are expected to grow.

LNG spot rates have slid by 50% since the end of last month, reaching as little as $22,000 per day for Pacific voyages, according to the latest data from the Baltic Exchange. After a slight recovery during March, spot rates are on course to sink back to the historic lows recorded at the start of last month.

Rates have declined on the back of LNG cargo purchase cancellations for June, as low LNG prices and negative sentiment on demand are dissuading buyers from shipping LNG cargoes.

LNG buyers cancelled about 30 scheduled orders for June, Poten & Partners global head of business intelligence Jason Feer told Lloyd's List. "We have never had this. This has never happened," he said.

The combination of a demand shock from the coronavirus and the option of dropping US cargoes at a small cost have fuelled cargo cancellations.

The US was the third largest LNG exporter for 2019, with 33.8m tonnes and 10% of the market, according to the International Gas Union.

Apart from now being significant suppliers, US producers have differentiated themselves from international competitors by allowing customers to cancel or defer orders and pay only a limited part of the contract, rather than the price of the full order. Hence, the uptick in the June cargo cancellations.

Flex LNG chief executive Oystein Kalleklev said he expects the second quarter to be disappointing for LNG shipping companies.

"The prices of the gas have converged all over the world and we have seen massive cargo cancellations for June," he told Lloyd's List.

Apart from flooring oil prices, the coronavirus chokehold on global economic activity has also inflicted damage on LNG prices, which were already under pressure from the supply side.

The crucial Asian, US and European LNG price benchmarks are almost on the same level, undermining the case for shipping LNG. S&P Platts reported that JKM, the benchmark for LNG deliveries in northeast Asia, fell to a historic low of $1.90 per million British thermal unit this week.

Mr Kalleklev said that for LNG shipping to pick back up, the spread between JKM and especially the Henry Hub, the North American LNG benchmark, has to widen again, thus bolstering the business case for shipping cargoes across the Pacific.

The cargo cancellations have resulted in big portfolio players having ships available to re-let to the market, something that can be difficult to compete with, he noted.

Flex LNG has three LNG carriers on the spot market and three on time charters, with vessels of 173,400 cu m or 174,000 cu m capacity. It is also scheduled to take delivery of seven more vessels of the same capacities between the summer of 2020 and the second quarter of 2021.

"The problem we are seeing with low gas prices is that you will also have a lot of cargo cancellations in July," Mr Kalleklev warned.

Mr Feer said that so far there have been about eight or nine cargo cancellations for July. More are expected to happen in May.

Most cargo buyers are cancelling orders two months ahead of time, he said. But some are scrapping orders three or four months in advance, all the way through to September.

That affords them the flexibility to consider their buying strategy and can give them a better shot at re-letting their vessels given the greater amount of time — and voyages — they could accommodate if that demand does come up.

Spot rates may be in freefall but the actual availability of vessels is low, a fact that under normal circumstances should be tipping the scale in favour of the owners.

Last week in the Atlantic, there was just one vessel available, Mr Feer said, down from three the week before. Asia and the Middle East listed as having two vessels available each.

Mr Feer explained that despite cancelling cargoes, and therefore theoretically freeing up tonnage, charterers are keeping their tonnage due to fears about coronavirus quarantine restrictions; they want access to ships in case they face issues with crew, demurrage problems and or if a vessels has to be quarantined for two weeks at port.

This results in what he called ghost tonnage; ships are not actually carrying cargoes but they are not being deployed in the market either.

With a slew of LNG newbuilds set to be delivered this year, the market will only tighten. Poten estimated at the end of last week that it expects 20 more LNG carriers to become available to the market over the next 30 days.

**Better days ahead and even... floating storage?**

The International Gas Union reported earlier this week that global LNG trade increased by 13% to 354.7m tonnes in 2019, an all-time high. But after six consecutive years of growth, LNG trade is unlikely to climb further.

Poten said in a recent note that, as of April, it anticipates overall LNG global demand to drop — from from its level of circa 360m tonnes in 2019 — by 8m tonnes in 2020. This represents a 10m tonne revision from its February forecast.

"Nearly every country in the world is expected to see an impact from the pandemic, but the largest impacts will be seen in Northeast Asia. Europe, too, is seeing an impact in demand, with power and industrial demand being hit particularly hard. Southeast Asia is also starting to see effects," it said.

After being slow to respond to the market, LNG suppliers are also making curtailments, Mr Feer said. That could further help rebalance the market.

Qatar, the world's largest LNG exporter with 77.8m tonnes in 2019, has already reduced output by four to five cargos per week, Mr Feer noted. Those are not necessarily cargo cancellations but rather represent reductions in productions or sales.

But deeper supply cuts will be required over the next few months.

Banchero Costa reported this week that LNG imports into the European market grew by 31.2% to hit 23.7m tonnes compared with the same period of 2019. Even during the first three weeks of April, with the majority of Europe under lockdown, LNG imports grew by 3.8% compared with the same period last year.

Much of this inflated demand is because cargoes are being stored, Mr Kalleklev observed, rather than actual demand for use. It follows the convergence of the different LNG price benchmarks, that are pushing cargoes from the US to Europe, instead of to Asia.

Indeed, US LNG exports to Europe grew by 178% year on year during the first quarter of 2020 to 7m tonnes, giving the North American nation 30% of the European Union market, Ranchero Costa added.

With Europe currently storing up LNG on land, Poten warned capacity will fill up some time between late July to early August.

US producers are expected make significant reductions to supply.

"For the remainder of the year, roughly 5.5m tonnes will have to be cut from locations outside the US. The largest surpluses will be seen between July and October before late autumn/winter demand starts up," Poten added.

The situation bears resemblance to the situation in the tanker markets; an oversupply of crude oil and historically low prices have catapulted demand for tankers as floating storage as land space dries up.

Could the same happen in the LNG market?

"If you don't know where you are going to put a cargo of LNG, the worst thing you can do is put it on a ship," Mr Feer said.

Unlike crude oil, where the main concern with tanker storage is the charter cost, LNG carriers also have to deal with a boil-off rate, which is the share of the cargo that is lost during transit- or storage.

These rates can vary depending on the quality and age of the LNG carrier, but are thought to be on average around a 0.15% per day. Under a three month storage contract that would mean 13.5% of the cargo would be lost.

The daily charter cost, the boil off rate and the uncertainty that comes with simply holding cargo make LNG floating storage an unattractive proposal for companies, Mr Feer noted.

"I think for a lot of companies over the next three to five months the best of a bad option is going to be to cancel the cargo rather than to use floating storage," he said.

Land storage capacity is a crucial driver for floating storage demand. But another is the expected future price of the cargo.

Mr Kalleklev believes that a contango market, where futures prices are lower than the spot price, could develop for LNG that would justify floating storage during the autumn of 2020.

LNG demand fluctuates seasonally and the hope is that despite the coronavirus shock demand will pick up again, prompted by the next winter season for the northern hemisphere.

Many LNG contracts are linked to the price of Brent crude oil, which stood at around $21.39 on Tuesday morning. A slope from today's prices are applied to future contracts.

Mr Kalleklev said that with the usual 11%-13% slope on Brent applying to 70% of the LNG market, in six-months' time LNG will be "extremely cheap". That would beneficial timing ahead of the winter season, when demand should ramp up and prices grow.

Flex LNG will take delivery of two new LNG carriers in the second half of the year that offer a 0.035% boil off rate, an improvement compared with the rest of its fleet. A third such vessel, also delivered later this year, has been picked up by Guvnor for a long-term charter.

Mr Kalleklev said the company has not considered delivery delays yet for the two ships that are not yet employed, pointing out that they may be arriving on time for a better market.

The low LNG price will also offer a competitive advantage over coal, whose prices have also plummeted.

Back in November, South Korea announced it would be shutting down a quarter of its coal-fired plants for the winter season due to pollution reasons. Mr

Kalleklev questioned whether they should open up again.

"There is no benefit of actually opening those again. It is much better buying natural gas," he said.

## WHAT TO WATCH

# Singapore bunker premium rises as fleet tightens on Hin Leong fallout

BUNKER tanker supply at the world's top marine fuel hub has tightened, boosting delivery premium after Ocean Bunkering Services stopped all cargo deliveries.

The leading supplier cancelled all deliveries on April 18, 10 days after first reports of news of financial woes facing its trading affiliate.

Ocean Bunkering Services supplies marine fuel secured through Hin Leong's trades via a 17-strong licensed fleet operated by its shipping affiliate, Ocean Tankers, in Singapore, according to a vessel list published by the Maritime and Port Authority of Singapore.

Ranked third in Singapore's list of licensed bunkering players last year, Ocean Bunkering Services accounted for almost 10% of the port nation's overall marine fuel sales since 2017, according to industry estimates.

Ocean Bunkering Services' exit from the physical bunker supply scene is believed to have stoked a surge in Singapore's delivery premium — defined as the difference between free on board and delivered bunker prices.

Very low sulphur fuel oil, with 0.5% sulphur, traded at $195 per tonne versus $168 per tonne on fob basis as of April 28, assessments by leading energy and commodity pricing agency Platts showed.

This worked out to a per-tonne delivery premium of $26.42, up from $14.40 based on Platts' pricing data for April 8.

Argus Media, another major pricing agency, assessed Singapore's VLSFO delivery premium at $33.75 per tonne for trades done yesterday, up from $7.22 per tonne as of April 8.

So shipowners now have to contend with a more punitive delivery premium along with the longer time taken to secure bunker supplies for vessels calling at Singapore.

Simon Neo, an independent consultant with decades of experience, estimates that this lead time has risen to around 10 days, up from five days on average before Hin Leong's fall.

He estimates Ocean Bunkering Services sales averaged above 200,000 tonnes per month from the start of this year, down from a monthly average of over 400,000 tonnes the year before.

Argus Media separately estimated that the company raked in 3m to 4m tonnes of annual bunker sales last year.

These volumes add up to a sizeable chunk of Singapore's overall bunker market, which has been averaging 45m to 50m tonnes in sales volume over the last three years.

Mr Neo has flagged several factors couching the broader maritime sector against the collateral damage from Ocean Bunkering Services exit and Hin Leong's insolvency.

Marine fuel demand may have picked up in March, with China restarting manufacturing widely expected to lift global trade following months of coronavirus-led economic disruption.

Still, bunkering inquiries have not and are not expected to recover to pre-coronavirus levels at least in the coming months, Mr Neo said.

This extends breathing room for Singapore's bunkering industry to mitigate the supply disruption spilling over from Hin Leong's fallout.

Singapore has also issued two new licences to Minerva Bunkering and TFG Marine — outfits linked to trading giants Mercuria and Trafigura.

These new entrants possess the muscle to step up sooner rather than later to help fill the demand gap Ocean Bunkering Services and Hin Leong have left behind.

Still, that would not immediately defuse concerns over near-term supply disruption in Singapore, which lifts the price premium the top bunkering hub commands over other rival ports.

Platts assessments suggested that the per-tonne price differential between VLSFO traded and delivered in Singapore and Rotterdam was $41 on April 28, compared with $30 on April 8.

# P&I clubs' co-operation 'helps shipping to be sustainable'

WHILE P&I clubs recognise the need to compete on price and service, they acknowledge there is a societal obligation to co-operate on issues of safety of life at sea and environmental protection.

Paul Jennings, chairman of the International Group of P&I clubs, says he is delighted there is more willingness to co-operate.

"It's not a nice-to-have," he tells Lloyd's List, "it's something we must do."

In his capacity as chief executive at North P&I, he says: "We are putting aside what might be small competitive advantages from certain loss prevention initiatives and combining our knowledge for the benefit of shipping."

Further, IG clubs have a huge database of liability issues that they are making progress towards sharing for the advantage of the wider marine industry.

Asked whether increasing co-operation could lead to a club seizing the opportunity to merge with or take over a rival, he observes that his own club, North, has been among the most active in this regard. There is certainly scope for this to happen, he says, although each of the 13 IG clubs offer different qualities.

The P&I sector stands out from much of marine insurance for the amount of interaction between shipowners and their insurance and risk management departments. The relationships that are formed are solid and long-lasting.

"A lot of shipowners stay with the same club for many years, some for generations. As fleets become larger, they have more than one P&I club." Even so, the traditional relationships remain.

"We all need to be financially competitive and disciplined, while offering financial stability. But unlike in other areas of insurance and marine insurance, the relationship side with P&I clubs does have a value you don't get elsewhere."

It remains to be seen whether these traditional relationships will stand the testing of new generations who have different loyalties and drivers.

North's acquisition trail began in the mid-1960s with its takeover of Neptune P&I, followed by Newcastle P&I in 1998 and Liverpool & London P&I in 1990. Its most recent acquisition was Sunderland Marine Mutual, which joined the fold in 2014.

Mr Jennings spent 13 years as a manager at Newcastle P&I club, moving across to what was North of England P&I as underwriting director, and was promoted in 2006 to deputy managing director. Three years later, he stepped up to managing director, becoming chief executive officer of North P&I in May 2018.

He has chaired the Reinsurance Sub-Committee of the International Group and was invited to become IG group chairman in November 2018.

Mutual insurance is remarkably resilient as a business model, he says. Despite celebrating its 160th anniversary this year, North is not the oldest of the clubs.

"As clubs, we have to help shipping to be sustainable, that is to enable shipping to deliver a sustainable industry to society," he says. "Our role is contributing to the important areas of safety at sea and protection of the marine environment. That's where we will be in five years.

"Clubs provide financial stability to facility trade. It's impossible to enter a port without valid P&I cover. That's not to say we are invaluable because we issue a piece of paper," he stresses, it's what the paper represents. "If there's a problem, we will sort that problem out; we will respond to major casualties; we will contribute to safety and protection."

He says he does not believe this model will change any time soon. Some of the elements of the model might change, such as the work with legislators and IMO, "making sure legislation is framed so we can respond on behalf of shipowners, and deal with casualties as they arise."

The International group has observer status at the International Maritime Organization and is consulted, along with other organisations, when necessary.

"Our role is to achieve consensus, which is important in a global environment," says Mr Jennings. "And to ensure that issues are dealt with in a consistent way." Shipping will change, perhaps rapidly; it is up to P&I clubs to adapt.

There is little doubt that shipping is safer, in terms of large casualties and pollution, as a result of many improvements over the past 10 to 15 years.

Partly, Mr Jennings believes, P&I can take some credit for that as regards quality standards. Class, port state control, and others have also made a valuable contribution.

Greater levels of safer rarely grab the headlines, yet that has not been achieved without hard work.

"Shipping had a problem 15 years ago with ships being delivered to meet the needs of an expanding global economy, which led to a shortage of seafarers and officers promoted too quickly. The industry had to deal with that situation," he says. "The supply chain for seafarers is good now, and oil majors have exacting standards."

The impact of digitalisation on shipping and ships' crews will increase, he accepts, although he is uncertain how prevalent autonomy will be for vessels trading globally. Again, it's that societal pressure.

"I'm not sure how comfortable society will be with VLCCs loaded with two million barrels of oil floating around with no one in control on board. The IG has a working group looking at the impact of autonomous ships. It's our view," he adds, "that fully autonomous shipping is a number of years away."

The current health crisis has come out of the blue and seems to have swept away the previous immediate issue, IMO 2020.

North was an early mover in creating a shared-information dashboard to provide club members with insight on the spread of the virus. This tracking tool has been updated through the local knowledge of between 700 and 800 correspondents on the quaysides of ports around the world.

This tool has been shared with members of all the IG clubs, which add their own local knowledge. GAC ship agency and Wilhelmsen Ship Management also contribute, while the global overview is provided from publicly available information from Johns Hopkins, the research university in Baltimore.

Mr Jennings thinks this initiative is unique in shipping; while much of the data can be found across the internet, a lot that is specific to shipping can only be found on this tracking tool.

It is an example of what can be achieved if data is shared more widely, although it cannot yet provide a solution for the toughest challenge thrown up by the coronavirus: how to repatriate ships' crews and replace them with fresh crews. "Seafarers are key workers," he emphasises. "We do need to find a solution."

In spite of the virus, the environmental protection impetus behind the global sulphur cap continues. "Shipping gets a bad press; we know the industry accounts for about 3% of greenhouse gas emissions but we don't say that 90% of all the goods we need are moved by ship. It is the environmentally friendly way of moving goods," he says.

Like many leaders in shipping, Mr Jennings is seeking a way to encourage the industry to speak with a unified voice. Over the past five years, maritime organisations have been gathering together as a round table discussion group; the secretariat of the International Group of P&I clubs is regularly in contact with other organisations, and welcomes its inclusion as an IMO observer.

On the issue of seafarer repatriation, IG member clubs have supported the International Chamber of Shipping and the IMO, rather than go public with their own plea for governments to intervene on behalf of maritime key workers.

"Historically, shipping has been fragmented. However, we all see the benefits of co-operation; there could probably be more, but we are pulling in the same direction.," says Mr Jennings.

He repeats the word 'resilient', not only for P&I insurance but also for shipping in turbulent times. It has survived many crises over the centuries and will survive this one.

"We have created a just-in-time society — which is fine in normal circumstances but becomes a problem when it's interrupted," he concludes. As society changes, shipping's resilience will keep it aligned.

OPINION

# Decision over going private will reflect China Merchants' vision on port business

LOW-LYING valuation has given rise to speculation that China Merchants Port Holdings may be de-listed from the public equity markets and be taken into private ownership by its majority shareholder, China Merchants Group, *writes Cichen Shen*.

It is not unusual for the stock of Chinese companies publicly listed in Hong Kong to be underpriced, and the coronavirus pandemic has set the floor even lower. The company's price-to-book ratio has dropped to just 0.43 at its nadir.

Hypothetically, state conglomerate China Merchants Group could offer the minority shareholders a 40% premium on the current share price of CMPH and would still be able to buy out the port subsidiary at about a 40% discount on its book value, DBS Bank analyst Paul Yong said. This cannot be a bad deal.

Moreover, CMG already owns about 63% of CMPH, which makes the deal even easier.

But as a major state-owned enterprise, CMG needs to consider not only short-term benefits but also long-term strategy.

Keeping the Hong Kong-listed arm will provide it with better access to the international capital markets and the structure of corporate governance that fits into Beijing's agenda to reform its state-owned enterprises, said Mr Yong.

CMG also owns Shenzhen-listed China Merchants Port Group, which it established after a business restructuring in late 2018. The idea was said to be to have two public trading port arms, with CMPH to run the overseas portfolio and CMPG to run the domestic business. The idea of taking the former into private ownership seems to contradict that strategy.

The delisting, if it materialises, may also impact the giant's pace of global expansion if it still wants to pursue that course.

The cash needed for acquiring the shares can also be used to acquire overseas terminals because good buying opportunities may emerge amid the virus-led economic recession, said Guotai Junan Securities analyst Kevin Zhuo.

CMPH dismissed the speculation about going into private hands in a statement, although not every such denial in the business world has proved to be genuine based on past experience.

In any event, the final decision will reflect CMG's long-term vision on its port business.

# One storm too many for box carriers?

CONTAINER shipping is on the ropes. Make no mistake, the coronavirus storm has the potential to rock the industry — and then some, *writes Linton Nightingale*.

Issues at the top of the agenda in boxship boardrooms at the turn of the year now pale in significance to the crisis that has effectively brought the global economy to its knees.

Indeed, digitalisation, decarbonisation and even the sulphur cap — which was initially billed to be the big story of 2020 — have taken a back seat as the industry faces up to what promises to be its biggest ever single challenge, amid an already tumultuous history. The focus now switches to survival.

Even conservative estimates point to full-year losses approaching $1bn for 2020, with global container liftings anticipated to drop by as much as 10% on last year. However, this comes with the caveat that lines will refrain from reverting to their old tricks of chasing market share, sparking a price war in the process. Given carriers' previous form, this is no given.

The worst-case coronavirus scenario for container shipping is sobering, to say the least. Failure to get its house in order could cost the industry as a whole more than $23bn, according to shipping consultancy Sea-Intelligence. This eye-watering sum leaves little doubt that the crisis will have its casualties.

Yet as alluded to above, container shipping is no stranger to adversity. The global financial crisis that sent the world's stock markets crashing in 2009 hit the liner industry harder than most. In the years

that followed, it led to overcapacity, weak freight rates and rising debt levels, which all took their toll.

The impact proved too much for some, as each passing year, the shutters came down on some of the industry's most celebrated and illustrious names, eventually culminating with its most high-profile casualty in 2017, the South Korean giant Hanjin.

The ghost of Hanjin still haunts the industry to this day. Losing one of container shipping's stalwarts was a stark reminder to those that have survived until now how quickly fortunes could turn in an industry that once appeared untouchable when, before the financial crisis unfolded, year upon year of exponential growth was considered the norm.

Hanjin's exit from the box shipping scene also laid bare the sector's fragility at the hands of an increasingly volatile global market.

Some carriers, though, were more fortunate than the hapless Hanjin. Those that may well have followed a similar path were snapped up by the larger carriers through merger and acquisition, as part of an unprecedented era of consolidation. Today, the container shipping élite has been whittled down to fewer than 10 that can lay claim to being truly global players.

However, this market concentration has enabled these lines not only to cement their market dominance, but also to gain the scale, scope and access to regional trades they have long craved.

Even so, the carriers now operate on the trunk trades under the banner of three core alliances, The Alliance, Ocean Alliance and 2M, as a necessity to ensure the ships — ordered through a period of seemingly relentless vessel-upsizing in the quest for scale economy — are full and slot costs are kept low.

Indeed, bringing down costs and operating more efficiently was driven home in the fallout of the global financial crisis of 2008-2009, prompting a change of tack among container operators if they too were not to succumb to those that had fallen before them and stay afloat.

While vessel-sharing agreements and alliances were deemed a must, so too was the digitalisation of the broader business to simplify long and tired processes, as revenue-generators and for trimming costs — but also the diversification of the traditional liner shipping business.

Whereas before the ocean leg took preference, emphasis has since switched inland. While some have opted to drive as much business as possible through affiliated terminals, others — most notably Maersk Line and CMA CGM — have looked to an all-encompassing logistics offering to customers.

This notion of vertical integration, by varying degrees, has enabled carriers to spread risk, but ultimately — and more importantly — widen their grip on the end-to-end supply chain.

Nevertheless, this concerted move inland is a long play. Success would never be born overnight and teething problems — as seen with CMA CGM's takeover of logistics specialist CEVA — were to be expected.

Yet these measures, in addition to widespread cost-cutting and a newfound restraint on vessel newbuilds to a more manageable and absorbable level, had — at the very least — increased confidence that container shipping's future would be of firmer footing.

The introduction of the sulphur cap may have scuppered this goal to some degree, but this was only deemed to be a short-term issue — if, of course, carriers were able to pass on transitional costs to shippers.

Fast-forward to April and carriers would be ecstatic if the new legislation was the only issue it had to contend with. Although the industry would likely take a substantial hit, it was a hit it could just about manage.

Then came the coronavirus pandemic.

Cost-cutting, slot-sharing and vertical integration, which have sought to put the industry in good stead, can only go so far, if the volumes are not there to support the fundamentals of the business. It is this factor that underlines container shipping's predicament.

The only consolation is that the associated rising fuel costs from the sulphur cap have essentially evaporated due to the collapse of the oil markets. For now, though, these thoughts are secondary.

As the industry tries to get to grips with the cargo shortfall, the weapon of choice at the disposal of the carriers has been an extensive blank sailing programme.

Service cancellations have grown in intensity and number almost by the week, as lines hastily try to keep rates at a respectable level amid the demand downturn.

However, this is no long-term fix. There is a limit to how long carriers can withdraw ships from service, no matter how deep the pockets of certain parties may be. And there is no certainty when volumes will return to normal.

Although China and other parts of Asia are beginning to ease lockdown restrictions put in place to limit and contain the spread of the virus, there is still no sign as to how long it will be until the western world follows suit. For container shipping, reliant on a weighty consumer purse in the western world, the hope will be that the lifting of restrictions will come sooner rather than later.

However, the industry will be mindful not only of the overhanging threat of a second wave of infection, which will see lockdowns reinforced, but also how consumer confidence will take time to return.

The reverberations of such an economic hit will prove a considerable stumbling block for wage increases — and, with it, disposable income — while the threat of unemployment looms large.

The reality is that it could be some time before countries and economies regain their feet to trigger the much-needed volume rebound for the container industry. This is time that many carriers, both small and large, can ill afford. Riding out the coronavirus storm could prove one storm too many for some and test the resolve of even the sturdiest of lines.

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**ANALYSIS**

# Carriers likely to face high seas after coronavirus crisis

THE short-term impact of the coronavirus pandemic spread is becoming acutely visible to all participants in the global supply chain, *writes Lars Jensen, chief executive and partner, Sea-Intelligence Consulting.*

At the time of writing, the number of cancelled deepsea sailings is approaching 400, congestion problems are emerging in various ports around the world and crew-change has become problematic.

Yet even in the middle of these problems, it might be worthwhile to attempt to look slightly further ahead.

How will this impact carriers to 2021 and beyond?

From a pure demand perspective, the latest International Monetary Fund forecasts make for sobering reading. In financial terms, they expect world trade volume in economic terms to decline 11% in 2020, followed by a partial rebound of 8.4% growth in 2021.

From a strategic viewpoint, the drastic change in trade volume is a condition thrust upon carriers that they cannot alter.

Therefore, we should instead expect carriers to adapt to the situation and this provides a baseline for anticipating the strategic fallout.

In the short term, carriers have two options. They can choose to accept the volume loss and refrain from attempting to gain market share from each other.

For now, this is the behaviour in which we have been seeing them engage. If they can continue doing this, the industry will be loss-making in 2020 — but “only” to the tune of around $800m.

However, they can also choose to attempt to fill the vessels by growing their market share, using reduced prices as a tool. This will immediately lead to a price war — and is the behaviour we saw during the financial crisis of 2008-2009.

Should carriers choose this path, the collectively loss could run to $23bn.

A baseline assumption should be that they choose the more restrained approach to make it through the bottom of the market.

The true market differentiator comes with the upturn in 2021. When the rebound appears, it will likely be very sharp, resulting in capacity shortages — and this is where carriers can distance themselves competitively by using the downturn to be well prepared for this.

It is less a matter of vessels and more a matter of making sure they have empty containers located in the right places.

The current disruption of all the known trade flows is likely to severely disrupt the usual empty equipment positioning.

Yet will we see bankruptcies before we get to the rebound? As this pertains to the segment of smaller regional carriers, the answer might well be yes, although it is not possible to predict exactly to whom this will apply.

The key competitive parameter in this situation is the ability to find additional cash, as well as negotiate new terms with creditors and — only to a lesser degree — the actual financial solidity.

For the larger carriers, a bankruptcy can, of course, never be ruled out but should not be seen as a baseline scenario. Again, this comes down to the carrier's ability to find more capital when needed, as well as its ability to negotiate more lenient terms for loan commitments.

It should be remembered that even during the worst parts of the financial crisis a decade ago, no large or midsized carrier went bankrupt. Some were close, but they managed to stay afloat.

The only large carrier we have seen go bankrupt was Hanjin many years later — and, despite the short-term turmoil it created, it did not materially alter the dynamics of the market.

Within six months, all vessels were out sailing again — albeit with new owners and operators.

However, in the years following the financial crisis, we saw consolidation gather pace. The crisis and the subsequent rebound served to weaken some carriers and strengthen others — and the current pandemic crisis will likely be no different.

Hence when we get beyond 2021, we are likely to see a liner shipping market with an even higher degree of concentration of larger carriers —and with more of the small to mid-sized carriers having left the playing field, either having been acquired by the stronger large carriers or having had to close down.

# Shipowners look to force majeure as BI cover fails against coronavirus

THE concept of force majeure is a familiar one in the maritime sector, but in relation to coronavirus it is proving highly contentious as a basis on which to make, but also, increasingly, on which to deny, an insurance claim.

For insurers, the issue is further complicated by the fact that some jurisdictions are considering passing emergency legislation with the effect of allowing businesses, under certain circumstances, to make a claim on their business interruption policies where they would not have otherwise been able to do so.

This proposal is still very much in its infancy, but the re/insurance industry and its lawyers are keeping a watchful eye.

Typically, as far as the liability of a carrier, a charterer or logistics service provider is concerned, the inability to provide services as a result of quarantines associated with coronavirus is likely to be governed by the force majeure provisions, which are included in most transportation contracts.

For example, the standard bill of lading or contract terms of carriage are likely to free charterers and logistics companies from the responsibilities inherent in those contracts due to their inability to provide services during the crisis.

However, loss adjusters say many problems and grey areas arise from the limited availability and unequal distribution of container volume across the world, as well as from inconsistent coronavirus-related port and border closures or entry restrictions, which have led to goods being rerouted via ports different from those initially scheduled and thus leading to extra costs for demurrage, carriage, storage, handling and so on.

According to Dominique Breton, head of marine at Sedgwick France, vessels are sailing under¬loaded and the restriction of services at ports is causing extra delays.

"Under these conditions, the shipowners are unable to provide the service expected," he says. "The poor loading conditions for vessels call into question the contractual duties of the charter party and shipowners feel entitled to invoke force majeure."

Not surprisingly, numerous operators and service providers in the maritime industry are currently looking to invoke force majeure clauses within the

contracts to limit their liability. This is at the same time as they are considering whether or not their insurance gives them protection from the inevitable economic downturn.

But companies quickly find they need to check their contract terms and conditions very carefully indeed to ensure force majeure provisions will apply.

“They also need to ensure they have the correct business interruption cover,” said Gemma Pearce, head of marine at law firm BLM. “They should also be liaising with the relevant governmental department so that whatever they choose to do is backed by the authorities.”

**Business interruption insurance**

Only a few businesses in the maritime sector will have taken out business interruption insurance, which is not usually offered as part of the standard marine insurance package.

They are often added to existing covers for an additional premium. However, the timeframe and the circumstance under which insureds can claim against such covers for loss of income during a period in which they cannot operate as normal is usually limited.

For example, insurance against the closure of the business, whether by the government or the competent authority, will obviously respond if the authorities close down the entire operation.

“But they won’t necessarily be covered for the loss of revenue if only part of the business is out of action or if the workforce are struck down or simply refuse to work out of fear of infection,” Ms Pearce says.

Indeed, coronavirus has significantly increased the level of uncertainty for marine policyholders in terms of how their insurance cover will respond.

According to Mr Breton, a critical question raised previously, but very much highlighted by the Covid-19 crisis, as to whether an underloaded vessel can, or cannot, legally be considered to be off-hire, is still unresolved and fuelling the sense of uncertainty.

Another issue for the sector is the deterioration of insured goods as a result of delays. Under some war risk contracts, particularly those issued in France, this risk is excluded.

“However, the natural deterioration of goods insured as a result of delays is indemnified when it occurs on board a ship. In general, these cases are reviewed by insurers on a case-by-case basis,” he says.

It is safe to say the current health crisis has been a steep learning curve for business interruption policy¬holders in all industry sectors, but particularly so in the maritime sector.

Such cover needs to be considered carefully and, essentially, from the insured’s perspective, policy terms and conditions should be as wide as possible.

For example, the marine equivalent of business interruption cover is loss of hire insurance, which, like business interruption insurance, generally only responds in the case of an event causing physical loss or property damage. This is particularly the case if the business interruption cover is attached to a cargo insurance policy.

“There may be some policies that will extend cover beyond physical damage, but these are rare and few of them cover losses arising out of a pandemic and/or specific acts of governments,” said Ms Pearce.

She refers to reports of arguments being raised in recent court cases in the US that coronavirus does in fact cause physical property damage.

“This is being argued on the basis that contamination from toxic substances has, in the past, been considered such by courts around the world, including in the US, England, Australia and France,” she said.

However, this is an argument that previously has rarely succeeded and the physical damage requirement remains the issue, and a very significant one, for parties to overcome.

“If a policy specifically excludes damage from contamination or pandemic or another applicable event, this argument is likely to be undermined further,” Ms Pearce adds.

Given the lack of mitigation from the insurance industry of businesses’ coronavirus losses, companies in the maritime sector and governments are increasingly looking to what solutions for redress can be provided under force majeure provisions.

For contracts entered into after the outbreak of the pandemic in China, it may be more difficult to argue coronavirus should fall within more general wording.

From an insurance perspective, Ms Pearce says, it is likely coronavirus will be classed as an unforeseeable event, until such time as evidence to the contrary may be adduced.

"That said, once again, for contracts entered into after the outbreak, it is unlikely the unforeseeable element of the force majeure clause may prevent reliance on the same," she says.

She points out there is no general concept of force majeure in English law: an expressed contractual clause is required and its effect will depend upon the specific wordings of the clause.

"Force majeure clauses are generally construed strictly, although due to the current climate, there is likely to be more leniency by the courts in allowing a party to rely on such a clause. The question of whether a party can invoke such a clause and how this is to be considered by insurers will much depend on how, if and when coronavirus will be classed and whether it can in fact be classed as a force majeure event."

## MARKETS

# Long-term ocean freight contract rates remain stable

STRATEGIC thinking from the carrier community appears to have mitigated any immediate damage to long-term contracted ocean freight rates linked to the coronavirus, according to rates specialist Xeneta.

Despite a dramatic decline in economic activity, unprecedented rises in unemployment, and the apparent certainty of global depression, its latest XSI Public Indices report shows that rates actually climbed during April.

The increase, although small at 0.7%, reverses the decline seen in March, reinstating a trend of gradual monthly increases that began in October 2019.

Oslo-based Xeneta's XSI provides unique intelligence on the very latest ocean freight market moves. Based on crowd-sourced data from leading shippers, the report utilises more than 200m data points, covering more than 160,000 port-to-port pairings, to provide a real-time picture of industry developments.

After a 0.5% fall in March, and clear indicators of global economic pain, observers may have expected those developments to be negative. Proactive strategies from containership operators appear to have paid dividends — for now — with the indices up 2.9% since the start of 2020, says Xeneta chief executive Patrik Berglund.

"The world economy is in turmoil and, in this segment, supply clearly outstrips demand," he said. "Carriers have been working hard to make adjustments to protect rates, aggressively withdrawing capacity from the market and adopting more 'creative' strategies.

"For example, on the Far East-Europe trade, we are now seeing some owners sending ships round the Cape of Good Hope rather than utilising the Suez Canal.

"This obviously takes longer, temporarily removing capacity, while also saving on Suez transit rates. As such, contracted rates are generally holding strong, with spot rates, despite a bleak outlook, also proving resilient for the time being. How long that lasts is, of course, another issue."

But the horizon "is crammed with uncertainty", Mr Berglund said. As oil prices collapse to historic lows, he noted that carriers will likely come under increasing pressure to drop or amend the bunker surcharges introduced to cover fuel costs.

Furthermore, the introduction of new, record-breaking tonnage to the market — such as the just unveiled 23,964 teu Algeciras, the first of 12 huge new boxships to be delivered to HMM over the coming months — will only add to the glut of supply.

"Carriers are, and will be, subject to huge pressure in the immediate future," he said. "A disciplined approach will help safeguard rates, but, given the economic dire straits, will individual carriers hold ranks or be forced to reduce rates in a bid to secure business and claim market share?

"There are no certainties at present, making it increasingly important for all parties in contract negotiations to stay up to date with the latest market intelligence, ensuring they achieve optimal value for their businesses."

XSI regional reporting shows a mixed picture for key trading routes.

In Europe, the import benchmark slid again, down by 3.3% month-on-month but up 7.5% year on year, whereas exports climbed by 2.8%, up 11.8% compared with April 2019. In the Far East, exports held steady for the month, up 10.3% year on year, while the import index fell 1.4%, down 10.9% against this time in 2019.

US imports on the XSI continued to climb, up by 4.5% — "a huge 33.2% year-on-year increase" — as did the export benchmark, up by 1.9%, translating to a 6.8% rise.

"In the current climate, it is impossible to second guess what will happen next — just as, sadly, we cannot dictate developments with the coronavirus," said Mr Berglund.

"What is certain is that we are in a period of intense disruption and flux. Stakeholders in the ocean freight value chain have to remain limber, informed and ready to move to gain competitive advantage. I would advise everyone to stay tuned for further developments."

Xeneta's XSI Public Indices is based on crowd-sourced rates data from leading global shippers. Companies participating in the platform include names such as Electrolux, Continental, Unilever, Lenovo, Nestle, L'Oréal, and Thyssenkrupp, among others.

## IN OTHER NEWS

### Court bid fails to halt Maersk's New York terminal exit

A NEW York judge has denied an appeal filed on April 20 by Global Container Terminals to stop container line Maersk and its subsidiary Hamburg Süd from switching their business from GCT's Staten Island, New York, terminal to a rival facility at Port Elizabeth, New Jersey.

"A New York District Court has ruled against GCT's request for a restraining order regarding Maersk's announced transfer of three services from GCT's New York container terminal in Staten Island over to APM Terminals Elizabeth, NJ," a Maersk spokesperson told Lloyd's List.

The services include a Caribbean-US east coast service operated by Maersk, an east coast South America-USEC service operated by Hamburg Süd and Hapag-Lloyd, and a west coast South America-USEC service operated by Hamburg Süd and Hapag-Lloyd.

### Scandlines braces for severe hit to passenger traffic

SCANDLINES, the Baltic ferry operator, expects a significant hit to its finances from the health crisis as it reported steady earnings for 2019 and investment in green vessels.

The company, which runs two routes between Germany and Denmark, said business was stable in the first months of 2020, but travel bans meant the future was uncertain.

The company told Lloyd's List it had placed 300 employees on government furlough schemes on the Danish side and 450 employees on the German side, but none have been made redundant.

### Keppel Offshore Marine cuts workforce by 95%

KEPPEL Offshore and Marine has served force majeure notices on various customers and seen its main yard operations in the city-state sharply constrained, with a workforce reduced to less than 5% of pre-lockdown levels.

The Singapore government's lockdown guidelines define essential services at the shipyards, for which operations are allowed to continue, as being restricted to ship repair only.

Speaking at the first quarter results briefing of parent group Keppel Corp, chief executive officer Loh Chin Hua declined to reveal which projects were involved in the force majeure actions.

### Vale to phase out 25 converted VLOCs from its fleet

BRAZILIAN mining giant Vale has decided to phase out or substitute 25 converted vessels from its fleet, it said in its operational results, in a move that is expected to be a positive for the dry bulk market.

In a move described as a "risk management approach", Vale said it would carry out the removal of the converted very large ore carriers through early termination or amendment of contracts.

Earlier this year, Vale confirmed to Lloyd's List that it has been

moving its contracts of affreightment over to newer ships as the old contracts linked to converted very large ore carriers expired.

**Bocomm Leasing signs tanker charter deal with Shell**

CHINA'S Bocomm Financial Leasing has signed a contract that is bringing another ordering bonanza to local shipyards with 12 dual-fuel long range two tankers.

Talk about these 120,000 dwt newbuildings has been swirling around since March this year, although the actual charter period was shorter than previously speculated.

Shell will charter these vessels, which can be fuelled by liquefied natural gas, for seven years instead of 15 years, according to people familiar with the matter. But the oil and gas company has been given options to extend the agreement for up to three years.

**Costamare taps $165m in new European bank financing**

COSTAMARE reported stronger-than-expected results for the first quarter of 2020 and has revealed that it has arranged financing worth $165m with banks since the start of the year.

The loans include $30m from a European financial institution to finance four panamax container vessels acquired since last December from German owner and manager Oltmann Schiffahrts.

European banks also agreed loan facilities for amounts of $65m and up to $70m, respectively, to refinance one post-panamax vessel co-owned with York Capital Management, and to refinance two other existing facilities originally maturing in 2021.

**California urged to avoid port air control rules delay**

CALIFORNIA is being urged to reject calls by the maritime community for a slowdown in the proposed At-Berth regulations currently under consideration.

"We call on the California Environmental Protection Agency and the California Air Resources Board to reject several proposals we have become aware of that ask for delays or rollbacks in relation to the regulation that reduces greenhouse gas emissions from ships at California's ports," the Pacific Environment and Environmental Defense Fund said in a letter.

"We need to rapidly reduce greenhouse gas emissions from shipping in 2020-2030 to stave off the worst impacts of climate change," said Madeline Rose, climate campaign director for Pacific Environment told Lloyd's List. "Accelerating shore power in ports is one critical place to start."

**Singapore approves commercial BVLOS drone deliveries**

SINGAPORE has started its first Beyond-Visual-Line-of-Sight Drone Delivery service with Singapore-based start-up F-drones delivering the first parcel containing 2kg of vitamins dropped onto a ship anchored off the island earlier this month.

The drone delivered the parcel over a distance of 2.7 km in seven minutes, to a ship managed by Eastern Pacific Shipping — the first shipmanagers to use this technology.

F-drones — started a little more than a year ago under the Eastern Pacific Shipping's Maritimetech Accelerator powered by Techstars — is developing large-scale autonomous delivery drones for maritime logistics and is the first company to receive authorisation from the Civil Aviation Authority of Singapore for such deliveries.

**US to review primary purpose of detention and demurrage**

THE US has issued new guidance on how it will assess the reasonableness of detention and demurrage regulations and practices of ocean carriers and marine terminal operators.

The Federal Maritime Commission said that under the new rule, it would consider the extent to which detention and demurrage charges and policies "serve their primary purpose of incentivising the movement of cargo and promoting freight fluidity".

It also provides guidance on how the FMC may apply that principle in the context of "cargo availability and empty container return".

**Dutch court overrules London on email charterparty agreements**

EMAIL confirmation of charterparty agreements — now standard practice in shipping — renders the arbitration clause void in the Netherlands, the Dutch Supreme Court has ruled.

The decision comes as judges upheld a ruling in the case of the cargo vessel *Alexander Tkachenko* that enforcement of a default arbitral award issued in London should be denied, after the claimants failed to produce an original agreement containing the arbitration clause.

As is common in shipping practice, the charterparty and

arbitration agreement had been documented by email only. The decision has surprised market practitioners and prompted lawyers to warn shipping parties of their exposure.

**Tanker rates rebound boosts China Merchants Energy Shipping**

A REBOUND in tanker rates has boosted the first quarter results of China Merchants Energy Shipping, which owns one of the largest fleets of very large crude carriers.

The Shanghai-listed company, the dry bulker and tanker unit of China Merchants Group, saw net profit jump 262.4% year on year to Yuan1.3bn ($178.9m) in January-March of 2020.

Net profits from its tanker business, including about 50 VLCCs, increased almost fivefold to Yuan1.2bn.

**Port of Houston to expand as it faces declining throughout**

THE US Army Corps of Engineers has signed off on a report recommending approval of the Houston Ship Channel expansion project, according to port officials.

It comes as the port of Houston saw its containerised cargo drop sharply due to the coronavirus pandemic.

Port Commission chairman Ric Campo said the expansion decision is a result of a four-year study to identify needed channel improvements and determine economic value to the nation.

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