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# Can carriers contain a coronavirus cash crisis?

THE CONTAINER SHIPPING sector is set to embark on one of the most challenging periods of its history, as the impact of coronavirus hits home.

We look at the ability of the major carriers to weather the proverbial storm.

**Maersk Line**
If "might is right" turns out to be the way to survive the coronavirus crisis, Maersk is in a strong position.

The world's largest carrier, with a fleet capacity of just over 4m teu, is in the process of converting its business from that of a shipping and energy conglomerate to that of an integrated provider of container logistics.

The transition, which began back in 2016, has seen the Copenhagen-based company extract itself from the energy markets and link up its container shipping assets — which include the line itself, with its terminal operations — and increasingly focus on the whole logistics supply chain, from customs brokerage, warehousing and inland transportation.

Maersk was initially upbeat following the outbreak of coronavirus in China and the factory closures that followed the lunar new year. In its 2019 results presentation, chief executive Søren Skou was optimistic for a V-shaped recovery in volumes after factories returned to production. That, however, was before the outbreak became a pandemic and localised supply issues became a global demand slump.

A month later, the carrier suspended its guidance for the year due to the uncertainty over world trade and the impact of efforts to reduce the spread of the virus.

Yet financially, Maersk is in a better place to weather the storm than some of its rivals. A healthy cash return in 2019 allowed it to trim its debts by $3.3bn and, at just under $12bn, this is manageable, given the company's revenues.

In a recent update to customers on the impact of coronavirus, ocean and logistics chief executive Vincent Clerc said that while the impact of the crisis was starting to be felt across the business, the company remained determined to keep its ships sailing, ports operating and global trade moving.

"While the current situation is unavoidably adding pressure to our business too, we want to reassure you that Maersk went into this situation from a position of strength and is a well and conservatively financed company, with a solid foundation to see you and your important cargo through these volatile times," Mr Clerc said.

Nevertheless, like most carriers, it has had to radically restructure its network in line with falling demand.

"We believe that it is our responsibility to right-size in order to protect our cost position, both to be able to weather these storms but importantly also to ensure that you have a partner who cares for the integrity of your supply chain as we look to lifting the world out of this crisis," Mr Clerc said.

The outlook for the remainder of the year continues to be obscured by the pandemic. It is likely further service cuts and retrenchments will occur before volumes being to pick up again.

However, as trade does eventually return, Maersk, with its increasingly deep roots in the supply chain, is likely to be in a strong position to benefit from the upturn.

**Hapag-Lloyd**

Hapag-Lloyd was one of the first carriers to admit that the coronavirus outbreak was likely to have a serious impact on container shipping this year. In an interview with Lloyd's List in early March in Long Beach — where he had been due to speak at the TPM conference that was cancelled due to the outbreak — chief executive Rolf Habben Jansen said 2020 held an "extraordinary amount of uncertainty".

At a time when others were talking of V-shaped recoveries and expecting volumes to pick up by April, Mr Habben Jansen changed his default stance of cautious optimism to that of being "not overly optimistic" about the year ahead. As the crisis deepened, Hapag-Lloyd reacted by reining in costs and slashing capacity.

By April 1, the day on which HMM formally joined The Alliance — the vessel-sharing agreement that includes Hapag-Lloyd, Ocean Network Express and Yang Ming — Hapag-Lloyd announced a swathe of blankings across the network.

The Alliance has cut one quarter of its capacity on the Asia-northern Europe trade during the second quarter and a staggering 44% on the Asia-Mediterranean trade.

On the Europe-North America route, where Hapag-Lloyd has a strong history, the capacity cut is less than 10% — but on the transpacific, it has cut services by one fifth.

This conservative retrenchment will help save costs and, with luck, will help maintain rates as volumes decline.

Hapag-Lloyd, like Maersk, has done a good job in lowering the debt burden it built up through its growth phase, when it merged first with CSAV and then with United Arab Shipping Co.

"We've always had a fairly conservative financial policy and that is why, for the past two years, we have said we would bring down our debt," Mr Habben Jansen said.

"That means that today, our balance sheet is strong. That is very comforting in a situation like now. If your balance sheet is more strained, you quickly get into all sorts of difficulties that you would like to avoid."

Hapag-Lloyd reported a healthy rise in profits last year to $418m on revenues that rose 3% to $14.1bn. In addition, almost $1bn in financial debt was repaid during 2019, reducing financing costs for the company.

Alphaliner noted that the line's Altman Z Score — a mathematical formula developed for measuring the likelihood of bankruptcy — stood at 1.92, the highest of any in the sector. Any number under 1.5 indicates weakness. However, it added that Hapag-Lloyd was also among those that had negative working capital, where current liabilities exceed current assets.

Yet according to the consultancy Sea-Intelligence, Hapag-Lloyd's high level of owned rather than

chartered ships — a legacy of its recent mergers — gives it the highest ratio of ownership of the major carriers.

"In the current situation, this provides them with the most solid base, should it be necessary to invoke sale and leaseback to weather the current financial storm."

**Mediterranean Shipping Co**
Mediterranean Shipping Co is suffering along with every other container line from a massive disruption to world trade after the big consumer nations locked down their economies to help control the spread of coronavirus.

However, the privately-owned group controlled by the Aponte family has also been hit by the collapse of the passenger shipping sector, which forced it to suspend its entire cruise line operations.

Then, over Easter, MSC had a third setback when a cyber attack shut down computer systems at its Geneva headquarters for five days, although its global agency systems continued to function normally.

MSC group president and chief executive Diego Aponte has written an open letter setting out actions taken in response to the pandemic.

He also stated that "as a truly global group of companies, with a stable financial position across our various businesses, we are in a position of long-term strength".

In truth, very few people outside the family know much about the group's finances, but for the 2020 first quarter, MSC was probably in fairly good shape.

Cashflow would have held up because of the advance payment of cruise bookings, plus the settling of container freight invoices up to the end of March for cargo moved prior to the Chinese lunar holiday and extended factory closures. That reflects the way in which container lines are paid for shipments carried on a free-on-board basis.

The real crunch will come in the weeks ahead as the full impact of MSC's shutdown of its cruise operations — and the slump in retail spending — depresses revenues. MSC's terminals business is likely to be the least affected by the global economic downturn, but the group nevertheless faces tough times in the months ahead.

Industry talk that the younger Apontes would prefer to focus on its profitable cruise business than low-margin container shipping is pure conjecture — but if correct, the family may be having second thoughts. As to how it will emerge from the crisis, most industry insiders expect MSC to survive relatively unscathed.

The recovery will be helped by the arrival later in the year of former top Maersk executive Søren Toft as head of MSC's cargo operations, who is likely to cut costs as part of an efficiency drive.

"The banks won't let them go," said one industry expert who knows MSC well. "The Apontes are smart. They will find a way round this. Somehow, they keep managing to pull rabbits out of the hat."

**CMA CGM**
CMA CGM is on everyone's watchlist. The French group that ranks number four in the world in terms of containership capacity is widely admired for the leadership it has shown on environmental matters, including the decision to power its newbuildings with liquefied natural gas rather than wait for an industry-wide decision on fuel.

Over the years, it has also been at the forefront of consolidation as it built up a global network through a mixture of organic growth and acquisitions.

For the most part, CMA CGM has a good track record of identifying and then integrating takeover targets.

However, its latest acquisition — the $1.6bn purchase of Swiss group CEVA Logistics — has not gone smoothly and many industry-watchers think it was a mistake, given CMA CGM's struggle so far to achieve the promised synergies and retain customers.

Nevertheless, group chairman and chief executive Rodolphe Saadé is confident it was the right move, given the need for container lines to be able to offer fully integrated end-to-end services and not just port-to-port deliveries.

Mr Saadé has the support of Robert Yildirim, who has a 24% stake in CMA CGM following his $600m bailout a decade ago, when the French group was deep in the red after a wrong call on bunker hedging.

Mr Yildirim says CMA CGM is in good financial shape and expects the shipping industry to pull through the pandemic emergency in a better condition than many other sectors.

However, it is CMA CGM's level of debt — approaching $18bn — that has unnerved the bond markets and persuaded Moody's to put the group's credit rating under review for a downgrade. CEVA's credit rating has been downgraded already.

Both Mr Saadé and Mr Yildirim note that the debt figure has been inflated by new global accounting rules, and that it will come down following the $1bn disposal of some port assets, plus sale and leaseback transactions.

Nevertheless, CMA CGM is still regarded as vulnerable, with uncertainty about whether the French sovereign fund, Fonds Strategique d'Investissement, would step in again on the same scale as it did in 2010, given many more pressing demands for financial support and numerous other container line alternatives.

Because of coronavirus, "a lot of carriers will really struggle to repay their debts", one industry source observed.

"CMA CGM will be okay in the next month or two because of cash flow."

However, the impact of blanked sailings and the collapse of consumer spending will start to be felt in the late spring and early summer, which is when CMA CGM is likely to have some difficult conversations with its bankers.

**Cosco Shipping**

Chaos is a ladder. Even though the coronavirus pandemic is eroding consumers' demand for containerised products, equity analysts in China still gave a "Buy" recommendation to Cosco Shipping Holdings' Shanghai-listed shares after it published its 2019 annual results.

This is, of course, partly due to the immature short-selling mechanism in China's stock markets, which leads to few bearish rankings by analysts on individual stocks. However, the long position also reflects their perception of the liner shipping markets and the country's state-owned enterprises.

CSH, which controls two carrier brands — Cosco Shipping Lines and Orient Overseas Container Line — and the world's third-largest fleet in this sector, posted impressive financial results for 2019.

Yet analysts' confidence was also underpinned by the vessel capacity discipline displayed by shipping lines following the wave of industry consolidation in recent years. That means freight rates can be maintained despite slack demand.

"Under the box shipping model of high operating and financial leverage, no major carriers can afford a decline in both liftings and rates," said Shanghai-based Shengwan Hongyuan Securities.

Market movement has been supportive to the argument, with increasing blank sailings from carriers on east-west main lanes, where rates are relatively stable.

If the virus-led recession persists, carriers may even consider redelivering chartered vessels to further reduce supply, CSH's deputy head Chen Shuai told analysts.

A cut-throat price war for market share is certainly not favoured by Mr Chen. Without it, larger carriers will be able to cash in on their economies of scale.

For CSH, its acquisition of OOCL in 2018 appears successful so far. The deal helped expand the company's fleet capacity by more than one third.

Last year, revenue per teu from the combined box shipping business increased by 1.8% year on year, while cost per teu dipped 1% in US dollar terms on a comparable basis.

The Chinese analysts said they were waiting for the "turning point" — the time when foreign countries, especially the large consumer nations in the west, can have the public health crisis under control — for leading carriers such as Cosco to reap the rewards.

Yet the turning point may come earlier, should something similar to the 2016 Hanjin Shipping bankruptcy occur amid the current challenging market conditions, said Shengwan Hongyuan Securities.

"The industry leaders are expected to become the final winner in this crisis," noted China's Tianfeng Securities when commenting on CSH's results.

These views are embedded with a perception that the state shipping giant is "too big to fail" (probably more so than any of its competitor carriers) and it can even take the opportunity to continue acquiring smaller rivals who will not sustain the market trough, which may become unprecedented for the sector.

The risk is, of course, is that the downturn becomes too deep and lengthy for anyone to win out. Or it

could be the fear of a global takeover by the Chinese — as demonstrated in a recent speech by EU competition commissioner Margrethe Vestager — that is growing and spreading along with coronavirus.

**Evergreen Line**

Evergreen Line is among the few most low-profile and mysterious liner shipping carriers. Its top management seldom speak to the press or at public events.

The business is not entirely listed on the stock exchange, so a full picture of its operating and financial performance remains elusive to outsiders.

However, the coronavirus outbreak is causing a big headache to the entire liner shipping industry. Even the players with relatively strong finances cannot be excluded from the impact and will be under strain should the economic shockwave develop into a prolonged global recession.

For Evergreen Line, the world's seventh-largest carrier in the sector, the first-quarter revenue figures released by its Taipei-listed unit Evergreen Marine Corp (Taiwan) has at least revealed part of the stress.

The company's revenue in February and March contracted by 7.7% and 5.9%, respectively, with increased blank sailings. April and May could prove to be worse, as more service cancellations are introduced. While incomes are shrinking, cashflow becomes critical.

Some industry observers believe the deep pocket of its parent conglomerate, Evergreen Group, and the latter's long-established relationship with lenders will help strengthen the shipping business's balance sheet and bolster its capital. However, this helping hand may be diverted by the group's embattled airline division, which has been hit even harder by the virus fallout.

Back on the shipping side, it is difficult to fathom the debt ratio of the Taiwanese carrier. Yet it is worth noting that Evergreen has the sector's largest orderbook — 64 ships, or nearly 54,000 teu, according to Alphaliner.

A large number of these newbuildings were expected to be delivered this and next year, which would increase pressure for spending and financing unless the handovers are pushed back.

The current low bunker price will provide some relief, although the accompanying thin spread between very-low-sulphur fuel and high-sulphur fuel is not favourable.

Evergreen Line is one of the sector's frontrunners of scrubber installments, while the upfront costs for that equipment are stretching budgets for many carriers.

Luckily the Taiwanese government recently said it was working on some rescue plans, including T$50bn ($1.7bn) in aid funds for domestic airlines and another T$30bn for its shipping firms.

What is also positive is that the three major shipping alliances seem to have displayed continued discipline on capacity deployment. This will help avoid another price war that could significantly deepen the sector's losses.

That said, the succession battle between the sons of Chang Yung-fa, founder of Evergreen Group, appears to have been reignited earlier this year. This may add another layer of uncertainty over what direction the multi-billion-dollar business empire will take.

The hope is that the nimbleness and entrepreneurship that has been demonstrated by the family business over the past half century will help it turn crises into opportunities once more.

**Ocean Network Express**

"As ONE, we can." The Singapore-based carrier, the world's sixth-largest, attested to its motto last year when it overcame its teething problems and turned around from losses to profits. So can it do it again this time?

That forecast, in hindsight, now looks overly optimistic.

Affected by the coronavirus outbreak in China, volumes on ONE's eastbound transpacific services fell by one fifth in February compared with the previous year, according to the line's latest available liftings figures. Westbound services to Europe were also down by more than 8%.

Meanwhile, the $75m extraordinary losses booked by Mitsui OSK Lines for ONE appears another ominous portent.

MOL, one of the three Japanese parents of the liner shipping joint venture, said the losses reflect "the trend of both charter rates and vessels' costs in our assumption". Now the situation seems more parlous. The virus has become a pandemic and has driven the global economy into a recession.

The continued lockdowns in big consumer countries are crippling container trade demand, and a recovery is not yet on the horizon as the disease remains rampant.

Carriers have increased efforts in capacity withdrawal to shore up freight rates. The Alliance, where ONE is a member, announced in early April a string of blank sailings and route mergers for May and June on the Asia-Europe, transpacific and Asia-Middle East trades.

That followed the decision by ONE to suspend its China-Australia service, which it jointly ran with Maersk and MSC. Sea-Intelligence forecast a 10% reduction in volumes this year, based on experiences of previous steep recessions. This would reverse the industry's $5.9bn profit in 2019 to an $800m loss in 2020, even if rates can be maintained at their current level, the consultancy says.

However, for a midsized carrier like ONE, having a relatively small market exposure in an extremely bad market is not necessarily a disadvantage, provided the company has a strong balance sheet.

The latter will depend not only on its own efforts in cost reduction and service optimisation but also on the firm support from its parent companies.

The way MOL, NYK Line and K Line merged their container shipping business was an innovative practice to the industry of creating a bigger carrier. It was also a showcase of the Japanese group's solidarity. This solidarity is now needed by ONE more than ever.

**Other carriers**

Ever since Hanjin Shipping's bankruptcy, the industry cannot help gauging who will be next.

The coronavirus pandemic has driven the world economy into possibly its worst recession since the Great Depression some 90 years ago. This is putting the survival of container shipping lines to the test.

Judging from their financial status, almost all the main carriers have either a high or very high chance of bankruptcy, according to the Altman Z- Score results posted by Alphaliner in a recent report.

Some may wonder, while those biggest ones are arguably too big to fail, how resilient are the smaller players?

At the bottom of the ranking are HMM and Yang Ming, the world's ninth- and eighth-largest carriers, respectively.

They are now members of The Alliance and share other common ground: both are state-owned. The former's largest shareholder is policy lender Korea Development Bank, following the bailout in 2016; while the latter is approximately 45% owned by the Taiwanese government.

Despite the consecutive losses and sky-scraping debt ratios in recent years, the odds for closing shop or being a takeover target appear low, as the two are flagged as "national carriers".

Yang Ming chairman Bronson Hsieh previously said the company's cost pressure will reduce substantially this year with the redelivery of some old chartered tonnage. Meanwhile, HHM's fleet expansion is beginning to materialise as it starts to take delivery of its 24,000 teu series in the second half of 2020 — provided there is no delay in the schedule.

Another carrier sitting low on the list is Singapore-based Pacific International Line, whose financial woes have been thrust into the spotlight in recent months.

In April, the company published its full-year results for 2018 and half-year report for 2019, which have been long overdue. Its results for the whole of 2019 remain available.

From what can be seen, the figures are not encouraging. Net losses stood at $254m for 2018 and $35m for the first six months of last year.

As of mid-2019, PIL's total financial debt, including lease liabilities but excluding amounts due to related companies, amounted to $3.9bn. Among these, $1.3bn are current liabilities due within a year.

Its Hong Kong-listed subsidiary, Singamas, also confirmed that the parent group was in discussions with multiple creditors to settle deferred payments, including $147m owed to Singamas.

However, in a recent interview with Lloyd's List, PIL chairman SS Teo denied bankruptcy rumours circling about the company. He suggested the string of asset disposals in recent months were not fuelled by a need to trim down debt, but rather by a desire to rationalise the family-owned portfolio in the light of unfolding unfavourable macroeconomic forces.

Among all the "smaller" carriers on the list, Wan Hai Lines looks to be in the best position. This Taiwan-based, privately run intra-Asia specialist has always

been viewed by the industry as a perfect example of a "small but beautiful" carrier.

The company posed about $118m net profits for 2019, more than doubling the level seen in 2018 in the process. It was also capable of paying $186.8m in total for two young 12,000 teu ships sold by PIL in March.

Even so, it did not manage to escape from the downgrading by Taiwan Ratings from "stable" to "negative" amid the coronavirus shockwave.

The rating agency said the shrinking international trade volume caused by the spreading disease could decimate Wan Hai's cashflow this year and the path to a recovery next year was "highly uncertain".

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## WHAT TO WATCH

# Floating storage volumes soar as tanker rates and forward contract values dive

THE use of tankers as floating storage remains at record highs, with a 20% spike in volume over the past week, while daily charter rates for very large crude carriers diminish by as much as 70%.

The spike in floating storage volumes in the span of seven days conveys the number of floating storage contracts that were done in April as well as the number of time charters that have become storage, both due to necessity and profit.

Land storage for oil is quickly running out as oil supply has continued largely uninterrupted over the past two months, while demand has dwindled due to the coronavirus outbreak, forcing tanker use as floating storage.

Brent crude oil prices that have lost almost 50% of their value since the beginning of March have generated a contango market that has traders wanting to hold oil and sell it in a few months at what they anticipate will be a much higher price once the market rebalances.

These two factors have elevated the capacity of tankers being used as short-term storage has reached 196m barrels of crude oil and oil products, up from 163 just a week ago, according to the latest available Lloyd's List Intelligence data.

This floating storage volume represents the highest on record since Lloyd's List Intelligence began collecting data in December 2008.

More than 85m barrels have been added to floating storage since the beginning of March. That was when the oil price war began and was followed by plummeting demand due to lockdowns across the world.

This storage is made up of 70 very large crude carriers, 38 suezmaxes and 30 aframaxes. That is 24 more tankers than the end of last week.

Of these ships, 22 are located off Malaysia, accounting for 39.2m barrels of oil, according to Lloyd's List Intelligence. Another four with around 6.4m barrels are currently off Egypt's Ain Sokha, from where the Suez-Mediterranean pipeline pipeline begins. Six more tankers are in short-term storage oil off China.

Tankers are considered as being used as short-term storage when they are actively trading and have been at anchor or not moving for 20 days or more, according to Lloyd's List Intelligence. The data includes those vessels that are at least 80,000 dwt, which can typically carry about 600,000 barrels of oil.

Long-term storage, which includes those tankers that are used for storage only and are not expected to return to the market, was at 167m barrels as of May 1, according to Lloyd's List Intelligence.

LLI analysts are observing that there are several tankers that are slightly below the 20 day-minimum of anchorage or inactivity and could soon move into storage.

While more tonnage is expected to appear as floating storage in the coming weeks, it is unclear for how long the boom will last.

### After big gains, daily rates and future contracts decline heavily

May 1 marks the first day that the supply cuts agreed by oil producing nations take effect. These countries have agreed that in May and June they will collectively slash production by 9.7m barrels per day and will implement smaller cuts up until the end of April 2022.

Meanwhile, the historically low oil prices that have held in the market for the past two months combined with lack of demand and the aforementioned limits on physical and storage are forcing private owners to curtail supply.

This week's reaction yielded recoveries for oil prices, which nonetheless remain low. Brent crude jumped from just below $20 per barrel on Monday to more than $26.44 per barrel on Friday afternoon. West Texas Intermediate also jumped from $12.78 per barrel to about $19.

After a two-week climb, forward freight agreement values for VLCCs for this quarter have been declining for more than a week, indicating an anticipation of a weakening floating storage market as future contracts for these ships are reported at lower prices

FFAs for VLCCs on the Middle East-China route for the second quarter dropped by 47.5% between April 21 and April 29, when the contract hit $19.19 per tonne of oil, according to the Baltic Exchange.

On April 30, future contracts for May and June averaged at $13.69 per tonne of oil carried.

FFAs for the third quarter slid by 37% between April 21 and April 30 standing at $9.63 per tonne of oil, on Thursday night, the second-lowest value for that quarter recorded since the beginning of March.

Fourth quarter FFAs for this VLCC contract have also fallen off from $13.96 per tonne of oil on April 21, to $10.92 on April 30. That is the lowest the contract has fallen to since the start of March.

The anticipated decline in inflated daily charter rates for tankers has also appeared to materialise this week. Demand for crude oil tanker voyages appears to be sliding amid declining refinery runs and global economic inactivity due to national lockdowns.

Rates had been declining since late last week, but over the past few days, the drop has accelerated.

VLCC time charter equivalent rates fell by as much as 70% on key routes from April 24 to May 1, with the key Middle East Gulf to China route hovering just below $80,000 per day, according to the Baltic Exchange. Earlier last week, those same routes were earning close to $230,000 per day.

Similarly, daily suezmax time charter equivalents dropped from $106,484 on April 24 to $51,033 on May 1 and aframax earnings fell from $83,251 to $47,991.

## OPINION

# This is why shipping degree students should stay positive

IT MIGHT seem completely absurd to suggest that the coming decade could be the most exciting for shipping since the advent of containerisation, *writes Richard Clayton*.

Locked down by coronavirus, stymied from following through on all the projects that were active at the start of the year, certain parts of the industry face oblivion.

Why did I take valuable time in this week's Lloyd's List Ask the Analysts webinar to offer a cheerful perspective? No one else did.

Here is why. My view was sparked by a question sent in by a university lecturer who asked whether our panel could provide hope to despondent shipping degree students.

For those studying to gain qualifications in maritime commerce and professional services, and for cadets beginning their ascent through the ranks to command, the headlines are bleak.

The new normal is likely to look very different from the old normal. The maritime world they set their hearts on joining might not exist when we emerge from coronavirus in a year's time or even further away.

The indications are that employment in the maritime sector will not immediately require newcomers: it will have enough trouble finding work for those already in jobs.

But shipping is resilient. It has learned over many decades to roll with the economic blows as a ship rolls with the waves.

Only 10 years ago, the industry was suffering from the impact of the global financial crisis; the business of shipping had to adapt. Twenty-years ago, as China joined the World Trade Organisation and launched an economic journey that few could have forecast, shipping was immediately unsettled, then invested in the opportunities the new order presented. Thirty-years ago, with the fall of the Berlin Wall and the reordering of eastern Europe, the certainties of the post-war world broke apart.

Sixty-four years ago this week, American transport entrepreneur Malcom McLean loaded 58 purpose-built containers onto a converted tanker and — without knowing it — sparked a revolution in globalisation. Shipping was severely shaken, then learned to adapt.

As I have been reminded, containerisation led to the demise of many hundreds of general cargo lines whose directors had dismissed the invention until long after it was too late.

Shipping has always feared the worst but carries within its DNA the ability to survive and, given time, grow. Before the viral outbreak, the industry was focusing on digital solutions, zero-carbon vessels, autonomy, virtual reality surveying, cyber security, data analysis driving smart supply chains, additive manufacturing, and differently-skilled seafarers.

Why has this thinking suddenly ended because of coronavirus? How can students be despondent when the maritime environment is buzzing with new ideas? It has not, and they should not be.

No doubt any global pandemic is disruptive. Last year some shipping leaders were calling for a degree of disruption to remove elements of the industry that were evolving too slowly or protecting inefficiencies that needed to be smashed. Disruption is painful and causes uncertainty. However, it might be the best way to bring in much-needed change.

We are told that leading scientific institutions and pharmaceutical heavyweights are collaborating to find a vaccine to defeat coronavirus. Until a vaccine is made available to the world, shipping will be unable to attempt a return to what we used to think as normal. It will not be the old normal: that has gone. It must be a new industry ready and able to accept the lessons learned during lockdown, such as remote working.

It is too early to say whether the world has lost its love affair with fossil fuels or just suffering a break in consumption, or whether we will buy fewer consumer goods from the other side of the planet rather than make them in the same city or region.

Even so, we can say with confidence that shipping's resilience will show through yet again. With so much to achieve and so much positive energy to achieve it with, there is no reason at all for shipping degree students to be despondent.

Thanks for asking.

# Latest Lloyd's List magazine available to download

THE latest Lloyd's List magazine is now available for subscribers to browse and download for free via our website.

It features a deep-dive analysis on the container shipping sector and how it is fronting up to the impact of the coronavirus pandemic, promising to be the biggest single challenge yet for an industry no stranger to adversity.

We examine the individual lines, and more specifically which are best and worst prepared for the storm that awaits and the measures being taken to address the volume shortfall associated with the pandemic.

Separately, Sea-Intelligence partner and chief executive Lars Jensen looks into his crystal ball to provide some insight into how the industry will fare in the long term.

We also have our exclusive interview with CMA CGM chief executive Rodolphe Saadé plus all the latest from the upheavals in the tanker market, as well as the regular market commentaries, in addition to comment and opinion from our team of trusted journalists on the issues that matter.

The impact of coronavirus, meanwhile, is understandably a running theme throughout.

As well as accessing the latest copy of the Lloyd's List magazine, subscribers can also browse previous editions of our former Lloyd's List Intelligence publication and copies of Lloyd's List Containers.

ANALYSIS

# Non-paying shipowners putting Gulf navigation safety at risk

SHIPOWNERS who ignore an obligation to pay for the use of navigation aids in the Middle East are endangering safety in the Gulf region, says Peter Stanley, chief executive of the International Foundation for Aids to Navigation.

The former BP executive told Lloyd's List he understands the pressure these owners are under to reduce costs. However, forgetting to pay dues or deliberately withholding payment will lead to a diminishing of funds available to maintain, upgrade or replace the aids.

Nav aids maintenance in the Gulf is provided by Middle East Navigation Aids Service, which is a unit of the not-for-profit foundation.

There are currently four differential global positioning system stations — two in the United Arab Emirates, with one in Kuwait and another in Bahrain.

The Middle East Navigation Aids Service is also responsible for 54 buoys and MSI/Navtex messages for the region.

The stations are up to 22 years old, stretching the normal working life of 15-20 years, Mr Stanley said. Only good husbandry has kept them going. The stations have been "patched up" from similar stations being decommissioned outside the region.

"There are no alternatives of the same positional accuracy to the DGPS stations because no space-based augmented GPS satellites are positioned over the Gulf, and no plans to put one there," he said.

The existing stations could be kept active for a further decade, but the longer-term goal is to reduce the number from four to three, and replace rather than patch up.

"If we can get more ship owners to pay their dues, there will be sufficient income for new stations, at a cost of $1.3m per station," said Mr Stanley. "These stations are working in a tough environment, and technology is moving rapidly. Full replacement might be a better plan than just keeping them patched-up."

The insurance sector fully supports the need to keep funding flowing, and the International Chamber of Shipping is encouraging its member shipowner associations to keep nav aids at the forefront of minds.

In the past, Gulf states have looked after aids in their territorial waters but were reluctant to push any further. Mr Stanley and his team are working with all states in the region to bring closer co-operation on nav aids.

The British government was originally responsible for maintaining buoys in the Gulf. When it decided to pull out, a charity was set up with tax advantages covering the Gulf waters and down to Oman.

Over time, it became clear there were other areas that needed funding for nav aids, which led to the formation of the International Foundation for Aids to Navigation. It now funds projects supported by the International Association of Marine Aids to Navigation and Lighthouse authorities (IALA ) such as the South Pacific Community.

"We work with IALA, the UK Hydrographic Office and technology companies; as an example of this, our Category 1 buoys are fitted with AIS, not only for location purposes but also to record passing traffic," said Mr Stanley. "We would like to purchase new equipment when we can rather than just replace a buoy, but that is expensive."

Different buoy anchoring mechanisms to reduce maintenance and cost are currently being tested. With buoys now providing valuable data, Middle East Navigation Aids Service can assess whether buoys are in the optimum place or should be relocated. Using such risk assessment tools will show whether the aids need to be moved.

"Vessel traffic fluctuates so there is no guarantee of revenue," said Mr Stanley, although a comparison of this year's first-quarter figures with the same period in 2019 showed a variation of only 20 ships. While cruise ship calls have fallen as a result of the coronavirus outbreak, the number of large tankers loading crude oil for storage has increased.

"My job is to re-energise this initiative," Mr Stanley said. "We are helping the Gulf states to discharge their responsibilities and protect the safe flow of

trade. If navigation dues grow to a surplus of about $2m, we would replace the hardware. If it reached $4m, we would have a conversation at board level about renewing the stations."

# Focus on shipping in fight against drug smuggling

FOLLOWING the September 2001 attacks on the US and the spread of the global terrorism threat, industry and government have partnered in supply chain security, *write Jasper Helder and Lars-Erik Hjelm, international trade partners at law firm Akin Gump.*

Secure operators under the US Customs Trade Partnership Against Terrorism (CTPAT) and the European Authorised Economic Operator (AEO) programmes benefit from reduced checks and green lanes. Participation has become a basic requirement in the global shipping market.

But a new threat emerges. With unlimited financial resources, drug and in particular cocaine traffickers and criminal organisations find novel ways to hijack legitimate supply chains, victimising many different carriers and shippers alike.

Exploiting gaps in shoreside supply chains, particularly in or around South American ports, traffickers' methods such as 'rip on, rip off' threaten global shipping. This has led to a rise in drug seizures from containers at major US and European ports.

Recent drug seizures from vessel containers across the globe demonstrate that it is no longer just the traffickers who are in law enforcement's sights. More and more, law enforcement, specifically customs authorities, are calling on the shipping sector to increase security even more as part of the evolution of customs trusted trader programmes.

The threat of suspension or withdrawal from these programmes is a powerful tool.

**Drug smuggling threat**

The surge in demand in North America and Europe — particularly for cocaine — drives the drug trade to new heights. Smugglers exploit legitimate supply chains to move record volumes of drugs. No carrier or shipper is spared from this threat.

A favourite route targets vessels that travel the South American and Asian shipping lanes and call at US and European ports. The last six months of 2019 saw record-setting drug seizures from vessels operated by major carriers:

• In June 2019, US Customs and Border Protection (CBP) and other agencies seized nearly 20 tons of cocaine hidden in containers on a vessel of a major carrier. The seizure was alleged to represent the largest drug smuggling seizure in US history.

• In August 2019, authorities in Michoacan, Mexico seized 23,368 kgs of fentanyl stowed in a vessel at the port of Lazaro Cardenas.

• In the same week, the UK Border Force and the National Crime Agency (NCA) seized 1,279 kgs of heroin stowed on a vessel at the port of Felixstowe.

• In October 2019, CBP seized 2,133 lbs of cocaine in a vessel at the port of Savannah.

These incidents highlight a broader threat to global security. If a cache of drugs can be smuggled on a vessel, the logic goes, then why not weapons? This brings supply chain security to the top of customs agencies' priorities — and more obligations for carriers.

**Business Risk**

Against this background, CBP completed a years-long initiative to modernise CTPAT by introducing new "Minimum Security Criteria".

Since late 2019, the updated sea carrier Minimum Security Criteria replaces five pages with a 40-page booklet with over 50 requirements in 12 security categories. These are additional to numerous "shoulds" and best practices that must be implemented as best as possible.

The new criteria include expansive requirements for container seals, security cameras, vessel monitoring and training. They require immediate reports of all security incidents — including drug seizures, conspiracies, and container or seal tampering — regardless where they occur and whether they have a nexus to the US. CBP has made clear that it expects such reports as incidents happen from partners, rather than from other law enforcement agencies.

These requirements have teeth. CBP has relied on these new criteria to suspend different vessel carriers from the CTPAT — with threats of

permanent removal — following drug seizures and perceived gaps in cargo security.

Only after a carrier is able to demonstrate that its security protocols go above and beyond the new Minimum Security Criteria, and specifically address enhanced protocols to reduce emerging drug smuggling threats, does CBP consider reinstatement into CTPAT, which is by and large a condition of doing business for large and high-volume shippers.

The incidents show that even sophisticated carriers risk their CTPAT Partnership. The risk is potentially catastrophic for carriers that depend on CTPAT to clear cargo in a timely way, and meet contractual obligations to shippers. Suspensions or permanent removals are published in the CTPAT portal for all partners to see.

Permanent removal ultimately requires re-application, years later. Drug smuggling now is as much a business risk as it is a security threat.

The European situation is different. The AEO programme has two components. The first ('AEO-C') focuses on the collection of customs duties which are direct income for the European Union.

The second ('AEO-S') covers supply chain security, based on the WCO SAFE framework. The Union Customs Code specifically allows for suspension of AEO, after a 30-day notice period, unless the threat to public safety, public health or the environment requires immediate suspension.

While drugs seizures in European ports have increased in number and volume, there are no published cases of AEO suspensions involving ocean carriers or container terminals due to drug smuggling similar to the US.

European authorities focus more on capturing contraband or, sometimes controversially, monitoring known flows of narcotics to identify distribution networks. These law enforcement strategies rely on co-operation with participants in the cargo supply chain.

This might explain why European authorities appear less aggressive in enforcing AEO requirements. However, the option to suspend AEO is there and can be used as leverage to force unwilling supply chain parties to co-operate.

AEO certification also is a minimum requirement for many shippers' selection of carriers. A temporary suspension poses a business continuity threat.

**Strategies**

• Understand the new C-TPAT Minimum Security Criteria. Devote adequate resources to implement them accurately. Focus on the "musts" — but not to the exclusion of the "shoulds" or CTPAT Best Practices. Demonstrating compliance is crucial to passing CTPAT validations and to demonstrating best efforts in the event of a drugs seizure.

• Do not limit implementation of the CTPAT Minimum Security Criteria or AEO security requirements to staff with a direct nexus to container or conveyance security. Properly screening and training employees and crew is no less mandatory than is using ISO 17712-compliant seals, for example.

• Maintain a strong relationship with your CTPAT Supply Chain Security Specialist and AEO representatives. Communicate frequently. Informing such contacts of new and evolving security risks — new smuggling tactics or patterns — can build goodwill and benefits in the form of guidance and assistance.

• Consider implementing a protocol to report security incidents on your vessels to your CTPAT Supply Chain Security Specialist and AEO representatives. Reporting incidents is a CTPAT requirement, and it is better that authorities learn of such incidents directly from shippers than from counterpart agencies.

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## MARKETS

# World boxship fleet update: Hubris and nemesis visit a shipyard

HMM last month took delivery of and held a lavish naming ceremony for what is, for now, the largest and likely most unneeded containership in the world.

At a nominal 23,964 teu, *HMM Algeciras* steals the lead held for several months by Mediterranean Shipping Co's 23,756 teu *MSC Gülsün*, which entered into service last August.

Despite having virtually identical scantlings and the same 24-row layout, HMM has managed a bit of design trickery to add another 208 teu to the ships loading plan to take the title.

But given the current state of the container shipping market, it is something of a hollow victory. With demand set to slump by 10% this year at even the most conservative estimates, where HMM will find the 24,000 teu of cargo needed to fill the ship remains to be seen.

And it is not just this ship, *HMM Algeciras* is just the first the first of 12 ultra-large containerships the South Korean carrier has on order.

At a time when record numbers of sailings are cancelled and ships are being put into layup, the timing of HMM's delivery could not have been worse.

It appears that HMM is well aware of that, and the company has pushed back the delivery dates of the remainder of the order, which was due to have been completed by October. Now only six are due to be in service by the end of the third quarter.

Alphaliner expects the remaining six newbuildings to be delivered before the end of the year, but their eventual deployment will depend on how quickly cargo demand on the Asia-Europe route recovers, as this is the only trade vessels this large can be deployed on.

*HMM Algeciras* was one of just five ships, comprising 32,448 teu, delivered in April, according to figures from Lloyd's List Intelligence. The remaining vessels were all of 2,500 teu or smaller, and took the world containership fleet up to 22,653,117 teu as of the end of the month.

Given the circumstances, new orders were non-existent. Carriers are mothballing existing ships and non-operating owners are facing having chartered tonnage returned early. With the ongoing uncertainty over the final duration and economic impact of the pandemic, it would take an exceptional optimist to order tonnage for delivery in two years' time right now.

German carrier Hapag-Lloyd has decided to hold off on a series of 23,000 teu vessels, according to one broker report. While the deal is expected to go ahead, final decisions are expected to be delayed for the foreseeable future.

Hapag-Lloyd had indicated it would return to the yards this year, after a two-year hiatus on newbuildings between 2017-2019, but this suggestion was made based on the premise that the supply and demand equation was coming into balance. That equilibrium has now been shattered.

According to analysts at Maritime Strategies International, the one possible exception is Cosco, which could sign orders at the recently merged state-owned yards, but this remained speculation.

"A final likely consequence of the pandemic will be an increase in orderbook cancellations," MSI said. "We expect the feeder orderbook in particular will emerge from the crisis smaller than previously estimated."

Meanwhile, the near-term supply outlook remained largely unchanged, it added.

"CMA CGM is still scheduled to receive its first ULC newbuilding in June, although this date has been pushed back on previous occasions."

MSI expects 180,000 teu of deliveries in the three months to June, and 245,000 teu in the three months to September, with risks weighted to the downside.

While there were no new orders in April, Lloyd's List Intelligence also recorded no new scrapping, as yards in South Asia largely remained closed due to pandemic mitigation measures for the majority of the month.

But owners with unwanted tonnage will have taken some hope from the announcement last week that ship recycling has been allowed to resume in India.

A backlog of vessels has built up outside all of the Indian subcontinent's scrapping locations, with contracts and cancelling dates being frustrated by the crisis.

The monsoon season and the start of the Muslim holy month of Ramadan will further dampens demolition activity, however.

"Scrapping will be very limited in the near term, although the data will likely record a spike once breakers reopen in earnest and the backlog of vessels at anchor outside major demolition locations is cleared," MSI said.

With no ships being taken out of the fleet, the number of idle containership capacity is continuing to grow. Lloyd's List Intelligence put the figure at 920,039 teu, over 4% of the total fleet.

But with blankings set to continue into May and June, this figure is set to rise substantially.

The number of blank sailings is expected to increase and the Labour Day holidays in May could trigger a new round of capacity cuts.

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

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

That figure indicates a significant amount of boxship capacity with nothing to carry.

## IN OTHER NEWS

### Pirates kidnap 10 crew from bunkers tanker off Nigeria

PIRATES have abducted 10 crew members from a Panama-flagged bunkers tanker operating off the Nigerian coast in the Gulf of Guinea.

The 6,152 dwt *Vemahope* is reported to have been attacked by armed men on a single speedboat about 90 nautical miles southwest of the Bonga Terminal, Nigeria at 1940 hrs UTC, known as co-ordinated universal time, on April 30.

According to Lloyd's List Intelligence Casualty Reporting Service, the pirates were able to board the tanker and abduct 10 crew members, before leaving the tanker.

### Over 170 lives lost in bulker incidents in a decade

AT LEAST 17 seafarers on average lost their lives in bulker incidents in the past 10 years, according to new data.

A total of 39 bulk carriers, or on average four ships per year, were involved, leading to the deaths of 173 crew members, according to the International Association of Dry Cargo Shipowners.

The average age of the vessels was 20.8 years, while a total of 2.59m dwt has been lost. That's an average of 259,000 dwt per year.

### Vessels sound global tribute to seafarers

SHIPS' horns have been sounded at 1200 hrs local time in ports around the world as part of an initiative by the International Chamber of Shipping and the International Transport Workers' Federation.

"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 ships' horns 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."

### Shipping's view sought on new green bonds criteria

A CALL has been made for a consultation on proposed guidance for green bonds aimed at shipping companies, hoping to give the industry and its investors a tool to help reduce emissions.

The Climate Bonds Initiative, a non-profit organisation, has drafted a set of criteria designed to provide rules for "determining when shipping projects and assets are compatible with a low-carbon, climate-resilient economy, and are eligible for certification under the Climate Bonds Standard".

To meet the criteria, ships must comply with an emissions intensity threshold — the Average Efficiency Ratio or the Energy Efficiency Operational Indicator — starting at the median 2012 level for each size and class of ship and declining to zero by 2050.

### Struggling Californian ports make plea for state aid

TWO of California's major ports — San Diego and Oakland — have appealed to the state government for financial assistance as their revenues have dropped significantly due to the impact of the coronavirus outbreak.

"The port of Oakland is operational in these unprecedented, challenging times and has stepped up for the state's emergency response," executive director Danny Wan told the California State Lands Commission on Thursday.

"But we will need to adapt our business model to new realities and ask the commission to continue to work with us to find creative, workable solutions to stabilise our finances," he said.

### IMO delays more meetings due to health crisis

THE International Maritime Organization has postponed its July meetings and started work on a revised meeting programme for 2020 as it grapples with coronavirus disruptions.

The revised programme would prioritise meetings of the IMO Council, the Marine Environment Protection Committee, the Intersessional Working Group on Reduction of Greenhouse Gas Emissions from Ships, and the Maritime Safety Committee.

"Resuming physical meetings will depend on guidance from the World Health Organisation and the UK government, as well as the situation of IMO member states," it said.

**Anek Lines returns to profit**

ANEK Lines has said it is "certain" to suffer adverse effects from the coronavirus outbreak, after achieving a sharp improvement in its results for 2019.

It was "not currently possible" to quantify the impact of the health crisis on global and European economies, the company said.

"The most likely version is that there will be a global recession and there will be a significant negative impact on the Greek economy and, respectively, on the passenger shipping industry."

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