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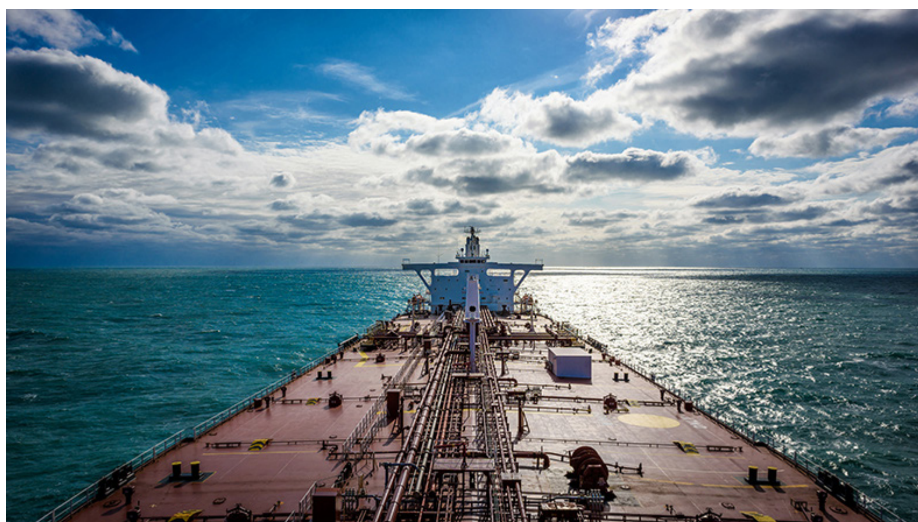
Tankers in floating storage hit new high



FLOATING STORAGE HAS soared to a fresh peak, even as oil demand rebounds with unsold Venezuelan and US crude cargoes at anchor off South Africa and Singapore adding to market disruption.

Approximately 278.2m barrels is tracked on 239 tankers at anchor for 20 days or more, according to Lloyd's List Intelligence data. That figure is reduced to 207.7m barrels after Iranian-controlled or owned tonnage is removed because it is unable to trade due to unilateral US sanctions. The number incorporates long range and suezmax tankers, as well as very large crude carriers.

Some 32.6m barrels of the tally is defined as refined products in storage such as gasoline, diesel or jet fuel, while the remainder is crude, condensate or fuel oil.

About 10% of the global trading VLCC fleet is now estimated to be tied up in floating storage, with 11% of all suezmax tankers, and 9.5% of aframaxes, data shows.

Record volumes in floating storage have shielded the largest 2,800 tankers in the 3.2bn tonne per year shipment of crude and refined products from the devastating collapse in earnings and demand, which has crippled the containership, car carrier, shortsea and dry bulk sectors during the past three months.

However, demand for tankers remains uncertain as widespread crude export cuts over May and June to rebalance the market are shrinking available cargoes and pressuring spot rates. Although crude prices have rebounded faster than expected as countries wind back lockdown restrictions, that has not eased market disruption that saw land-based inventories soar, creating discharge delays.

The biggest logistics logjams or inventory overhangs are seen in Asia region, where 51m barrels are tracked on tankers at anchor in waters off Singapore and Malaysia. Some 19.2m barrels is in waters off West Africa. Of these, 26 of the 34 tracked tankers are loaded with refined products, according to Lloyd's List Intelligence data.

One of the fastest growing areas for floating storage is now at Saldanha Bay off South America, which is set to overtake the well-documented discharge delays at ports along the north American Pacific coast over the past weeks.

At least five tankers floating in waters off the South African bay — where there is significant land-based storage — loaded cargoes in the US Gulf, based on vessel tracking. Other cargoes originated from West African countries of Nigeria and Congo as well as Venezuela.

Floating storage data also highlights Venezuela's difficulty in selling crude following US sanctions on marketing divisions of trader Rosneft. Until then the Russian oil trader was an intermediary in oil sales.

Six of the 14 tankers tracked loading exporting Venezuelan crude to Asia during the past seven weeks are floating off Singapore or Malaysian waters. Another two are at anchor off Saldanha Bay. None have been discharged.

WHAT TO WATCH

Decarbonisation is a job for now, not later

IT IS sobering for boomers like me to reflect that if we actually make it to 2050, we will comfortably have beaten current life expectancy projections, even for first world countries, *writes David Osler*.

And in between berating the folly of politicians, the tunelessness of popular music and the shockingly bad manners of the young, we will be able to observe whether or not shipping managed to meet the emissions targets set for that date by the International Maritime Organization.

The goal — and it is only a goal, not actually being binding — is to at least halve greenhouse gas emissions from 2008 levels in three decades' time.

Some cynics say flatly that this simply cannot be done. More ambitious outfits — and predictably enough, I am largely talking about Maersk — believe they can do even better, and have for some time insisted that they will reach zero-net carbon nirvana by that very date.

Maersk is already proving its readiness to walk the walk, announcing this week that it is joining forces with DFDS and four other major Danish companies in a bid to get zero-emission marine and aviation fuels on the market by 2027.

Hats off, obviously. But those involved with the scheme are frankly putting most of their counterparts to shame.

This week has also seen publication of a survey by ABS in which almost two-thirds of respondents admitted that they currently have no decarbonisation strategy in place whatsoever.

Not so good. The most charitable assumption here is that it will still be tenable to be a free rider for a few years more. But it will not be too long before concrete decisions have to be taken.

As Maersk's Søren Toft pointed out in an interview a couple of years ago, ships have a lifespan of 20-25 years. So low-emission — or better still, no-emission — vessels need to be rolling down the slipways from about 2030 onwards.

This much is readily apparent to those of us who grew up in the era of gas-guzzling cars and the infinite availability of landfill sites, even if we are soon to go the way of all flesh.

You do not have to be a Greta Thunberg fan to know that the task of greening up shipping's act will instead fall to those now taking up junior management positions in shipping around the world.

I for one fully expect they will do it, not only because regulators will be breathing down their necks, but also because younger people today are acutely consciously of environmental issues.

It is not as if cleaner shipping were a wild-eyed utopian aspiration. Incremental moves are steadily being made in that direction, the most obvious example being the sulphur cap.

In 2017, Lloyd's List ran a story based on a discussion at an industry conference, which predicted "outrageous" fuel prices and widespread shortages once the stipulations were in place.

Well, the deadline came and went, and this didn't happen. If the Danes perfect zero-emission fuel, roll-out needn't take forever, either.

But here's the rub. Major transformations are never effortless. They need to be planned for, and the invariable first step in planning is having a plan.

That's why the ABS survey makes for depressing reading. It is high time already to start thinking about how we get from A to decarbonisation, and public opinion will accept nothing less.

So the message, twentysomethings and thirtysomethings is this; get a move on. Don't forget that some of us will be judging your efforts from the comfort of our nursing homes.

Flexible capacity can help car carriers, says Wallenius Wilhelmsen chief

FLEXIBLE vessel supply will help the car carrier sector survive the coronavirus pandemic, the chief executive of Scandinavia's Wallenius Wilhelmsen has told Lloyd's List.

In an interview, Craig Jasienski said his company's early responses — laying up 10 ships, recycling four and laying off half its production workforce in the US and Mexico — would help protect it from the steep fall in volumes.

"We've built, over the past three years, a fleet structure where we aim to have as much flexibility as we can to be able to ramp capacity up and bring it back down on a relatively short-term basis as needs be," he said.

Mr Jasienski said the company operated about 120 vessels, down from 137 in recent years. The cold layups could be reversed and the ships brought back online within 30 days if there was a consistent rise in demand, he said.

Lloyd's List reported last week that coronavirus has caused one of the worst slumps yet seen for the deepsea vehicle trades, with up to 200 pure car and truck carriers thought to be idled and forecasts that car sales could fall by more than 20%.

Mr Jasienski estimated about 20% of the world's car carrier fleet was idled and he expected a 23% drop in global car sales this year. There were hopes for a short-term boost in demand for private cars as social distancing measures put people off public transport. But in the longer term, he believed in a return to normal but with total sales "at slightly lower levels initially".

"The biggest challenge we all see now is the situation still remains highly unpredictable," said Mr Jasienski.

"So it is very hard to determine at what point do we expect demand to come back to the levels that they were as we entered the crisis."

Mr Jasienski said there was a general view that car sales would slowly increase from June and there was typically a 30 to 60-day lag before such an increase was seen in shipping volumes.

He would not comment on whether more consolidation was likely or possible between the major PCTC companies, but said they would likely delay new building and speed up recycling.

Turning to the company's net loss of $285m for the first quarter of the year, Mr Jasienski said earnings before interest, tax, depreciation and amortisation was $130m, only 20% lower than the previous quarter.

"There will be a degree of cash burn during a period like this, but we are doing everything that we can to minimise that, such that we come out the other side in a strong financial position so that we can continue to rebuild and expand for the future," he said.

The company was watching whether governments would unveil policies such as France's recent €8bn ($8.8bn) car industry stimulus plan.

"From our perspective, this is absolutely survivable," Mr Jasienski said. "We entered in a good position and we'll come out the other side in a good position."

OPINION

Ofac wields a sanctions sledgehammer on shipping

THE adage about using a sledgehammer to crack a nut has never been more appropriate for the US Department of Treasury's Office of Foreign Assets Control, known as Ofac, writes *Michelle Wiese Bockmann*.

This small agency has evolved under the presidency of Donald Trump into an aggressive foreign policy tool using unilateral sanctions to deeply influence global energy commodities markets.

The mercurial, ambiguous and inconsistent application of Ofac sanctions on Iran and Venezuela is a deliberate tactic to keep international shipping on its toes.

In mid-May, the US administration issued fresh guidance for global shipping to identify and detect deceptive and illicit practices used to evade sanctions.

A reassessment of policies and procedures for marine insurers, shipowners, charterers and service providers is now under way as a result.

The guidance implies a heavy reliance on automatic identification system transponders, which signal a ship's identity and position, to detect illicit activities — even though the tool is designed for collision avoidance. There is widespread industry concern that AIS monitoring will generate much false or misleading data.

Risk assessments, formal compliance policies and due diligence procedures are already part of scrupulous shipping businesses.

This guidance is likely to see more robust and expansive monitoring of counterparties and a revision of contracts to document and demonstrate adherence to Ofac recommendations.

It is not enough to "know your customer". Businesses need to show that they know their customers' customers as well. Port state control and port authorities are also "encouraged" to know their customers and report any practices that appear deceptive.

This may set up Ofac to reprimand or pressure governments to act on ship-to-ship transfers of Venezuelan or Iranian cargoes that are known to occur in their coastal waters.

An AIS "switch-off" clause has already been mooted for counterparty contracts, as well as clauses that restrict ship-to-ship transfers because they obfuscate the origin and destination of cargoes.

There are already concerns about over-zealous and aggressive industry self-enforcement, unofficial blacklists and legal conflict.

Not only do secondary sanctions on Iran conflict with European Union blocking statutes, but sharing information with competitors about suspect vessels or practices could breach antitrust laws in some countries. Things could have been worse international shipping has much to consider — but things could have been much worse.

Original proposals put out for industry discussion by US State Department officials were deemed unworkable by those who participated in meetings and provided feedback. This guidance — with signals there is more to come — considerably waters down these first proposals.

US sanctions have crippled Iranian and Venezuelan crude exports for nearly 18 months, yet failed to leverage regime change. Nor has Ofac taken on China, the recipient of most Iranian cargoes. At this level, as an instrument of foreign policy, sanctions could be viewed as a failure. However, they are extremely effective in influencing and changing shipping industry behaviour.

An Ofac designation is a kiss of death for any business and it is this fear now driving sanctions compliance. On that level, Ofac sanctions are a success.

Star Bulk sees three-year scrubber payback at current levels

EVEN at current levels of reduced bunker consumption and a narrower-than-forecast fuel spread between very low sulphur fuel and heavy fuel oil, Star Bulk is projecting its investment in one of the shipping industry's largest scrubber investment programmes should pay back in little more than three years.

Company executives told an earnings call with analysts that at a current spread of $79 per tonne and a monthly fleet fuel consumption of about 60,000 tonnes, the company stood conservatively to make additional revenue of $24m in the remaining seven months of 2020.

In addition, Star Bulk has hedged 14,000 tonnes per month, which currently works out at about 22% of its monthly consumption, at an average level of $213 per tonne.

This was worth an additional $13m on the basis of today's liquidation price, the company's co-chief financial officer Christos Begleris said.

In a better dry bulk market, vessels speed up and therefore Star Bulk would be consuming higher quantities of bunkers.

"Even in this low market, we get our investment back in about three years, which is not bad," he told Lloyd's List afterwards.

Greece-based Star Bulk has completed its installation programme with scrubbers now certified and operational on 114 of its 116 bulkers.

The total investment has reached $212m, included final payments of $12m yet to be handed over.

The installations this year had been completed with "minimum delays" in spite of the coronavirus pandemic, according to the company.

Mr Begleris said that the company hoped that talks with lenders could double or triple the amount of additional liquidity that has already been raised from new refinancing approvals.

Along with posting first quarter of the year financial results this week, the owner gave details of new loan approvals amounting to $155m from three banks that would result in $27.5m in net proceeds being added to its balance sheet.

"We are working currently of the adoptions that may potentially result in one or two multiples of the liquidity that we have already stated we have obtained commitments for," he said.

"Let's see whether we are going to be able to get those commitments."

The company is trying to raise additional cash and avoid increasing interest costs, he said.

"Although the fundamental impact of IMO 2020 has been suppressed due to the demand shock and collapse of oil prices, we remain optimistic on the prospects of our scrubber-fitted fleet in the coming quarters," chief executive Petros Pappas told analysts.

He said that the company expects dry bulk market disruption due to the coronavirus to "gradually ease".

Dry bulk trade had "upside potential" in the next few quarters and freight was expected to improve once oil prices recover.

On the supply side, Mr Pappas said that smaller bulker categories are likely to benefit from slow steaming as there was lower scrubber penetration in the smaller sectors.

But Star Bulk continued expecting capes to "benefit the most" from a recovery in demand, he said.

Product tanker demand likely peaked as deviations slow

PRODUCT tankers are undertaking longer-than-anticipated voyages as charterers are forced to seek new buyers for unwanted cargoes, propping up demand and adding to tonne miles. But the drivers

behind such deviations have probably peaked, leaving only floating storage insulating the clean sector from a further earnings slump.

The unusual trades were outlined by Torm chief executive Jacob Meldgaard, who estimated that about 12% of the product tanker fleet was now tied up in floating storage.

Mr Meldgaard, who heads up the Copenhagen-based company and its fleet of 79 product tankers, estimated that some 90% of these clean-trading vessels were being used for floating storage for logistical reasons.

These floating storage percentages are higher than seen for the global crude fleet, with Lloyd's List Intelligence data indicating that 11% of suezmax tankers are deployed for floating storage, and 10% of very large crude carriers.

Speaking on a Marine Money webinar, the Torm executive cited 16% of clean-trading long range one tankers used for floating storage, 13% of LR2 vessels, and 10% of the medium-range tanker global fleet. This was due to "historically high product inventory build-up as demand collapsed as the coronavirus spread from China and Asia to the Middle East, Europe and the US", he said.

"Some of the Covid 19-related effects [on the product tanker market] have likely peaked and are behind us," he told the webinar. "However, we do believe that it will take some time before the inefficiencies in the market have been cleared completely."

About two-thirds of clean storage was based in the western hemisphere with about 40 medium-range and LR tankers currently storing diesel, jet fuel and gasoline in the northwest Europe region alone, according to Torm.

Indian and Middle East Gulf refiners are seeking new buyers for cargoes further away from their original destination, which is increasing tonne miles, he added. Tonne miles measure volumes shipped multiplied by distance travelled and are a proxy for tanker demand.

Tonne miles are expected to decline this year. Hafnia BW, which operates a fleet of nearly 200 product tankers, the first to estimate by how much. The company estimated this week during its first quarter of the year results presentation that seaborne product demand will decline to 2.79bn tonne miles in 2020, down from an estimated 3bn tonne miles the previous year. Hafnia's forecast for 2021 is 2.99bn tonne miles, above 2019's level.

Torm highlighted current disruption with examples of South American countries that typically import refined products, especially gasoline and diesel from Europe and north America, were exporting surplus cargoes to Asia. Mr Meldgaard said one Torm tanker chartered to load a cargo from the west coast of the US for a short trip to Mexico that eventually deviated to Australia, where a buyer was found. Another Mexican-bound US Gulf diesel cargo ended up sailing to the Mediterranean Sea.

Hafnia BW executives said they were still getting orders for deviation during the past six weeks, but that it was not as pronounced.

Both Torm and Hafnia did not provide firm estimates when stock-building would stop, refinery runs would increase and product inventories would begin to draw, impacting demand for product tankers. Already there are signs that gasoline demand was strengthening in the US, with most inventories of jet fuel and ultra-low sulphur diesel the slowest to draw.

Like most tanker owners, both focused on the very low orderbook for product tankers to offset negativity about rates and earnings on the second half of 2020 and going into 2021. The orderbook is estimated at 8% of the current fleet, according to the Torm presentation.

Navig8 Group expands into LNG shipping

NAVIG8 Topco Holdings, an Oslo-listed subsidiary of privately owned tanker operator Navig8 Group, has acquired 14% of outstanding shares in Awilco LNG, triggering speculation the company is to further expand its energy shipping empire.

Awilco LNG "is an obvious M&A candidate for someone interested in acquiring liquefied natural gas carriers at a massive discount to steel", according to an emailed report from Norway-based investment bank Cleaves Securities regarding the move.

The company owns two 2013-built LNG carriers now employed on the spot market, according to its first quarter of the year results, and reported profits of $2.7m.

Navig8 Group owns or operates an estimated 190-plus vessels ranging from chemical, product and crude tankers in a series of pools, with management owning about 70% of the Oslo-listed subsidiary, according to a prospectus. The company also owns Integr8 Fuels, a bunker trading and broking services business.

The LNG sector "faces a market trough until 2023/24", according to Cleaves, with the report adding that Awilco LNG is likely to breach its debt covenants by the fourth quarter of 2020 and run out of liquidity in 2021.

"Investing in Awilco LNG is highly risky given the circumstances but we find the risk/reward to be neutral," the report said.

Navig8 took a 6.16% stake in Awilco on May 22, followed by a further 7.7% on May 27, according to filings.

IN OTHER NEWS

RightShip's new Safety Score to replace unfair risk rating

RIGHTSHIP, the risk management and environmental assessment business, today unveiled its Safety Score. The initiative, which replaces the predictive Risk Rating and the Qi platform, will go live at the end of September.

The widely used Risk Rating analysed multiple data streams to build a picture of risk by predicting how likely it would be that a vessel would have an incident during the next 12 months, covering the most severe incidents happening at sea, such as fire or explosions.

In response to shipowner concerns that the existing rating is not only unfair and lacks transparency, but also encourages "star surfing", Rightship chief executive Martin Crawford-Brunt has spent two years consulting 100 industry stakeholders.

The new Safety Score has been designed and developed in accordance with shipowners' opinion and desire for a product that is explainable, transparent and includes factors over which the ship owner and operator has control. Owners are able to influence their score more directly and ensure that a proactive approach and commitment for rigorous safety is reflected in their Safety Score.

Asian shipowners urge 'key worker' status for seafarers

ASIAN shipowners have called on governments in the world to designate seafarers as key workers to assure their safe and timely repatriation amid the coronavirus outbreak.

The request added to the collective voices of other shipping associations — including the International Chamber of Shipping, International Federation Workers Transportation and the International Trade Union Confederation — for the relaxation of crew change restrictions globally. The trio had also earlier warned the United Nations of the potential for mental health problems and fatigue among seafarers.

"The ASA strongly urges all governments to implement the recent [International Maritime Organization] Circular Letter No.4204/Add.14 — Recommended framework of protocols for ensuring safe ship crew changes and travel during the coronavirus (Covid-19) pandemic — at their earliest opportunities, especially those countries which are major sources of seafarers and those which have been hubs for crew changes.

"This will eliminate the risk of interruptions to the transport of vitally needed food, clothing, energy fuels and other essentials for the world economy and people's daily lives," the organisation added.

ICS releases medical guidance after seafarers denied care

SHIPOWNERS group the International Chamber of Shipping has put out new medical guidance after reports of seafarers being denied care at ports.

The group said seafarers with non-coronavirus conditions, including strokes, had been denied medical evacuation for more than four days.

"This guidance should give confidence to national governments that crew changes can and must be carried out, especially when there are critically ill crew members on board," ICS secretary-general Guy Platten said in a statement.

The guidance covers topics including safe port entry, lessening risks and managing outbreaks of coronavirus on ships.

China Merchants bolsters subsidiary yard with $120m MPV orders

CHINA Merchants Energy Shipping has firmed up orders for four multipurpose vessels at an affiliated yard, as the country's owners increase their efforts to

support domestic state-owned builders.

The Shanghai-listed dry bulker and tanker owner arm said in an exchange filing that it had signed the contract for the 62,000 dwt quartet with Jinling Shipyard under the same parent China Merchants Group.

The vessels are priced at $29.6m each, with delivery scheduled for 2022.

The ordering plan was first unveiled in March this year when it was approved by the company's board meeting.

Stranded Cosco VLCC waits for rescue off South Africa

A COSCO Shipping very large crude carrier was reported to have been stranded off South Africa, pending tug assistance.

A Lloyd's List Intelligence casualty report shows 308,663 dwt *Yuan Hua Hu* encountering unidentified problems to the northeast of Port Elizabeth on May 25, 2020. Unconfirmed press reports suggested the tanker suffered an engine breakdown.

The China-flagged, 2015-built VLCC appeared to be drifting or moving at a very slow speed along the coastline near Port St Johns at 0147 hrs on Thursday, according to the latest vessel tracking signals. It left Singapore on May 10.

A spokesperson for shipowner Cosco Shipping Energy Transportation told Lloyd's List the tanker was anchored while the cause of the incident was still being investigated. The 27 crew members on board were safe, and no oil spill had been found from the vessel, which was on a ballast voyage from Singapore.

DP World seeks to integrate all terminals with TradeLens

DP WORLD has announced that it has completed the early stages of integration with TradeLens, the blockchain-based container logistics platform jointly developed by AP Moller-Maersk and IBM.

The Dubai-owned ports multinational added that it is seeking to connect all 82 of its marine and inland container terminals, as well as feeder companies and logistics divisions, with TradeLens.

Plans to collaborate with other DP World business units, including the feeder line Unifeeder, have also been initiated.

US federal court rules against City of Oakland's coal transport ban

A US federal court in San Francisco has ruled against a decision by the City of Oakland to ban the transportation of coal through the city, calling it a breach of contract and opening the way for exports to begin.

Two of the three judges on the US Court for the Ninth Circuit upheld the finding of a lower court that the city had breached its agreement with a developer by attempting to block shipments of coal through Oakland Bulk and Oversized Terminal.

The appeals court affirmed the earlier court's decision, finding the judge's ruling was not legally unsound or "clearly erroneous".

"In affirming, we do not opine on the ultimate issue of any alleged health or safety impact of OBOT's proposed plan," said US circuit judge Kenneth Lee, who wrote for the majority.

Wood Mackenzie sees China increasing oil demand in the second quarter

CONSULTANT Wood Mackenzie expects China's oil demand to reach 13m barrels per day in this year's second quarter, a 16.3% increase over the first quarter, with overall oil demand rising to 13.6m bpd for the second half of 2020, up 2.3% compared to the second half of 2019.

Demand in the second quarter this year is expected to be about 2.5% lower than the same period last year, with the pace of recovery differing among oil products. China's demand for gasoline and diesel is expected to increase year on year from the third quarter of this year onwards.

Wood Mackenzie research associate Pei Yuwei said the Chinese government had gradually lifted its coronavirus containment measures since April, especially restrictions on social, commercial and travel activities.

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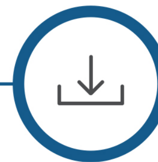

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