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Does China's security law threaten Hong Kong's shipping charm?

HING CHAO SEES Hong Kong as a "middle ground" between China and the US, two superpowers interconnected in trade and finance yet fundamentally different in their politico-economic systems.

The outcome of this is that, "Hong Kong becomes a point of contention as US-China tension continues", says the Wah Kwong Maritime Transport chairman.

Mr Chao's family, one of Hong Kong's largest homegrown shipowner house names, has been a beneficiary of the prosperity of the former British colony and a now Chinese special administrative region.

The city's prominence as a leading maritime centre may have been stolen somewhat by Singapore during the past two decades. But boasting a good combination of open trade, independent legal systems and free capital flows, the place often dubbed as "where East meets West" still provides a god-given harbour to those making a living in shipping and many other many industries.

Now, people living in this melting pot appear increasingly impelled to pick sides. Beijing's recent push to impose a new national security law in the city has deepened concerns over what its future might hold.

It is a sensitive issue for the local business community that tends to shun political controversy. Some have spoken out about their unwavering confidence in the Asian maritime hub. Others are reluctant to put on record their upset and pessimism that may displease the country's policy makers.

President Donald Trump's administration has recommended Hong Kong lose its special trade territory status over Beijing's assertiveness. The move, in Mr Chao's view, reinforces US's intention to decouple China as its major trading partner.

"This is unrealistic and will be extremely harmful to both Hong Kong and China, but ultimately it may harm the US even more," he says.

Analysts have reminded the US that its trade surplus with Hong Kong — standing at $33.4bn in 2018 — is the biggest among all its trading partners. Still, a revoking of the customs status could still lead to losses of some US-bound transhipment activities at the city's container port that is already on a decline.

However, Hong Kong's role as a shipping hub goes far beyond the port and what meets the eye, according to Mr Chao, who is also an executive committee member of Hong Kong Shipowners Association.

He cited examples of a revival in Hong Kong shipping from his own observations and experiences during the past few years, where a positive shift has again started to attract new commercial principals to the city, while China's national policies such as the Greater Bay Area, Belt and Road Initiative, and to develop an ocean economy, have also benefited and made Hong Kong more attractive as a place to conduct shipping business.

"I do not expect Hong Kong to be knocked off this trajectory," he says. "And so long as China is doing international trade and continues to import and export on a significant scale, Hong Kong will continue to have value as the most important strategic 'super connector' between China and the world,"

The optimism is echoed by Arthur Bowring, former HKSOA managing director and president of the Hong Kong Maritime Arbitration Group.

Hong Kong remains in a "perfect position" to run a shipping business, with a prime location to travel, a speedy internet to communicate and major ability to finance with the setup of Chinese banks, he argues.

"So, when you look at the hostile threats to Hong Kong politically or trade wise, I can't see that very much takes away Hong Kong's attractiveness."

Mr Bowring adds that the SAR is the also only common law jurisdiction in China that can contribute greatly to the country's maritime world.

This is showcased in a 2019 court agreement, he says, which gives parties in Hong Kong and China Mainland seated arbitrations a direct route to apply for interim measure in each other's jurisdiction. HKMAG is among the institutions qualified for the applications.

"Hong Kong will remain major benefits to China by keeping our legal systems intact."

Some beg to differ, however

But some have called into question that very intactness, pointing to a widely shared fear that the national security law will erode the city's judicial integrity which underpins its success.

The proposed legislation, which could be enacted as soon as August, will strike yet another blow to the independence of Hong Kong's legal systems, following Beijing previous interventions, according to a locally based senior maritime figure who works for a multinational advisory group.

"It puts a dent in the attractiveness of Hong Kong for international business, because out of all the Asian locations it's really the only one that truly had independent courts where you could take a case against government and have some chance of winning," the source said. "I would imagine some international companies, such as lines and legal outfits, would have an adverse view of it."

The prospects, however, would look much bleaker should Washington escalate the tension and opt for the "nuclear option" to segregate Hong Kong from the US dollar clearing systems, he adds. "That's a very, very big stick that the US can wield, which would fairly cut Hong Kong off at its knees."

The fears are even surfacing among the Chinese leasing houses — a major force in today's ship finance arena — many of which are using Hong Kong as the key hub to deal with their US-denominated transactions.

One yard-backed leasing executive says his company is concerned about the situation, as its entire overseas deals are processed by Hong Kong's financial systems.

Another leasing firm, part of a leading state-owned Chinese bank, has now shelved a plan to establish a shipping subsidiary in the semi-autonomous territory, Lloyd's List understands.

The Hong Kong government is in the middle of approving a tax relief aiming to boost the city ship finance sector by alluring shipping lessors from China.

"If the proposed concessionary tax regime is put in place, it is estimated that Hong Kong could capture 12% of the global ship financing market in 10 years' time, representing a HK$265bn to HK$460bn cumulative increment in ship finance business," wrote PwC in a January briefing this year.

Neighbouring shipping and financial hubs will be dusting their welcome mat for migrants, some have suggested.

Pradeep Rajan, head of Asia Pacific Shipping & Freight at S&P Global Platts in Singapore, says the restriction of using US dollars in Hong Kong may see banks based out of two top financial capitals in the West — New York and London— cut links with the SAR and withdraw credit to local shipping firms.

"That could see these companies experiencing a squeeze on their business operations," he said. "Seeking better conditions, such as a more stable political regime and favourable tax environment, they may choose to move their operations to Singapore or, as we hear from some of the shipping market participants based in Hong Kong, are exploring the possibility of moving out to Taiwan as well."

Will US take such an extreme course of action?

That said, many have expected the US to refrain from taking such an aggressive step as it will also inflict great damage to its own interests, with scores of US and multinational companies headquartering their Asian business in Hong Kong.

A shipping dispute lawyer at Hill Dickinson, Edward Liu says that Beijing's national security law would not damp Hong Kong's investment outlook. On the contrary, it will bring in the much-need stability for the society to better grow its economy.

"I cannot see any reason why we should worry about a piece of legislation which, fairly speaking, has been in place in many other countries for years, including the US, the UK, Singapore as well as mainland China," says Mr Liu. He said that in mainland China, despite the implementation of its National Security Law in 2015, there was no decline but only growth of foreign direct investment.

"Everyone including foreign investors will benefit from the social stability under the continued principle of 'one country, two systems', which is in tune with border national interests," he added.

If true, it should bode well for companies like Wah Kwong, which runs more than 20 dry bulkers and tankers. In recent years it has developed a successful relationship with the Chinese leasing lenders by assisting them operating and managing a growing fleet of their vessels.

"Hong Kong's financial position has been built upon decades of foundation, and will not be shaken by a single act, while its many advantages will remain," said Mr Chao.

But his confidence is also laced with caution.

"Is the US really ready to decouple with China? I am not so sure, but in today's extremely volatile political environment, the increasingly embattled position President Trump is in, as America descends into a Hobbesian world of Leviathan in the wake of George Floyd's tragic death, and given that it is election year, he may decide on an extreme course of action as a diversionary tactic," he says.

WHAT TO WATCH

Slow adoption of crew change protocols is a ticking time bomb

GOVERNMENTS are risking shipping safety by not implementing crew change facilitation protocols quickly enough, according to senior industry figures.

While around 50 countries have signed up to the 12-point industry plan to allow crew changes issued a month ago, slow implementation of plans have left the vast majority of seafarers either stranded at sea or stuck at home due to travel restrictions.

Only 25% of the 400,000 seafarers due for changeover have been repatriated, according to an industry source.

The mounting crisis is the subject of increasingly urgent industry interventions at senior government levels as officials race to push through changes before the June 16 emergency extensions to many of the labour agreements governing seafarers' contracts expire. “This is a ticking time bomb that needs to be sorted out at a political level, now,” International Chamber of Shipping Secretary General Guy Platten told Lloyd’s List on Monday.

Despite a unified industry approach to facilitate crew change supported by unions and the International Maritime Organization, the pace and scale of the adoption of the plan has been lower than expected.

“The speed and scale of action needs to increase significantly if we are to relieve the seafarers trapped across the globe due to the continuing imposition of travel restrictions,” said Mr Platten.

He added: “Many of these seafarers have extended their contracts again and again to ensure that countries are kept supplied with food, fuel and vital products, including medical supplies.”

For International Transport Workers’ Federation and International Maritime Employers’ Councilworkers, the double extension of contracts beyond the usual regulated timeframe comes to an end next week and repeated extensions is not a sustainable option.

About 25% of seafarers from 1,200 in a survey have been at sea for 10 months or longer.

Based on comments seen online by Lloyd’s List on several platforms, seafarers are growing tired and restless, saying that change will only come through action.

There are increasing calls by those who have been working at sea for prolonged periods, to, in a sense, down tools, because they are fed up, fatigued, stressed and anxious, and would like to get home to their families. Unions have said they would support such action.

Some of the reasons why uptake of the protocols has been slow is that while maritime authorities may be on board with the recommendations, health authorities, who have the final say, are less convinced, an industry source told Lloyd’s List. Combined with that are local laws and regulations, and bureaucracy, which make repatriation difficult.

David Hammond, founder of Human Rights at Sea, said that until such time as global states have “a common approach to expedite crew changes in a safe and responsible manner, maritime trade will slow down or may even come to a halt”.

If the 12-point plan is not executed, crew fatigue will mean ships would be at risk of not being operated safely, contravening the standards set by the Maritime Labour Convention, which may have “significant impacts on insurance premiums in years to come”.

“While ports are opening up, such as Singapore, the numbers are tiny, and the single blockage is a lack of a consistent, collective approach along the entire global infrastructure chain,” he said. “It will be crews left holding the can.”

In a joint letter to UN secretary-general Antonio Guterres, the ITF and ICS said that as thousands of seafarers “face exhaustion at the helm of critical supply routes, the clock is ticking for governments”.

“Time is running out,” it said in May, adding that action needed to be taken ahead of the agreed deadline for crew changes of June 16.

“It’s time for governments to open their hearts, and open their borders, to the world’s seafarers. The alternative is exhausted crews and the shutting down of global trade. The world can’t afford that.”

The ITF said a protest may take place in front of government buildings in Hong Kong on June 9 to highlight the plight.

UN agencies — the IMO, ILO and ICAO — urged governments to recognise seafarers as key workers, exempt from travel restrictions.

A fraction repatriated

Intermanager said it has launched a Maritime Champions Club which showcases the number of seafarers who have travelled. Wallem Group, meanwhile, said it has managed to repatriate more than 900 since March 1.

Singapore announced its first full crew change since restrictions were put in place to halt the risk of coronavirus spreading.

Under a new eased crew change protocol developed by the Singapore Crew Change Working Group, 19 Indian crew disembarked and are on their way home travelling on a chartered flight from Singapore to Colombo and then on to India. Their replacements, made up of 14 Sri Lankans and four Indian seafarers, who arrived in Singapore from Sri Lanka using the same chartered outbound flight, signed on the same day.

Most of Africa, South America, Latin America and ports in the Middle East are still closed to crew changes or shore leave, according to Wilhelmsen Ship agency. In the Caribbean, only Barbados appears to be open for crew change subject to certain conditions.

Maritime union Nautilus International has highlighted the plight of the seafarer.

Its secretary-general Mark Dickinson said there are reports of an increase in anxiety, depression, of suicides and hunger strikes. There also reports of resignations, of refusals to sail. A chief engineer, who been on board for more than nine months, recently quit because of safety concerns. Seafarers "must not be deprived of the basic human rights that everyone else benefits from. They need to be allowed home now, because the line between workers' rights and forced labour is a very thin one".

Singapore leads the way with first full crew change

SHIPPING'S crew change situation is finally starting to see some improvement with the first full crew change being carried out at Singapore at the weekend, facilitated by Wilhelmsen Ships Agency for the Synergy Group-managed bulk carrier Genco Liberty.

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Meanwhile, their replacement colleagues made up of 14 Sri Lankans and four Indian seafarers, who arrived at Singapore from Sri Lanka using the same chartered outbound flight, signed on the same day.

OPINION

Time for the energy manager

AS WE embark on a new decade, many are thinking about what the 2020s have in store for their career, their company, the planet and more, *writes Peter Boyd, a senior adviser to BLUE Insight*.

There is one job in particular that is on the rise, with key trends building a strong case for promotion for individuals charged with managing fuel procurement, to "energy manager" and a strategic seat that is that bit closer to the chief executive.

While arguably slower to start than some industries, the shipping industry is showing signs of tackling the climate change challenge head on and at multiple levels.

The International Maritime Organization's decision in April 2018 to reduce shipping's carbon intensity by 40% by 2040 and greenhouse gas emissions by 50%, compared with 2008 levels, by 2050 has already contributed — presumably in a significant way— to the world's largest shipowner and operator, Maersk, setting its own emissions target net carbon zero by 2050.

Another indicator of initial progress can be found in the BLUE Insight Low Carbon Shipping Fuels & Energy Guide, which includes 47 organisations (almost none of which would be considered part of the current "bunker industry") developing and investing in low or zero-carbon energy for shipping.

When Maersk publicised its ambition to be Net-Zero by 2050 it was doing this for reasons beyond environmental stewardship. But it was also good business sense to signal to its customers that it intended to be the partner of choice for environmentally progressive and cost-effective shipping.

More interestingly, they also know it needs strong partners, so it served as an advertisement to join them on the journey.

A further signal that the issue and opportunity of addressing climate change is rising up the chief executive and board agenda is the adoption of the Poseidon Principles by a prominent group of shipping investors.

These momentum trends of economic, political and regulatory drivers to progress brings us to the upcoming decade of the energy manager.

The fuel manager, or head of fuel procurement, has always been an important position, handling large transactions for an important part of the operations of any shipping company — a single cheque for a single voyage could be many millions of dollars, with the annual fuel bill of a large ship operator running into the billions.

But the regularity and repetitive nature of the task may have resulted in this position being confined to lower and middle management in most charterers, and their issues and opportunities may not have often risen past their immediate line of management.

As we look to the next decade, the same fuel manager now has to make complicated, geographically nuanced recommendations to senior management about how to comply with new low-sulphur, and impending decarbonisation, regulations.

This suite of choices is also not just a fuel procurement and pricing challenge; the where from, and how much, is coupled with a hedging strategy to ensure price stability and regulatory compliance in multiple jurisdictions.

There is also the choice of scrubber compared with fuel choice as ways to comply with these regulations, with the nature of the cargo routes and contractual relationships.

In addition to fuel procurement and scrubber technology there are added dimensions for the 2020s.

LNG may be a viable choice for certain A to B routes given technology and logistics developments with very localised learnings. Over a broader economic transition to net zero during the 21st century McKinsey & Co expects gas demand to peak by 2035, so as the world increasingly comes to terms with the environmental task at hand, gas strategy will also evolve for those on land and on sea.

Projecting forward over the next 10 years, this role could also be investigating technological assistance and even replacement of conventional fuel sources — including some of the low-lying technologies, as well as more innovative ones such as wind power and air lubrication — while also advising internally on which new energy sources — such as ammonia, bio-LNG, hydrogen and batteries — to support, factoring in their scalability, impact on society (for example, are new fuels taking up vital food sources?), as well as safety.

To conclude, while the work of the fuel managers of the world's largest shipping companies and their customers is already complicated, wide-ranging in scope, and overseeing significant budgets; their important work is now becoming increasingly visible to the C-suite and their boards.

As the top levels grapple with the strategic risks and opportunities of addressing climate change and ensuring long-term viability of their businesses, the newly promoted energy manager will be in a key spot to advise how best, in the broadest sense, 95% of the world's goods should be sustainably shipped to where they are needed.

ANALYSIS

West Africa now global hub for clean floating storage

WEST Africa is now the world's floating storage centre for clean products, with 73% of unsold or surplus gasoline, diesel and jet fuel now on tankers at anchor off Togo or Lagos, Nigeria.

Around 21.7m barrels of product is tracked being stored on 33 tankers outside these ports, according to data from Lloyd's List Intelligence.

Global clean storage is assessed at 29.7m barrels on 51 vessels, data shows. The figure excludes Iranian-owned tonnage now being used for floating storage which is unable to trade because of US sanctions.

Oil traders have increasingly used West Africa as a clean products transhipment hub in the past few years as cargoes are shipped from east to west around the Cape of Good Hope on larger tankers.

The tankers, including some very large crude carriers on their first voyage, store primarily middle distillates and other refined products, with the area used as a waiting or transhipment zone until sales are concluded. Cargoes are then placed on smaller vessels via ship-to-ship transfers and sail to their final destinations, usually northwest Europe.

Volumes in storage off West Africa surpass those seen off Southwold on the UK's east coast, which until now has been viewed as the Atlantic's largest floating storage hub.

During 2015 and 2016, when oil product prices were in contango and promoted floating storage, the majority of the ships were at anchor around Southwold in the North Sea.

The waters were viewed as safe haven for not only laden vessels, but for vessels in lay-up or without employment. The region is also regularly used for STS transfers, and some 10 clean and crude cargoes are currently seen in the waters off the port for the past 20 days or more.

This time West Africa is in the middle of the global surplus of refined products, as slower European demand for land transport fuels leaves oil traders and refiners with unsold cargoes.

The market contango, when the future price is higher than the spot price allowing traders to buy and store on ships for later sale at a profit, narrowed over the past four weeks, making it unlikely that all vessels are being used for this purpose.

Global demand for jet fuel has crashed and is at 20% of levels seen before the coronavirus lockdown, while gasoline and diesel demand is being closely watched to determine the size and scope of any rebound.

The winding down of inventories, including those on tankers, is among the first indicators of any market rebalancing.

In addition to clean products, crude from Venezuela is also tracked being shipped to offshore of Togo's capital city Lomé in greater volumes since the end of 2019, where it is held in floating storage on tankers awaiting sale to Asian countries. Often these cargoes are transferred on to other tankers for the last sector of the voyage.

Vessel tracking shows a handful of crude cargoes in floating storage off West Africa.

Overall, floating storage of clean and crude cargoes has risen to a record 292m barrels on 130 tankers, gaining 24% over the past month. When Iranian-owned or controlled vessels are removed, that figure is calculated at 193.8m barrels, according to Lloyd's List Intelligence data. The rise reflects port discharge delays amid a continuing shortfall in land-based storage which has added more tankers to the floating storage list once they have been waiting for 20 days or longer.

A further four very large crude carriers and three suezmax tankers off Indian ports were added this week, in addition to the addition of 11 more waiting around Singapore and Malaysia pending sales or orders to sail to a final destination.

Pandemic has regional impact on port call numbers

REGIONAL differences are becoming much more pronounced as the world's ports respond to the coronavirus pandemic, according to the latest Port Economic Impact Barometer from the International Association of Ports and Harbors and the World Ports Sustainability Program.

At a global level, 45% of the 104 ports surveyed reported they were facing in a fall of more than 5% in the number of containership calls because of increased blanked sailings by container lines.

"This figure has been fluctuating between 40% and 53% since the start of the survey with no clear trend observed," the report said.

"However, the regional results clearly demonstrate that the situation in Europe peaked in week 19 and has shown gradual improvement since then. In the Americas, where the full impact of the coronavirus outbreak has been felt later than in Europe, there are no clear signs yet that the situation is improving."

Globally, only 6% of ports face a decline in boxship calls of more than 25%, the report said. This is down from 10% earlier in the crisis, but again, ports in the Americas appeared to be suffering more than those in Europe.

"Several ports reported that with the lockdown period of the respective economies over, they head towards increased economic activities compared to past weeks," the report said.

"Even when the quarantine period has been reduced, more vessels are calling and turnaround has improved. The forecast of a return to normality in some other economies is not foreseen until the middle of June, which explains the persistently lower numbers of calls."

The pandemic is also having an impact on port calls by other types of cargo vessel. Globally, 42% of ports reported a decrease of more than 5% in the number of cargo vessels compared with normal circumstances.

"European results show a peak in week 19 followed by gradual improvement in the past few weeks," the report said. "The situation in North America is getting worse, while no clear trend could be observed for central and South America."

But even in Europe, some ports have reported that although container vessel calls have slightly improved, the volumes of goods continue to drop, as do the number of liquid bulk calls.

For others, however, the situation is heading towards a "business as usual" scenario.

"Overall, a very fragmented situation for container shipping is becoming evident: some alliances have revamped services, while others are keeping cancellations," the report said. "Some are keeping high-frequency feeders to major regional ports. A new regional concept for transhipment appears to be emerging."

Will the coronavirus pandemic end globalisation?

TARIFF reductions, the alleviation of trade restrictions, and technological progress in transport and communications led to world trade in non-carbon goods growing from 4.2bn to 8bn tonnes in the decade to 2019.

Globalisation and pandemics are old acquaintances. For example, the introduction of "quarantine" measures in Venice some 600 years ago. But air travel, the internet, trade liberalisation and falling freight transport costs have made countries much more vulnerable to extreme health or financial events on the other side of the world.

The coronavirus pandemic coming in the wake of the 2008/2009 financial crisis and the 9/11 attacks have strengthened arguments for nationalism once more, while highlighting the fragility of the global supply chain.

Governments are now preoccupied with establishing policies to protect their citizens from the coronavirus. However, a failure to repair the current liberal trade system may have more severe economic consequences in the long term than those caused by the pandemic.

The trend towards regional trade agreements such as the Progressive Agreement for Trans-Pacific Partnership represents a step away from the present more integrated global trade system and will leave barriers in place for non-partner countries, reducing overall global standards of living.

The current health crisis has also disrupted supply chains. Companies are looking for alternative suppliers at home, accepting higher prices and therefore potentially leading to a reduction in living standards. The changes in suppliers might become permanently fuelled by an increasing political drive to be less dependent on international trade.

For governments, however, to feel confident in excluding the idea of rejecting a departure from liberal trade, and convince the electorate on why this is a more advisable course of action, they too, need to recognise how damaging the ending of liberal trade would be.

But merely to guarantee a longer life to liberal trade should not be seen as the end of the process. Several of its current features need adjustment. Most important is the reformation of the World Trade Organisation, but also a need for national policies to respond to globalisation and its imperfections.

One of the major factors weakening the role of the WTO is the increasing influence played by China on a global stage. When the WTO's members allowed China to join the organisation in 2001, the western economies believed that its membership would sustain and accelerate its transition into a market-based economy, bringing socio-economic advantages for China as well as for the countries trading with it.

It is though undeniable that China's openness to the world has had positive impacts. Cheaper exports from China have been an important factor in lowering the cost of living in Western economies, while millions of Chinese have been lifted from poverty. However, China has not become an economy based upon the market rules practiced in the west as envisaged in 2001, and is never likely to be as its government maintains its central role in its economy.

Container lines increase third-quarter blankings

CONTAINER carriers have begun to announce further blankings for the third quarter, as the sector tries to hold on to the increased freight rates it has been able to achieve during the health crisis.

Figures collated by Sea-Intelligence show a sharp increase in announced blankings for the third quarter across the combined major deepsea trades ex-Asia to North America and Europe.

“It is very clear that the plateau we had reached for the second quarter has now seen a drastic upwards change,” Sea-Intelligence said.

It said for these trades alone,15% more capacity has been removed from the market in the past week as the amount of blank capacity increased from 3.4m teu to almost 4m teu.

“This also means that the amount of capacity removed from the market in 2020 is now more than three times larger than the amount of capacity which was removed due to Chinese New Year,” it said. “This increase is principally driven by a sharp increase in blank sailings for the third quarter.”

While some blanked sailings have been reinstated on certain trades over the past weeks, these had only served to reduce the number of cancellations, but “by no means indicate a reversal to normal market status”, Sea-Intelligence said.

“The data clearly shows that reinstatement of capacity cannot in any way be interpreted as a sign of strong demand. That we are now seeing full ships on some trades, and even cargo rolling in ports in Asia, is clearly an indication that too much capacity had been removed, but not an indication of a reversal to norm.”

To date, capacity management has served carriers well in terms of maintaining and even increasing freight rates.

Despite volumes falling 5.7% in the first quarter alone, and 16.7% in April, freight rates have in April were 12.1% higher than in the corresponding month in 2019.

“General rate increases seen at the start of the month in the container freight markets appear to have stuck, despite concerns about a potential dip in cargo inquiries into July and August,” said analysts at Platts.

“Previously the market had been waiting for a spike in demand into summer, the typical peak season, but this no longer is expected to materialise. Despite this, there are drastically fewer void sailings being employed by carriers into July and August at this stage, although some of the cancellations seen in the year to date are being extended.”

BIMCO chief shipping analyst Peter Sand said that the drop in demand for container shipping had not been fully registered in freight rates due to the “steep and fast-paced capacity adjustments” that had supported rates while hiding the real demand picture.

“Maintaining some stability in freight rates has only been achieved by large capacity withdrawals from the market, with blanked sailings sending the idle container shipping fleet to record highs of 11.3%,” Mr Sand said.

“The large idle fleet has, so far, been enough to support freight rates, temporarily hiding the losses for carriers. While savings are made by not sailing — with voyage costs and some operating costs avoided — the empty ships are still generating a loss on a daily basis, with some of the operating costs still present and financing costs unchanged, while not providing any income.”

Bleak capesize market hit by Vale mine closures

THE decision by a Brazilian court to reinstate an order to suspend activities at Vale’s Itabira mining complex in Minas Gerais state have added to the capesize sector’s woes.

The ruling came as dry bulk spot rates surged by 35% by last Friday, spurred by capsizes, which saw rates improve 117% to $7,307 a day, although they are still languishing at levels below operating costs for the segment.

Limited activity from Brazil has already hit freight rates since the beginning of the second quarter of the year and ships have been slowing down or idling in greater numbers by the Cape of Good Hope in anticipation of a recovery later in the year.

Vale has reaffirmed that the stoppage would not affect its iron ore output guidance for the year at 310m to 330m tonnes, despite being ordered to close three mines at its Itabira complex.

However, the mining giant said it is keeping its monthly production forecast at Itabira at 2.7m tonnes for the next few months.

Overall potential output losses associated with the coronavirus pandemic this year were kept at up to 15m tonnes, according to a regulatory filing.

Closing of the three mines operated by Vale at Itabira is likely to put more than 10% of its iron ore output offline.

The complex accounted for 42m tonnes, or 2.5% of the total global seaborne iron ore market in 2019, but has been operating at a reduced rate of 6m tonnes since the first quarter of 2020 because of unscheduled maintenance, according to Deutsche Bank.

"It is important to note that some of this lost production goes into making pellets and also domestic use, so the read-through to seaborne demand is not perfect, but clearly negative," said Deutsche Bank shipping analyst Amit Mehrotra.

"This is clearly a notable negative for dry bulk shippers, many of whom have endured historically low rates since the start of the year."

As China usually plays catch-up after this kind of disruption, iron ore shipments from Brazil should increase in the latter part of the year especially with the latest tensions with Australia, a Singapore based broker said. "But much will depend on when the Chinese start buying cargoes again."

Falling consumption hits UK port volumes in first quarter

A DROP of 1.7% in UK household consumption in the first three months of 2020 was the biggest quarterly fall since 2008, according to the British Ports Association.

It said significant falls in production and consumption were starting to be seen in its figures, which showed a bleak economic outlook for all sectors with some signs of recovery.

Ro-ro traffic volumes fell 12.4% year on year, while unaccompanied freight volumes were down 9%, as the pandemic hit the car carrier trade.

Citing data from the UK Department for Transport, the association said ferry passenger travel between the UK and the Republic of Ireland fell 7.2% in the first quarter of the year, while travel between the UK and mainland Europe fell 25.8% as travel curbs started to take effect.

"We are discussing options with government regarding the possibility of establishing 'sea bridges' with neighbouring countries where the Covid-19 risk is low, which we hope could lead more passengers to opt to travel by ferry, avoiding complications brought by aviation," said chief executive Richard Ballantyne.

He said the fall in household consumption would have a "significantly detrimental impact on UK businesses and ports, with a particular slowdown in containerised imports".

"However, demand for consumer goods should soon be re-established as the retail sector reopens in accordance with social distancing guidelines," he added.

British car production fell 99.7% in April, with only 197 units made, according to the UK Society of Motor Manufacturers and Traders. Year-to-date production was down 27.6%, with 121,811 fewer cars built and the BPA expected fewer than 1m units produced in 2020.

Lost production would cost the sector £12.5bn ($15.8bn), the BPA said. Port Centric Logistics Partners partner Stephen Taylor said the re-opening of car showrooms last week would help the sector, as would an expected recovery in overseas demand.

Mr Taylor said the full extent of the coronavirus on the economy would not be known for some years and in many cases the damage was still being done.

The BPA said construction output fell 5.9% in March, the biggest month-on-month decline since monthly records began in January 2010. The association said 64% of port construction projects were paused, 15% had slowed and 8% were cancelled.

UK crude oil production fell 5.4% in the first quarter of 2020, while coal imports fell to 1.1m tonnes, 60% below the same period last year.

Many port operators were "in real trouble" from falling revenue as declining seafood prices deterred fishermen from taking boats out, the BPA added.

IN OTHER NEWS

UN Ocean envoy urges shipping to embrace 'sustainable blue recovery'

THE United Nations Secretary-General's Special Envoy for the Oceans, Peter Thomson, has called on governments, shipping industry officials and individual shipping companies to usher in sustainable era of circular economies when rebuilding from the current economic and societal upheaval.

Speaking to Lloyd's List to mark World Oceans Day on Monday, Mr Thomson made the case for ensuring a 'blue-green' recovery following the coronavirus pandemic, urging the shipping sector in particular to accelerate its decarbonization progress ahead of the 2050 targets.

"We all have to understand that it's an existential matter for humanity that we can't have a healthy planet without a healthy ocean and the ocean's health is in decline," said Mr Thomson. "The prime cause of that is our anthropogenic greenhouse emissions and the message to shipping is clear — we have to reach that net-zero carbon world by 2050."

Industry backs moves for better dry bulk safety standards

THERE is wide consensus in the dry bulk sector that safety standards need to be improved, yet the mechanism for improvement has been a long time coming.

Between 2010 and 2019, a total of 39 bulk carriers were lost along with 173 seafarers, according to the latest statistics from Intercargo. The industry body has been working towards a safety standard; so has RightShip, a commercial business.

Last year, David Peel, RightShip's manager for the Europe, Middle East and Africa region, hired Luke Fisher to lead the Dry Bulk Management Standard (DBMS) project.

Temasek-backed lifeline proposed for Sembmarine

TEMASEK Holdings is backing a plan to recapitalise Sembcorp Marine that will see the Singapore sovereign wealth fund emerge as a direct shareholder of the now loss-making yard group.

The plan involves Sembcorp Industries and Temasek undertaking to subscribe to up to S$1.5bn ($1.1bn) and S$600m of rights shares to be issued by SembMarine.

The stock will be priced at S$0.20, or at a discount to Sembmarine's last traded share price of S$0.85 on June 3, and will be allocated on a ratio of five new shares to one existing share held.

DSME secures $748m Russian Arctic LNG transhipment facility order

RUSSIAN plans to tranship liquefied natural gas in the Arctic are set to go ahead with a Won900bn ($748m) order at Daewoo Shipbuilding & Marine Engineering to build two LNG barges from a Russian company.

The company said in an exchange announcement that the floating LNG barges are meant to be a facility to tranship LNG from LNG icebreakers to LNG carriers and will be delivered to the area between Murmansk and the Kamchatka Peninsula of Russia by the end of 2022.

It has previously been reported that Russian gas producer Novatek, operator of the Yamal LNG export facility, is in talks to set up transhipment hubs in Norway or Russia's Murmansk port.

India's Petronet backs away from Driftwood LNG offtake

A LIQUEFIED natural gas supply deal between US-based developer Tellurian and India's Petronet has lapsed as prices for the supercooled fuel fell through the floor.

Tellurian confirmed at the weekend that a Memorandum of Understanding with Petronet for the supply of 5m tonnes of LNG from the planned 27.6m tonnes per annum Driftwood LNG project has lapsed, a report said.

The execution of the MOU had been deferred for two months from March 31 to allow Petronet extra roon to review the deal, which also called on the Indian buyer to inject equity into Driftwood Holdings, a Tellurian-owned vehicle for the project.

Keppel OM defers deliveries on 5 Borr Drilling jack-ups

KEPPEL Offshore and Marine has agreed to defer deliveries of the remaining five jack-up rigs in Borr Drilling's 11 rig order until 2022 as part of a broader restructuring deal the offshore company has secured with its other creditors.

Keppel O&M said in an exchange announcement that its Keppel FELS unit will defer delivery of one of the rigs to the second quarter of 2022, while the remaining four rigs are to be delivered by the third quarter of 2022. In addition, Borr Drilling will pay holding costs and/or cost cover in respect of all the deferred deliveries.

Three out of the five rigs were originally scheduled for delivery in the third quarter of 2020 and the remaining two rigs by the first quarter of 2022.

Steve Parks, maritime agency professional and founder of Wake Media, dies at 45

STEVE Parks, founder and managing director of Wake Media, the UK-based maritime communications agency, has died. He was 45.

"Today has been an extraordinarily tough one for us all at Wake Media," said Wake Media senior account manager Steve Edwards. "He truly was one of a kind with a passion for life and for everything maritime."

Mr Parks had a successful career with more than 20 years' experience that began in advertising sales. He was appointed group sales manager at Marine Propulsion magazine in 2003, joining Riviera Maritime Media in 2007 as sales and development director.

Classified notices follow

U.S. DISTRICT COURT - SALE BY AUCTION

Bulkcarrier "SAM EAGLE"

Abt 32,581 DWT on 10.15M Draft. IMO 9559676. Built 01/2010 Jiangsu Zhenjiang Shipyard Co Ltd.
Class BV special survey overdue since 10 April 2020. AUT-UMS.
179.9m LOA, 28.4m Beam. 5Ho/ 5Ha. Abt 43,483 cbm grain. MAN-B&W 5S50MC 9,721 BHP
Cranes 4 x 30.5t

The above and any further particulars which may be given by the US District Court for the Southern District of Texas or by CW Kellock & Co Ltd are and will be given in good faith but no responsibility is accepted for their accuracy. Purchasers must make their own independent enquiries.

The vessel is lying at anchor off Corpus Christi, Texas, and is to be sold free of all liens, claims, mortgages and encumbrances, by video conference internet auction (bids may also be submitted to CW Kellock & Co Ltd as sealed bids in writing before the sale) conducted at 09:00 hrs Central Daylight Time (15:00 hrs British Summer Time) on

Wednesday 15 July 2020.

A condition survey has been carried out and a report and photos are available to prospective buyers. Buyers requiring more information or wishing to conduct their own inspection should apply to the **exclusive Court appointed auctioneers and brokers:**

CW Kellock & Co Ltd – Shipbrokers, Auctioneers and Valuers
2 London Wall Buildings, London EC2M 5PP
Phone +44-7881 815179 or +44-7768 735634 kellock@eggarforrester.com
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