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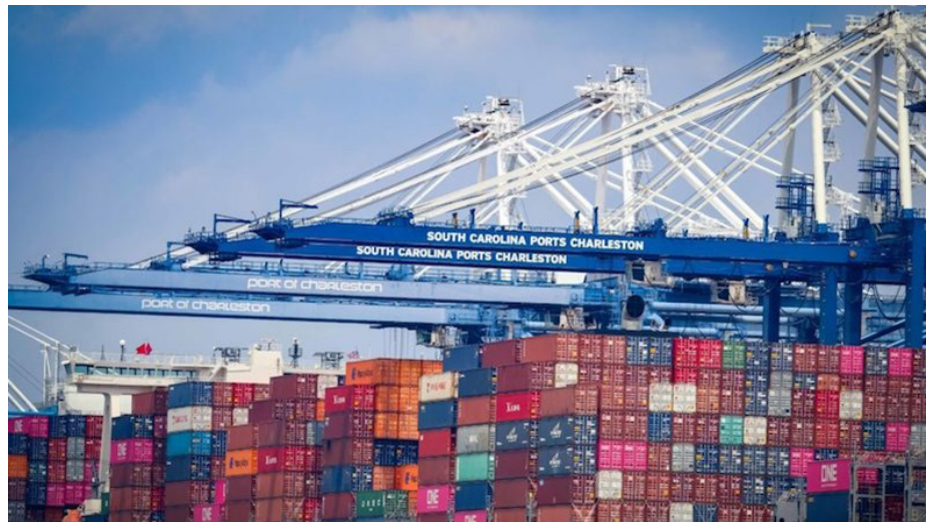
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## Container shipping 'past the worst'



THE CONTAINER SHIPPING industry is 'past the worst' of the demand impact caused by the coronavirus pandemic, according to analysts.

Evidence suggests that nearly all trades are on the road to recovery, while capacity discipline demonstrated by carriers is showing no sign of any let-up which should ensure freight rates maintain their consistent level, according to a Maritime Strategies International market report.

Liftings data for April and May confirmed how lockdowns enforced globally at the peak of the pandemic weighed heavily on container demand, "but not more than generally expected," the report said.

In April, key longhaul trades reported year-on-year declines ranging from 10%-30%, with similar declines expected for May once official data is released, MSI said.

The analysts warned of greater uncertainty in the short-term despite a more positive outlook, as the speed at which economies and volumes can recover is far less clear compared to the obvious lockdown implications.

Daniel Richards, MSI's container market analyst, said: "While there are some positive initial signals from the US in terms of consumer spending... we expect non-mainlane importing regions will face ongoing economic pressure and in the near-term, intra-Asia volumes are likely to 'lead' in a wider recovery."

Such uncertainty will make aligning capacity with demand no mean feat, as the world emerges from lockdown.

Mr Richards said, however, that there was little reason to expect a sudden downturn in freight rates in the near-term.

“The spike in transpacific spot rates is likely a temporary phenomenon, but along those lines it seems liner companies are more likely to under- than over-estimate volumes across different trade lanes,” he said.

“Market share-grabbing strategies by individual lines do remain a source of risk, but the evidence of the crisis so far suggests under-cutting activity is not an attractive strategy for the major liner companies.”

The knock-on impact of carrier austerity though has led to a significant increase in the idle fleet, with lines reducing exposure to the charter market wherever possible. This is in addition to substantial ship numbers undergoing repair.

“Over the past month this has finally had the expected impact on vessel earnings,” MSI said. “While market levels as of mid-June likely represent a ‘trough’ for most benchmarks, the road to recovery will be slow over the second half.”

MSI reported improvement in newbuilds on the supply side, due to HMM’s rollout of ULCS, ensuring deliveries remain brisk, while the reopening of shipbreakers in India has started to drive an increase in ship recycling that will ensure activity in the second half of 2020 will far exceed the first six months of the year.

“Secondhand prices, on the other hand, likely have further to fall with next-to-no sales and little movement in broker timeseries, but as sales volumes increase in the second half of 2020 we expect sale values will fall for both ‘forced’ and ‘unforced’ transactions.”

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## WHAT TO WATCH

# Höegh Xiamen highlights PCTC fire risks

A SPATE of recent fires on car carriers have once again highlighted safety concerns amid efforts to improve technology and regulation of the sector.

A car caught fire on the Panama-flagged, 20,494 dwt *Polaris Highway* at the port of Zeebrugge, Belgium on Wednesday night, according to Lloyd’s List Intelligence.

Firefighters retrieved the burning vehicle from the cargo deck and extinguished it once ashore, with minor damage to the vessel reported.

On June 12 firefighters in Jacksonville, Florida extinguished a serious fire on the 12,250 dwt *Höegh Xiamen* after eight days. The fire and explosion injured eight firefighters, with marine insurers facing multi-million dollar payouts.

In September a Hyundai Glovis carrier, the 20,995 dwt *Golden Ray*, capsized and caught fire off the US state of Georgia.

Petar Modev, head of ship inspections at Thomas Miller P&I Europe, said auto carrier fires were a continuing problem: “It’s a theme that we keep on seeing every year.”

Mr Modev said auto carriers combined flammable objects in an open space. “If something goes wrong

the fire spreads very quickly,” he said. Mr Modev said many ro-ro vessels – including *Hoegh Xiamen* – carried older cars, which were riskier.

He said industry groups and the International Maritime Organization had worked on guidelines for minimising fires and there were proposals to amend the International Convention for the Safety of Life at Sea.

Classification group DNV GL pointed to a study last year, which said ro-ros and PCTCs had low overall casualty numbers, likely due to high regulation, but showed an increase in fires and explosions last year.

The European Maritime Safety Agency, which has commissioned studies on ro-ro and PCTC fires, has said the biggest risk contributors to vessels were electrical fires and the failure of safety systems.

In an interview with Lloyd’s List in May, Wallenius Wilhelmsen chief executive Craig Jasienski said his company had put “a tremendous amount of effort” into improving fire safety on its car carriers.

Mr Jasienski said the company was working with different startups on early heat-detection systems, put in “much more stringent” controls on secondhand cargo and on loading and inspection

requirements. “I think we’re doing a lot and the industry is doing a lot,” he said.

Mr Modev said work was continuing on how to fight battery fires, which generated “extremely high temperatures” and had to be fought in different ways to conventional fires. He said while electric cars were not yet common cargo, they could be an issue in future.

## Global LNG exports saw record growth in 2019

LIQUEFIED natural gas exports grew by 12.7% in 2019 – the largest annual increase yet seen – driven by record increases from the US and Russia, as well as continued growth from Australia, according to the BP Statistical Review of World Energy 2020.

The rapid growth in LNG exports led to a 4.9% increase in overall inter-regional gas trade, a rate more than double the 10-year average, the energy economist noted.

Meanwhile, gas production growth outpaced consumption by a considerable margin last year, with storage levels also increasing in most regions, while prices fell sharply.

Most of last year’s increase in production was used to feed more LNG exports, which jumped year-on-year by 54bn cu m. US exports led the way, up 19bn cu m from 2018, followed by Russia at 14bn cu m and Australia with exports rising by 13bn cu m.

Henry Hub prices for LNG dropped almost 20% year-on-year to average \$2.53, while European and Asian prices, as measured by the UK National Balancing Point (NBP) and the Japan Korea Marker (JKM), fell by more than 40%, BP said. NBP averaged \$4.47 over 2019, with JKM at \$5.49.

“Prices in Europe, the region most affected by LNG oversupply, fell to their lowest levels since 2004,” BP said.

A DNV GL report in 2016 found 18 fires on ro-pax vessels between 2005 and 2016, as well as nine fires on PCTCS and pure car carriers, and eight on cargo ro-ro vessels.

“In all cases, the fires were caused by the cargo (cars, trucks etc.) or the power connection between the reefer unit and vessel,” the group said.

On the LNG import side, nearly all incremental supplies went to Europe, in contrast to 2018, when Asia drove import growth.

European LNG imports rose by 49bn cu m, representing an unprecedented 68% increase, BP noted.

“Growth was widespread, with the UK (11bn cu m), France (10bn cu m) and Spain (7bn cu m) the largest individual contributors.”

Led by strong US growth, which accounted for almost two thirds of the net global total, gas production grew by 3.4% last year. Supply was also lifted by strong growth in Australia and China.

Global natural gas consumption was also up by 2% compared with the year before, but below the 10-year average and down sharply from the exceptional growth of 5.3% seen in 2018.

“In volume terms, demand grew by 78bn cu m, led by the US at 27bn cu m and China at 24bn cu m,” BP found.

Still, US and Chinese gas consumption slowed last year from 2018 levels, as weather effects and China’s policy to drive the switch from coal to gas faded.

A decline in the number of unusually hot and cold days in Russia also contributed to a decrease in its gas consumption to 10bn cu m, the largest decline of any country last year, according to BP.

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## ANALYSIS

# Shipping told to make cyber security a priority

SHIPPING companies have been warned not to wait until the last minute to act on cyber security.

The International Maritime Organization has urged companies to address cyber risks in their existing safety systems under the International Safety

Management Code no later than their first Document of Compliance inspection after January 1, 2021.

“I think there’s a little bit of leeway in terms of time but we really need to get our act together right now,”

said David Foo, operations technology senior director at the Maritime and Port Authority of Singapore.

He said understanding of, and budgets for, cyber security risks differed between companies and vessels.

But for the majority, “if you can follow the ISM guidelines you should be in a much better position than if you have ignored it,” he said during a Capital Link panel discussion.

Star Bulk Carriers’ chief strategy officer Charis Plakantonaki said cyber security “is not a nice-to-have discussion anymore, but a mandatory practice for all shipping companies, especially the ones who aspire to be frontrunners in digitalisation and automation”.

Ms Plakantonaki said Star Bulk was training seafarers in Manila and simulating attacks on its systems to find and remove weaknesses. She said that attacks could be predicted if companies had a centralised monitoring procedure in place.

Rob Compher, chief of the US Coast Guard’s office of design and engineering standards, said making

regulations broad and flexible enough to adapt to changing cyber threats was a significant challenge.

Capt Compher said the increasing connectivity of shipping operations created higher risks of cyber attacks. He said while the US did not yet have fully autonomous vessels, “we need to be very smart about how we account for cyber when we do start implementing more autonomous technology”.

Bureau Veritas Marine & Offshore advanced services director Jean-Baptiste Gillet said while some shipowners were “well-advanced” in their responses, many had not started and were waiting for the IMO to set its requirements before they start working.

“If the shipowners want to capture the gains from digitalisation they have to make sure they have solid IT foundations that start with good IT hygiene,” he said.

Mr Foo said: “We look at cyber as an ecosystem that we need to tackle from all various perspectives, from the ship to the port.

“You need to essentially look at the entire spectrum, from detection all the way to mitigation.”

## Propulsion specialist tests engine upgrade to cut methane emissions

A PIONEERING propulsion systems business has launched an upgrade to a dual-fuel engine which it claims will significantly reduce methane emissions and cut fuel consumption.

WinGD, based in Switzerland, is aiming to introduce its X-DF2.0 technology as ship owners begin the transition to carbon-neutral fuels.

Finding a solution to methane emissions is important because it is anticipated the International Maritime Organization will regulate these emissions to help meet its 2050 greenhouse gas targets.

Dominik Schneider, vice-president of research and development says extensive testing of the X-DF2.0 has already started.

“We have 200 hours initially with this system, running for the past two weeks at different ratings; that will continue for another six weeks, so we will have roughly 500 running hours before the first installation goes into service,” he told Lloyd’s List.

The pilot vessel is likely to be a small container vessel for an undisclosed ship owner, with delivery of the ship from the shipyard at the end of the year.

X-DF2.0 includes technology that will enable improved engine performance with both LNG and carbon-neutral fuels.

The so-called Intelligent Control by Exhaust Recycling system improves combustion control through the use of inert gas. The result is a reduction in methane slip emissions of up to 50% when using LNG, and a reduction in fuel consumption of 3% in gas mode and 5% in diesel mode.

Volkmar Galke, the company’s global sales director, said that by adjusting the recirculation rate of inert gas and controlling parameters like fuel admission and ignition timing, compression ratios can be increased.

The aim, Mr Galke explained, is “optimised combustion through closed-loop control regardless of ambient conditions and load.”

As well as using fossil LNG, X-DF engines will also consume carbon-neutral synthetic or bio-derived LNG when it becomes available. First-generation X-DF engines are widely used and have recorded more than 500,000 hours' operating experience.

The Intelligent Control by Exhaust Recycling system is a spray cooling process that adds water into the excess gas stream to cool it. The water is clean, with no sulphur oxide and no particulate matter, and as a result can be recirculated. The system generates a little excess water, which can be pumped directly overboard.

The system is "similar to boiler systems and simpler than scrubber technology," said Mr Schneider. "The nice part about of the X-DF2.0 is that that the iCER system is an add-on. If anything goes wrong, the engine can switch to the normal tried and tested X-DF engine operation."

The launch comes as ship owners face a dilemma over which propulsion system would best enable

their vessels to meet IMO's 2030 and 2050 requirements.

"We have to create a propulsion solution to meet these targets," said Mr Schneider. "The solution will partially be the fuel, the engine, the after-treatment systems – carbon capture is not as far away as we think, and add-ons such as hybrid systems like batteries or other energy storage. All these must be considered and will be part of the solution."

WinGD is watching the market carefully. "Cross-industry collaboration is vital in deciding which propulsion solutions will be acceptable," he said. "Backing the wrong horse would be an expensive mistake."

"It's not our task as an engine builder or propulsion solutions provider to decide on what type of fuel will be used in future. Our task is to provide the technology for whatever is seen as the most business viable way forward, fulfilling all the emission targets."

## P&I Clubs: Practising synergy like it's 1899

THE year is 1899, and Britain launches the Second Boer War in South Africa, the US invades the Philippines, Guglielmo Marconi successfully transmits a radio signal across the English Channel, and Bayer registers 'aspirin' as a trade name.

Meanwhile, the six UK-based protection and indemnity clubs that made up the so-called London Group agree to pool major claims, to ensure that none of them stand to collapse in the event of an unanticipated string of major claims.

In late Victorian England, that process probably would not have been described as 'synergy'. Now a business buzzword, the term was originally largely employed by theologians to denote co-operation between human will and divine grace. But synergy is effectively what it was.

Within three decades, the scheme was expanded to take in marine mutuals in other countries through the framework of the International Group of Protection and Indemnity Clubs, commonly known as simply the IG in insurance circles.

The IG has its critics, and from time to time is subject to thorough scrutiny from competition authorities. But as its defenders insist, it is anything but a cartel. It is rather an outstanding example of rivals working together for the common good.

Nick Shaw, who took over as chief executive last year after a lifetime as a solicitor with Richards Butler and subsequently Reed Smith, commented: "I wouldn't be sitting here around this table if there wasn't that synergy. I'd still be stuck in my law firm."

"The International Group is built on the premise of the clubs coming together and pooling resources. We've got 90% of the world's ships sharing the risk."

That collaboration has deepened over the last 90 years or so. Through the IG, its 13 affiliates are able to reinsure through Bermuda-registered segregated cell captive Hydra, and ultimately through the purchase of the world's biggest reinsurance contract.

The result is reinsurance at a price that individual clubs could not possible attain on their own, if indeed they could buy the cover at all.

Effectively, they are able to amortise their risks over a period of time, while owners can act on the basis of certainty that their claims will be met.

Within this framework, each club is incentivised to keep claims low, because a persistent poor loss record will lead to increased proportionate share of pool contributions thanks to a points system.

Meanwhile, the entire system is underpinned by a system of limitation regimes, which guarantees its stability.

The IG does other things together as well, as Lars Rhodin, managing director of IG affiliate the Swedish Club points out.

He gives the example of the special IG working group on Covid-19, formed in March to collaborate with the authorities, other industry trade associations and the International Maritime Organization in an effort to find a way forward in the face of the pandemic.

“It’s always good to tell the shipping industry what we actually do for the sake of shipping,” he notes. “A lot of good work is done under the auspices of the International Group, to the benefit of all shipowners.”

The coronavirus working group has held around half a dozen meetings so far, making sure that clubs are fully apprised of latest developments, and thus in a position to give the best advice to shipowner members.

One of the steps taken is to maintain an active and constantly updated webpage, with externally-provided data on the spread of virus, especially in port cities, and what regulations are in place for port calls.

There’s a whole lot more. This is just one of 40 or so IG sub-committees that look for solutions to

shipping problems, with sanctions compliance another major issue in recent years.

Loss prevention remains an aspect of competition between clubs, but information and data on things like containership fires are shared, in the acknowledgement that lives are at stake.

Mr Shaw stresses that co-operation through the International Group is entirely compatible with keen commercial differentiation on pricing.

“The clubs are in strong competition with one another, but there are issues of safety where it comes down to good practice and high standards across the industry. The clubs will work together and what we do here in this office.

Finally, Mr Shaw adds, the other key area of synergy is the provision of a collective voice for the P&I sector as a whole.

“We are able to go out to other industry organisations and say, we’re not North, we’re not Gard, we’re not UK Club, we are the International Group.

“When that’s said, people will listen a little bit more, because they know that on liability issues, we are one of the strongest voices in the industry.

“That’s a credible synergy between the clubs, where they recognise the power of working together with a collective message.”

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## MARKETS

# Pacific coast ports see steep throughput declines

TRADE volumes have declined along North America’s northern Pacific coast, with steep downturns in container throughput reported by Washington state’s Northwest Seaport Alliance, as well as Canada’s port of Prince Rupert.

The NWSA, comprised of Seattle and Tacoma, handled 240,671 teu in May 2020, a 23.8% decrease compared with May 2019, with loaded imports falling 22.9% and full exports dropping 15.5%.

For the first five months of 2020, overall container volumes declined 18.8% compared with 2019. The NWSA has handled 1.28m teu so far this year,

marking the slowest five months since 2009 when it moved 1.21m teu in the same period.

The NWSA’s total year-to-date domestic container volumes dipped 6.3% as Alaska and Hawaii volumes declined 6.6% and 4.7%, respectively.

Port officials said the economic fallout from the global pandemic continued to “disrupt supply chains across the country and around the world”.

They said the NWSA gateway experienced 46 blank sailings in the year to the end of May, driven by Covid-19 and the lingering trade dispute with China.

The Global Port Tracker, produced by the National Retail Federation and Hackett Associates, said the NWSA's import volumes in the first half of 2020 were forecast to fall by 16.7% versus the equivalent period of 2019, which saw 577,000 teu.

GPT said the second half of 2020 was forecast to decrease by 5.6% to 639,000 teu compared with the same period in 2019, while the overall forecast import volume for 2020 was 1.22m teu, an 11.2% decrease from 2019.

To the north, Prince Rupert's intermodal sector has been the most impacted by the Covid-19 crisis, reflecting a decrease in the movement of cargo on the entire transpacific trade route.

Throughput at Fairview Terminal during May declined 37% from May 2019, described by port officials as "a significant decrease" reflecting the impact of Covid-19 containment measures in North America.

Overall container volume at Fairview Terminal showed a 12% decline so far this year, with loaded volumes decreasing by 6%.

Prince Rupert Port Authority president and chief executive Shaun Stevenson said the pandemic had created "global economic uncertainty" but that officials had witnessed first hand how vital diversity was to the resilience of a port complex.

"This reinforces why the Prince Rupert Port Authority and our partners are working to diversify the Port of Prince Rupert and further increase our resiliency as a gateway," he said.

"There is nearly \$1bn in capital expansion either underway or planned to advance over the upcoming year in the growth and expansion of the Port of Prince Rupert," he said.

Meanwhile, the Global Port Tracker said Prince Rupert's import volume in the first half of 2020 was forecast to decrease by 5.9% compared with the same period in 2019, with 282,000 teu.

The import volume in the second half of 2020 is forecast to decrease by 3.6% to 365,000 teu versus the equivalent period of 2019, while the forecast import volume for 2020 is 647,000 teu, representing a 4.6% decrease from 2019.

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## IN OTHER NEWS

### Maersk Tankers digital spin-off targets tramp shipping trades

CALCULATING the optimal speed at which to operate a ship against a backdrop of so many variables, ranging from freight rates and bunker costs to weather conditions and vessel specifications, is one of the biggest challenges faced by shipowners as they strive to cut pollution levels and maximise profits.

The head of a new digital spin-off from Maersk Tankers believes certain sectors of the shipping industry could greatly reduce carbon emissions and boost revenues by billions of dollars through speed adjustments.

"We want to help shipowners in the tramp shipping trades to operate their vessels more efficiently," said Søren Meyer, chief executive of ZeroNorth, which was launched this week.

### US firms secure funding for Mexican energy project

US FIRMS Mirage Energy and Northern Hemisphere Logistics have secured \$4bn in funding for the development of a project aimed at moving US oil and natural gas to Asian markets via Mexico's proposed Isthmus Corridor.

Mirage Energy president and chief executive Michael Ward said one of the biggest problems in oil and gas transportation was the "logistical dilemma posed by supertankers that cannot fit through the Panama Canal".

"The Isthmus project is a logical and far more economical alternative, and we are pleased that the family offices of Bluebell International have agreed to partner with us," Mr Ward said.

### Vale to reopen Itabira mines

VALE, Brazil's iron ore giant, has been allowed to restart its Itabira mining complex.

The complex, which comprises the Conceição, Cauê and Periquito mines, will be "gradually resumed" after being halted since June 5, Vale said in a statement, adding that the production impact was less than 1m tonnes.

The three mines were forced to shut after more than 100 workers were reported to have contracted coronavirus.

Vale said that additional measures taken by the company to mitigate the risk of workers becoming infected during their labour activities were considered to be "satisfactory" by local authorities. It reiterated full-year iron ore output of 310m-330m tonnes.

### Seafarers offered papal support amid crisis

POPE Francis has offered words of encouragement to those who work at sea during the current coronavirus crisis.

"These are difficult times for our world for we have to deal with the suffering caused by the coronavirus. Your work as maritime personnel and fishermen has thus become even more important since it is providing our greater human family with food and other primary needs," he said in a video message to seafarers.

"For this, we are grateful to you, but also because we know the risks involved in your work," he continued. "In these past months, your lives and your work have seen significant changes; you

have had to make and are continuing to make many sacrifices."

### Are lifecycle emissions of zero-carbon fuels shipping's problem?

SHIPPING companies have reconciled with the fact that decarbonisation of the industry will require more than just improvements to the current fleet. New and expensive zero-emissions fuels will be necessary.

But are fuels that eradicate carbon emissions from ships really enough?

Prominence Maritime chief executive Ioanna Procopiou argued that zero emissions fuels cannot be considered sustainable if they are produced and distributed through carbon-emitting processes.

### Globus pulls in \$12m from share issue

GLOBUS Maritime, a dry bulk carrier owner, has priced a public stock offering at \$0.35 per share.

The Nasdaq-listed owner of five bulkers had initially targeted up to \$11.5m, but the offering was upsized to \$12m. The underwriter, Maxim Group, has a 45-day option to purchase up to a further 5.14m shares or a similar number of warrants.

Globus' stock price fell 45% after trading on Wednesday and opened on Thursday in New York at a price of \$0.34 per share. The move comes shortly after Greece-based Globus posted a first-quarter loss of \$9m which included an impairment loss of \$4.6m.

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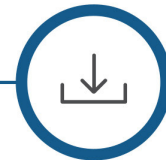
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