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Hin Leong owners seek to safeguard tankers from insolvency

THE OWNERS OF HIN LEONG Trading have outlined a plan to wrest control over a third of shipping tonnage now on Ocean Tankers' operating fleet.

The move is seen by critics of the troubled oil trading company as an attempt to cherry pick the best vessels for the family of founder OK Lim.

Ocean Tankers operates vessels owned by the Lim family, either directly or through one or another of the vessel-owning vehicles broadly grouped under the privately owned Xihe Group. The latter owns 140 tankers, representing the bulk of Ocean Tankers' over 150-strong fleet.

Sources familiar with the situation said Xihe had recently hired a shipping expert to prepare to directly market — both for sale and charter — 45 of the 140 tankers while it seeks to terminate its bareboat charters for these vessels to Ocean Tankers.

Hin Leong and Ocean Tankers have both been placed under the care of court-appointed judicial managers at accounting firms PwC and Ernst & Young.

Ocean Tankers' court filing outlined the intent to divest 'non-core vessels' but the remit for any vessel divestments lies with Xihe. Ernst & Young is mainly involved in chartering out Ocean Tankers' operating fleet.

Third-party observers far viewed this bid to transfer vessels to Xihe as attempt by the Lims to ring-fence assets from the creditor-driven JM process, which prioritises cash recovery for creditors and other stakeholders.

But these efforts to sequester prized assets from the JM proceedings may come to nought.

US law firm Gibson Dunn's partner Robson Lee suggested that such a proposed action "is not unassailable" and "likely to attract legal challenge by other interested parties arguing that their rights and interests could be compromised".

Such interested parties would possibly include banks that have laid claims or sought to arrest Ocean Tankers' vessels, which gave rise to at least some of the contingent liabilities cited in court filings.

These lenders were acting out of concerns including, among others, allegations that the Lims had sold Hin Leong's cargoes pledged to banks to raise funds to pare debts.

Ocean Tankers JM and Xihe declined to comment.

Some of the bank lenders allegedly affected by the sales of pledged cargoes appear to be circling over these assets.

One source involved with Xihe's fleet plans told Lloyd's List that two out of 12 banks backing loans to the Lims' vessels have signalled their intent to divest pledged shipping tonnage.

These two lenders have not been named, but ICICI Bank had sought to impound two floating storage units, *Wu Yi San* and *Chang Bai San*.

Court documents also identified Standard Chartered and ING as secured creditors of Ocean Tankers.

Still in business

Notwithstanding the collateral damage from Hin Leong's alleged malfeasance on market confidence in Ocean Tankers, the shipping firm still managed to land charters amid relatively buoyant tanker demand after being placed under judicial management, sources close to the development said.

A few of its very large crude carriers, including the 2011-built *Pu Tuo San*, are said to have recently secured work from the spot market.

Pu Tuo San has been seen sailing to China's Changxing Island with a cargo from the Basra terminal in Iraq.

However, four other VLCCs on Ocean Tankers' fleet were mobilised as of last Friday to a southeast Malaysian anchorage. What is more, at least two dozen product tankers of more than 20,000 dwt were also seen hovering for weeks in the same area, Lloyd's List Intelligence data showed.

These observations have possibly fuelled speculation that Ocean Tankers' JMs and owners have come under pressure to divest the fleet.

Sources close to the situation have countered that this is not the case given most lenders backing Xihe's loans remain "supportive".

Vessel value

One party claimed a first valuation of Xihe's fleet by ship brokerage Clarksons came in at twofold or more than that of its outstanding mortgage loans with the banks.

Vesselsvalue separately valued Ocean Tankers' operating fleet, excluding three VLCCs earmarked as floating storage units and an FPSO, at over $2.24bn as of May 19.

Ocean Tankers' liabilities stood in excess of $300m at the end of February, including over $254m owed to a related party, a court filing showed. The same document also names Xihe as a major creditor.

The vessel operator is, however, exposed to more than $2.7bn in contingent liabilities tied to bills of lading issued in favour of Hin Leong's trades.

These have come to be cited in support of lenders laying vessel claims and are deemed as possible grounds from which Xihe's plan to ring-fence vessels could face contests.

Buyer stumbling blocks

Others monitoring the situation from the sidelines pointed to looming concerns holding back purchase interest in any Ocean Tankers or Xihe's tonnage up for sale.

One source told Lloyd's List that they have decided not to pursue such options after assessing the risks of subsequent legal disputes relating to vessel ownership linked to Hin Leong's alleged malfeasance.

Another source suggested that any divestment of Ocean Tankers' operating tonnage could realistically come to fruition if it is able to secure the backing of the court. The proceeds would have to be handled through an escrow account.

Potential buyers or investors would seek assurances of freedom from any legal encumbrances that Singapore's JM regime may not be well equipped to provide.

Mr Lee of Gibson Dunn pointed out that Singapore's court-appointed judicial managers system does not boast the 'long-arm jurisdiction' that shields companies seeking restructuring under the US Chapter 11 regime from cross-border claims.

This opens up the possibility for creditors to arrest vessels owned by shipping firms under legal control if they venture out of Singapore's waters.

WHAT TO WATCH

Panama's green light for extended tours draws criticism

PANAMA Maritime Authority has issued a circular authorising seafarers on ships under its flag to serve for as long as 17 months where the coronavirus pandemic makes crew change impossible.

The period is six months in excess of the maximum laid down in the legally-binding Maritime Labour Convention.

The International Transport Workers' Federation recently urged seafarers unilaterally to exercise their right not to work and leave their ships to return home where their contracts had expired, although it has since clarified that the call should not be taken as an incitement to strike.

Panama's decision has been condemned by some seafarer union leaders.

Nautilus International general secretary Mark Dickinson took to Twitter to urge port state control authorities to respond with the immediate detention of all Panamanian vessels.

An estimated 1.2m seafarers are currently in service on about 55,000 ships. Normally 200,000 of them change each month as their period of service on board comes to an end.

However, the system has been in chaos for the last three months, with country after country introducing tough controls on account of coronavirus.

The plight of stranded seafarers has even attracted high level attention from the Pope and UN Secretary-General António Guterres.

But there are some tentative signs of the situation easing. Scotland has ruled that Scottish seafarers no longer have to isolate for 14 days when returning home for more than 14 days of leave.

The move — which follows representations from the UK Chamber of Shipping — brings Scotland into line with the other nations of the UK.

In addition, the Chamber of Shipping's German counterpart has issued a statement to mark this week's International Day of the Seafarer, imploring countries to lift pandemic-based prohibitions on boarding and disembarkation.

Nautilus said that Mr Dickinson's protest was motivated by the adverse impact crew fatigue could have on shipping safety and environmental protection.

"Port state control should immediately target all Panamanian ships and detain for breaches of the Maritime Labour Convention. This is utterly shameful and inhumane," he is expected to say in an article due to be published on the union's website.

Panama is the largest flag state in the world, with about 225m gt registered and 9,367 vessels flying its flag at end 2019, according to the annual Lloyd's List top ten flag league table, based on information from Lloyd's List Intelligence.

The Panama Maritime Authority has been contacted for comment.

The Chamber of Shipping has written to Scotland's transport secretary Michael Matheson seeking urgent action to stop Scottish seafarers being unfairly penalised by current quarantine restrictions.

Transport Scotland has since confirmed that a new provision aligns with the 'seamen and masters' exemptions contained in the corresponding regulations in England, Wales and Northern Ireland.

Seafarers will therefore no longer be required to undergo 14 days of self-isolation when returning to Scotland for more than 14 days of leave, and those who are currently self-isolating no longer need to do so.

"We are pleased the Scottish government listened and agreed to our representation and has quickly amended the regulations," said Tim Springett, policy director at the Chamber. "This now means Scottish seafarers are under the same rules as their counterparts operating across the UK."

Verband Deutscher Reeder president Alfred Hartmann reiterated some of themes he outlined in an interview with Lloyd's List last week.

"It is an untenable situation that crew changes still are not allowed anywhere close to an adequate degree," he said. "We are concerned about our seafarers, their health and about safety on the ships. If the situation doesn't change, then logistics chains will be disrupted because ships cannot sail on to their next destinations."

Mr Hartmann added that the problem rests not with shipping companies but with governments worldwide.

"We urge them to finally lift travel restrictions and to allow crew changes to take place. Seafarers are key workers," he said.

Bunker price spread keeps scrubber economics unfavourable

SCRUBBER economics remain unfavourable for owners that have installed the sulphur abatement technology on board vessels.

The difference in price between high-sulphur fuel oil and the compliant 0.5% sulphur fuel oil was priced $52 per tonne in northwest Europe and $77 per tonne in Singapore, according to the latest data from price reporting agency Argus Media.

These spreads have extended the payback period for a scrubber capesize bulk carrier beyond five years, and more than three years for a very large crude carrier, based on calculations from Norwegian investment bank Cleaves Securities.

The differential between 0.5% very low sulphur fuel oil and high-sulphur fuel oil of 3.5% sulphur has averaged $65 per tonne in Singapore over June and $47 per tonne for northwest Europe, Argus Media data show.

A spread of $89 per tonne saves $1,979 daily for a capesize ship, falling to $1,000 for a panamax and $909 for supramax bulk carriers, Cleaves' calculations show

For VLCCs, savings are higher, at $3,000 daily, and just over $2,000 daily for a suezmax tanker. Aframax-size tankers save $1,590 daily at this differential.

Prominent shipowners have deferred or cancelled scrubber installations throughout 2020 as spreads between the two fuels shrank dramatically from the large differentials seen at the beginning of the year as new international regulations mandated the use of lower-sulphur bunkers from January 1.

Falling oil prices as the coronavirus pandemic weighed on global demand alongside the greater-than expected availability of compliant fuels has diminished the economic arguments made during 2018 and 2019 for investing in scrubbers.

Some 2,750-plus vessels totalling nearly 329m dwt are now trading with scrubbers installed, according to the Lloyd's List Intelligence database.

A further 600-plus newbuildings were on order or under construction and will have scrubbers fitted, with the largest vessels in the global shipping fleet showing greatest uptake. Retrofitted vessels are excluded from this figure.

Some 16.4% of the trading crude tanker fleet, 12.2% of bulk carriers, 12.7% of containerships and 7.5% of product tankers have scrubbers when measured by deadweight tonnes, according to data.

At a spread of $100 per tonne, it takes 2.9 years to recoup the investment in scrubbers for a VLCC, and 4.3 years for a suezmax, according to Cleaves Securities calculations.

That figure was far more favourable at the end of 2019 when the different between VLSFO and HSFO exceeded $300 per tonne, reducing payback times to less than a year for a VLCC and just over a year for an aframax tanker and capesize bulk carrier.

ANALYSIS

Petrofin: Health crisis continues to impact ship finance

THE effects of the coronavirus pandemic will have resulted in a significant drop in new financing deals this year, according to a leading financial research house.

"The effects of the pandemic crisis are still being worked through the banking system," said Petrofin Bank Research.

Its annual survey of bank finance for Greek shipping that found that banks' total loan portfolio for Greek owners "stood still" last year at about $53bn.

Loans drawn up to end-2019 fell by 2.4% but commitments increased by about 44%.

An overall 0.1% dip in the portfolio was the smallest annual decrease in five straight years of decline in overall bank borrowing by Greek owners.

The fall-out from the pandemic "had a strong impact on banks and non-bank lenders," hitting confidence among banks and owners, according to Petrofin.

With most banks' staff working from home and meetings being carried out remotely, loan requests and loan throughput by banks both fell, it said.

"Credit and risk departments were hard put to support fresh lending at a time of such crisis and uncertainty and sought lending only to the strongest clients and credits often on stringent terms," according to the survey.

"Loan margins started to rise as perceived shipping risk rose and as banks started to face loan restructure requests from hard-pressed clients."

Chinese lending and leasing also "came to a halt," it said, as a result of the shipping crisis as well as leasing houses' exposure to other hard-hit sectors such as aviation.

Alternative finance vendors remained active and "often represented the only available source of finance" for some owners.

In the Greek market, it was expected that overall Greek ship finance has contracted since end-2019.

An exception has been activity by Greek banks, Petrofin said.

"Some banks, Greek banks in particular, managed to continue lending to their stronger clients."

Factors helping Greek banks reduce their margins and become more competitive with foreign lenders included increased funding from the European Central Bank and Greece's enhanced credit status.

"Greek banks perceived the pandemic as an opportunity to enhance their position with Greek owners who faced limited finance possibilities," Petrofin said.

"It is difficult to predict when the Greek ship finance market shall recover to pre-pandemic levels," said Petrofin. It was not aware of any fresh banks recently entering ship finance nor of any existing banks leaving the market.

The Petrofin survey of individual bank portfolios as of end-2019 showed that Credit Suisse has extended its lead as the largest bank lender to Greek shipping, a position it has held now for six years.

Credit Suisse's estimated portfolio increased by 10% in the previous 12 months to $7.7bn, including $1.2bn of loans committed but not yet drawn.

BNP Paribas vaulted into second place with $3.15bn, replacing DVB which plunged to ninth, reflecting a decision to unwind its shipping exposure.

HSBC rose from fifth place to third, despite the size of its portfolio remaining static at an estimated $2.8bn.

It was a similar story with Citi which moved up from sixth to fourth place with a similar $2.7bn portfolio to a year earlier.

Two Greek lenders – Piraeus Bank and Alpha Bank – appeared tied for fifth, each with a $2.5bn portfolio. They were closely followed by Eurobank in seventh place.

The other member of the four systemic Greek banks, National Bank of Greece, was placed 11th.

Greek bank lending to the industry, aggregating $9.9bn at end of year, was at its highest since 2014.

However it is still a long way short of the $16.9bn combined Greek bank shipping portfolio in December of 2008, a year that also saw total bank lending to Greek shipping at a record of more than $73bn.

MARKETS

Dry freight derivative volumes at 12-year high

VOLATILE capesize rates pushed freight derivatives volumes to the highest in nearly 12 years, briefly returning the paper market to the halcyon days of the commodities super-cycle.

Some 65,336 lots were traded for the week-ending June 19, according to the London-based Baltic Exchange, to which shipbrokers report statistics. That is equivalent to 65.3m tonnes of freight, and the most since September 2008, data show.

Volatility in the physical market over June is behind the spike as average capesize rates surged seven-fold in the last three weeks, while earnings for panamax bulk carriers doubled over the same period.

A rebound in Chinese demand for iron ore as inventories fell and steel producers restocked alongside healthy volumes of grain shipments to Asia are driving gains. Physical rates have lifted from four-year lows of nearly $2,000 daily seen last month to the highest so far in 2020.

Volumes of panamax and capesize forward freight agreements were evenly divided. Of the 65,000-plus lots traded last week, just under 27,000 lots were capesize FFAs while just under 28,000 were panamax FFAs according to the Baltic Exchange.

This reflected the positions being taken for panamax ships. These are typically used for grains transport. Against the backdrop of a bumper South America grain season, this is driving improved sentiment, even as seaborne coal export volumes from Australia, Indonesia and South Africa are expected to contract in 2020.

The last time such high volumes of FFAs were traded was in the dying days of the commodities super-cycle when the September 2008 collapse of the Lehman Brothers bank triggered the global recession that burst the shipping bubble.

Average capesize time charter equivalent rates topped nearly $230,000 daily in June 2008, before collapsing to under $4,000 daily by November.

During that month-long period over September 2008, dry bulk FFAs traded at volumes that equated to 337m tonnes, according to the Baltic Exchange.

So far in June, dry FFA volumes total 152m tonnes, with last week's levels 22% higher than the prior seven-day period when 53,463 lots traded. Until June, weekly lots averaged 29,000 in 2020, with trading last week double that level.

FFAs are settled against the Baltic Exchange physical indices. Third-quarter capesize contracts for the Brazil-China route were valued at $18.22 per tonne on June 22.

The same contract was valued at $11.77 per tonne on June 1. The fourth-quarter contract that was valued at $13.63 per tonne on June 1 is now valued at $17.26 per tonne.

IN OTHER NEWS

MOL to cut 40 vessels from fleet to reduce costs

MITSUI OSK Lines plan to cut its overall fleet by up to 40 vessels and halve investment expenditure to ¥100bn ($934m) over the next two years.

The measures, announced in a management plan, also include tweaks to future strategy which will see the expansion of MOL's liquefied natural gas business.

That will involve floating storage and regasification units, LNG-to-power ships and greater involvement in LNG bunkering, while also developing new energy-related businesses such as wind power generation and strengthening strategies for liquefied chemical logistics.

Hong Kong's Tung family invests in GasLog

THE Tung family, former owners of Hong Kong-based Orient Overseas Container Line, have revealed their interests in liquefied natural gas shipping in a recent private offering by GasLog.

The US-listed company said it had raised $36m from issuing 14.4m new common shares. It owns 19 LNG carriers, including six on order, with another 15 owned by separately listed subsidiary GasLog Partners.

About 75% of the allotment was purchased by GasLog's directors and affiliates. "In addition, members of the Tung family, whose roots in shipping date back over 70 years, purchased common shares in the private placement," the company said.

Russian reefer arrives in Busan with coronavirus cases on board

AS South Korea worries about the threat of a second wave of coronavirus infections, a Russia-flagged reefer vessel has entered a port in Busan with 16 of its 21 crew testing positive for coronavirus.

According to Lloyd's List Intelligence, the 1987-built, 3,933 dwt *Ice Stream* arrived at Busan's Gamcheon port from Vladivostok on Sunday. The crew were tested after the authorities were informed that the captain, who had returned a week earlier to Russia after showing symptoms, had tested positive.

The vessel is owned by Reftransflot Shipping Company. It is not known if all the crew were also Russian.

Singamas sells more assets amid bad debts and losses

SINGAMAS Container Holdings has continued to trim assets amid financial challenges.

The Hong Kong-listed, China-based box manufacturer agreed to sell one of its subsidiaries in Tianjin to two local buyers for Yuan132m ($18.6m), according to an exchange filing.

It said the target company, Tianjin Pacific Container Co, had ceased operations for several years and would require substantial investment to resume production.

China halts US poultry imports after health scare

CHINA's customs agency has halted imports of poultry from the US after hundreds of workers at a food company tested positive for coronavirus.

Beijing plans to test imported meat for coronavirus and to block chicken imports from Tyson Foods over concerns about reported infections there.

The General Administration of Customs said on June 21 that it was temporarily suspending poultry imports from the company. Shipments already in China will be seized, the customs agency said in a statement.

Cargo market introduces modern slavery clause

THREE London market brokers and insurers have developed a clause making marine cargo policies conditional on insureds complying with all applicable legal and regulatory obligations in respect of forced and child labour.

The move from Fidelis, Aon and Marsh comes at a time when the Black Lives Matter protests have heightened awareness about the historic role of marine insurance in insuring slaves as cargo prior to the abolition of the transatlantic slave trade in 1807.

Fidelis' chief risk officer Charles Mathias said forced labour in all its forms is an extreme expression of inequality and injustice.

Costamare completes $435m debt refinancing

COSTAMARE has clinched new loan deals worth $140m, underlining the containership owner's access to bank debt.

The New York-listed owner said the two agreements have brought to "a successful conclusion" a refinancing programme it started earlier this year.

The company has agreed new financing transactions totalling more than $435m since January and has pushed back debt maturities of about $240m.

Classified notices