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Hin Leong restructuring only possible with owners' assets



THE COURT-APPOINTED JUDICIAL managers for beleaguered Hin Leong Trading want the company to be restructured, together with the assets of its owners, including the more than 150-strong fleet operated by Ocean Tankers.

PwC is proposing that Hin Leong be merged with other companies either fully or partly owned by the Lim family including Ocean Tankers Xihe Group, Universal Group Holdings and oil terminal Universal Terminal to create an integrated petroleum trading platform.

In a preliminary report raising irregularities in the oil trading business, PwC said: "It is also uncertain whether [Hin Leong] on its own will be able to raise funds through bank loans or equity investments from sources other than the Lim family."

The trading firm is mainly run by OK Lim and his son.

"The proposed restructuring will require the commitment and co-operation of the Lim Family to inject their personal assets (including but not limited to their shares held in OTPL [Ocean Tankers], Xihe Group, UGH and Universal Terminal)," according to the report.

Lloyd's List reported that potential white knights and buyers were eyeing the assets the Lims hold under Hin Leong's affiliates that are registered under distinct separate legal entities.

The family owns 140 vessels through the so-called Xihe Group of special purpose vehicles. Ocean Tankers has an operating fleet in excess of 150 ships.

They also hold a 41% interest in the Universal Terminal on Singapore's Jurong Island through Universal Group Holdings.

As the trading arm of the business empire, Hin Leong had been tapping assets held by these affiliates to conduct its business.

The trading firm has since become insolvent and the PwC report highlighted irregularities in the preparation of the firm's financial statements, The Business Times reported.

The PwC report said audited fiscal 2019 statements "have grossly overstated the value of its assets by an astonishing amount of at least \$3bn".

"This overstatement comprises \$2.23bn in accounts receivables, which have no prospect of recovery and \$800m in inventory shortfalls. The overstatement existed to conceal significant losses that the company had accumulated over the years," it said.

The report also pointed to potentially fabricated derivatives gains and trading profits to conceal

accumulated derivatives trading losses of about \$808m over the past 10 years. "On this assumption, it follows that the cumulative overstatement of profit in the company's financial statements in the past decade amounts to \$2.1bn," it said.

Hin Leong's corporate officers have also "fabricated documents on a massive scale" and used forged documents to mislead banks into extending financing to the company, PwC found.

"Documents that have been forged or are at least of dubious authenticity include bank remittance advices, bank statements, bills of lading, sales contracts, sales invoices, swap-trade confirmations, swap-trade tickets, deal-settlement slips and inter-tank transfer certificates," the accounting firm said.

Hin Leong was audited by Deloitte & Touche. Deloitte said in April that it stands behind the quality of its work.

Hin Leong is also under investigation by the Singapore police.

WHAT TO WATCH

Yard Talk | Japanese builders set out pathways to zero-emission ships

JAPAN's shipbuilding sector is betting its future on carbon-free solutions, but the sector must survive the current crisis before a renaissance can arrive.

Eco-designed, fuel-saving ships once gave a boost to the country's yards. The "chance" for them to prosper again lies in zero-emission vessels, says Jun Kohno, head of the Shipbuilding and Ship Machinery Division of Maritime Bureau at the Ministry of Land, Infrastructure, Transport and Tourism (MLIT).

The industry planner recently rolled out the Roadmap to Zero Emission from International Shipping, hoping the project will help the country's players gain a pole position in this arena.

Apart from agendas for technological and regulatory developments, the project essentially sets out two pathways for future marine fuels, which eventually lead to four types of zero-emission ships: those fuelled by hydrogen, super-efficient liquefied natural gas, ammonia, or ships that can capture CO₂ on board.

It is hoped that this vision of the future can provide insight into the International Maritime Organization's mandate to achieve its 2050 decarbonisation target, whose prospects remain uncertain on many fronts.

"We believe that this roadmap will help understand the specific direction of the maritime industry in the future," Mr Kohno told Lloyd's List.

The MLIT spent a year hammering out the zero-emission roadmap, after numerous discussions with the relevant parties, including shipowners, yards and research institutions, he adds. Together under that planning, they aim to make delivery of the first commercial ship within a decade.

While the forward-looking vision is to be welcomed, the short- and medium-term outlooks appear challenging.

The double whammy of an already extended industry downturn and the extra-sharp knock from the coronavirus pandemic is pushing virtually all

shipbuilders into a battle for survival. Yards in Japan are among the hardest hit.

Data from the Japan Ship Exporters' Association shows their combined backlog had reduced to 23-year low as of end-May. Some large builders, such as Mitsubishi Heavy Industries and Mitsui E&S, were even forced by the recession to scale back businesses.

Mr Kohno describes the situation as “severe”, with fears that the market could “take more than a few years to recover”.

Meanwhile, competition from neighboring countries has stiffened. Compared to China and South Korea, Japan's shipbuilding sector is slimmer in capacity and less consolidated in scale.

This is because the richer history and legacy of Japanese builders have made them more scattered across the country and more into the habit of working on their own, Mr Kohno explains. As a result, many of them are also niche players specialising in only one or two vessel segments as opposed to the large all-rounders.

The core competence of Japanese yards, however, still rests on their savvy in technology and efficiency in operation. The MILT intends to further enhance those strengths by offering incentives that can encourage innovation and improve productivity.

The primary focus has been put on digitalising the entire process of developing a ship — from design to construction and to operation — as showcased in the i-Shipping project launched by the government in 2018.

Still, the government is promoting the integration of yard operations under different ownerships to seek shelter in economies of scale. The recent tie-up between Imabari Shipbuilding and Japan Marine United sets “a good example”, says Mr Kohno.

But he dismisses speculation over the “All Japan Shipbuilding” plan, which was reported by Japanese newspaper Nikkei earlier this year, about an

initiative to merge 15 main domestic shipbuilding companies. “That's just a misunderstanding from the reporter.”

What becomes more pressing is perhaps a level playing field globally as state bailout funds have mounted up in South Korea and China over the past a few years.

Japan's attempt to establish a new competition regime at a recent meeting under the Organisation for Economic Co-operation and Development was rejected by South Korea, which insisted that China should be included in the discussion.

“Although China is not an OECD member, its engagement is indispensable in order to make those activities effective and meaningful,” Mr Kohno says, adding that his government will “spare no efforts” to pursue that agenda.

Meanwhile, the renewed consultation since March between Japan and South Korea on the latter's shipbuilding subsidies at the World Trade Organisation is ongoing. He declines to reveal plans for the next step, but says Tokyo “will continue to work to the utmost for a prompt resolution”.

However, will Japan attempt to accelerate the negotiation process by leveraging its antitrust approval on the merger of Hyundai Heavy Industries and Daewoo Shipbuilding & Marine Engineering, two of South Korea's largest shipbuilders?

“No,” Mr Kohno says. “The two events are handled by separate government departments that won't intervene in each other's decision.”

It was Japan's policy goal to compete for a 30% market share in the world's cargo ship construction market. This requires an amendment with trimmed capacities at local yards and a shift of their priorities towards a green future, he further points out.

“The most important issue for Japanese shipbuilders now is to survive in their respective segments,” he says.

Shipping's decarbonisation efforts assessed as 'critically insufficient'

SHIPPING's efforts to cut its emissions are “critically insufficient” to help reduce global warming and its decarbonisation targets must be elevated, according to a new report.

Climate Action Tracker, an independent agency that follows and rates the level of progress being made on greenhouse gas emission reductions, said the International Maritime Organization's emissions

targets were too weak to support cuts consistent with the Paris Agreement goals.

In its first assessment of shipping, the agency rated the action taken by the shipping sector as critically “insufficient” and labelled the 2050 IMO target to reduce GHG emissions by at least 50% by 2050 compared with 2008, as “insufficient”.

The 2050 target is consistent with limiting warming to between 2°C and 3°C if all other sectors were to follow the same approach, it explained.

“Under a Paris Agreement compatible pathway, both sectors’ CO₂ emissions should be zero by 2060, as should all emissions from energy and industrial processes,” it said for both shipping and aviation in a press release.

The Paris Agreement commits to limiting global warming to below 2°C and to pursue efforts to contain it to 1.5°C above pre-industrial levels.

Climate Action Tracker was especially scathing of the IMO ambition to reduce ships’ CO₂ per transport work, also known as carbon intensity, by at least 40% by 2030 compared with 2008, rating it “critically insufficient”, the worst possible mark on its scale.

“The ‘critically insufficient’ rating indicates that the target is consistent with warming of greater than 4°C if all other sectors were to follow the same approach,” it said.

The criticism echoes complaints levied against the 2030 target specifically for being too low given where the industry currently is.

The International Council on Clean Transportation, a research institute, had assessed that when the IMO agreed to the 2030 target in 2018, the global fleet had already achieved an estimated 30% reduction in carbon intensity compared with 2008.

Decarbonisation negotiations at the IMO have been postponed until further notice due to the coronavirus, although there will be informal talks held in early July. The focus is on agreeing to short-term measures catered to the 2030 target.

The IMO is set to revise its decarbonisation strategy in 2023. CAT said it will need to adopt much stronger targets, particularly for 2030, if it is to meet the Paris Agreement goals.

Governments are not showing concrete signs of actions to implement any of the candidate measures

included in the IMO strategy to meet the targets, it further argued.

The very way that the shipping business is structured is also an impediment to decarbonisation.

“The fragmented nature of regulation within the shipping sector, the flagging system for ships and the unclear division of responsibility between shipowners and operators and port state regulation all create barriers to climate action,” CAT said.

Climate Action Tracker expects the coronavirus to have an uncertain impact on the trajectory of shipping’s emissions.

It estimated that depending on whether its high or low emission scenario prevails, emissions in 2020 could drop by about 18%-35% compared with 2019.

“However, depending on the speed of the recovery, by 2030, emissions growth may have returned to its pre-coronavirus levels or experienced a reduction of around 13% compared with pre-coronavirus projections, which equates to about 2019 levels, highlighting the urgent need for the sector to strengthen its emission reduction efforts,” it said.

The agency also argued that the use of liquefied natural gas would not support a transition to zero CO₂ emissions, and could increase international shipping’s climate impact when considering the whole lifecycle of all GHGs.

“Investments in LNG facilities are growing and could lead to stranded assets or perpetuate a carbon ‘lock-in’ effect as ships and onshore LNG infrastructure will make it harder to transition to low-carbon fuel,” it said.

LNG has fierce opponents that vocalise the rationale set out above, but it also has staunch proponents who believe it is a bridging fuel for zero-emissions shipping and that in combination with the right technology it could reduce carbon emissions even more.

Climate Action Tracker said that deepsea shipping would be best advised to use electro fuels such as ammonia, hydrogen, gas oil and methanol.

“In the long run, ammonia used either in internal combustion engines or in fuel cells is likely to be the most cost-effective option and is among the fuels with the potential to fully decarbonise the sector along with hydrogen and advanced biofuels,” it said.

OPINION

'Panama is denying seafarers their basic workers rights'

PANAMA Ship Registry, the world's largest ship register, has signalled its intention to allow seafarers 'subject to authorisation' to remain on board for up to 17 months 'due to the outbreak of Covid-19', writes *Mark Dickinson, general secretary of the seafarers' union Nautilus International.*

One can safely assume that this authorisation will follow swiftly. Such is the nature of the ship registration business, for that is what it is. It is run for commercial gain rather than the fulfilment of the states' obligations that derive from the United Nations Convention on the Law of the Sea.

You can say what you like about Panama's efforts to repatriate crew from Panama. That is of course welcome, but I'd say it smacks of them trying to look like they are doing something. It is clearly not a viable solution for the many thousands of seafarers on the 9,000 or so ships on the Panamanian register.

If Panama can state with such authority in its Merchant Marine Notice (03/2020) that seafarers at the end of this latest extension "shall be repatriated" then why not enforce that now?

Some seafarers have already been on board already for 15 months. This is a kick in the teeth to them and frankly inhumane. It pulls the rug from under everyone working to get crew changes done. It lets those countries who are dragging their feet off the hook. How soon do we think it will be before other flag states follow suit?

Crew contract extensions were agreed in good faith by employers represented by the Joint Negotiating Group and the International Transport Workers' Federation in March and April in response to the force majeure that the coronavirus pandemic arguably represented.

But now, with the International Maritime Organization and International Labour Organization having endorsed the joint industry protocols for safe crew changes, and with travel restrictions starting to ease, the conditions for force majeure no longer exist.

Crew changes can and must happen. Instead of providing the port states and major repatriation

hubs with a 'get out of jail free' card, Panama should be standing shoulder to shoulder with the seafarers and demanding an end to the crew change crisis.

Make no mistake, fatigued crews working for months after they were supposed to return home pose a serious threat to shipping safety and protection of the marine environment.

This is why the trade unions have called for their members to exercise their professional judgement in the face of such threats. Enough is enough, as the ITF succinctly put it.

The situation is beyond serious, there have been several reported suicides and violent attacks on board with seafarers' mental health deteriorating due to the stress of the crew change paralysis.

According to a group of UN Special Rapporteurs, depriving already vulnerable workers of choices in a situation of increased risks could already indicate the presence of forced labour.

This is a humanitarian crisis that must be responded to by all governments at the highest levels. Panama's response is shocking but entirely predictable in the cut-throat world of flags of convenience, where shipowners are customers and seafarers are mere commodities.

There are now around 300,000 seafarers waiting for crew changes to be enabled: 200,000 stuck on board awaiting disembarkation and 100,000 awaiting embarkation. This situation cannot be allowed to continue. If countries can open their doors again to tourism, they can surely get seafarers safely home to their loved ones.

Panama appears to be recklessly flouting the Maritime Labour Convention 2006. Its ships should therefore be targeted by port state control, inspected for deficiencies under the MLC, and detained if they do not meet international minimum standards including those relating to Seafarers' Employment Agreements.

As a flag of convenience, and the largest ship register in the world, Panama through its actions and inabilities has shown how the abuse of the ship

registration system undermines the effective governance and structure of the industry.

Panama's impotence in the face of its obligations under Unclos has been brutally exposed by the pandemic.

The view of shipping's future through a Japanese lens

THE new management plan devised by Japan's Mitsui OSK Lines is designed to align with the company's views about how the shipping industry will look in the future, *writes Cichen Shen*.

Plans to cut its overall fleet by up to 40 vessels and halve investment expenditure to ¥100bn (\$934m) over the next two years — alongside asset disposals — are not only a way to address the current market depression, but also the result of its caution about changes in future shipping trends.

The container line has envisaged a post-coronavirus world from 2022, with less movement of people and products. It also forecasts a backdrop of much more self-sufficiency in terms of industrial policies from countries across the globe. These scenarios will render "a significant decline in ocean transport volume".

The other two Japanese shipping giants, NYK Line and K Line, have yet to renew their strategic thinking. But they share similarities with MOL on many fronts, including their business portfolio, value proposition and their similar reactions to the coronavirus backdrop.

K Line, the smallest of the trio, has fleet reduction on its to-do list, too.

It told investors last month that dry bulkers and car carriers will be the "prime targets" as the two segments suffered the most from the virus disruption. In addition to vessels, the company also expected to sell properties and even overseas terminal businesses to shore up liquidity.

At the same time, NYK said it would continue to "promote asset liquidation" after already offloading ¥37bn of equity holdings and real estate in the past fiscal year.

I've said before, and it bears repeating now, the line between the denial of workers' rights and forced labour is a thin one. Panama has just made crossing that line an inevitability.

"We believe the world will not be 'post-corona' but 'co-existing with corona'," said the firm in its latest financial report.

Luckily, it is not completely negative about the forecast of coronavirus impact on shipping.

MOL argued that the coronavirus backdrop will accelerate the digitalisation process. MOL also gave more emphasis in its new outlook to its greater reliance on clean fuels.

The shipping conglomerate said it would strengthen its renewable energy-related business activity, such as the transport of fuel for biomass power generation. It has also decided to expand its liquefied natural gas domains and make inroads into the wind power sector.

More importantly, environmental strategies are now "core" to the company.

Three targets have been specified in the so-called MOL Group Environmental Vision 2.0: to deploy zero-emission, ocean-going vessels by 2030; to cut greenhouse gas emissions by 50% in 2050 from the 2008 baseline and; to make the entire business emission-free within this century.

A similar direction is also being pursued by NYK and K Line in their current long-term growth strategies.

This appears to be an encouraging portent for the future of green shipping if the Japanese players can fulfil these promises. These large shipping companies could lead the efforts to defeat the idea the coronavirus backdrop will derail the industry from the International Maritime Organization's decarbonisation agenda.

ANALYSIS

Weekly briefing: Positive signs for container lines; tankers exit US blacklist

THIS weekly briefing provides sector-by-sector coverage of the biggest news and analysis in shipping, direct from the Lloyd's List team.

Follow the links within the text to the relevant news items in each market segment

Containers

When the full scale of the coronavirus pandemic became visible during March this year, it was understandable to think that container carriers were about to feel the full wrath of the outbreak.

Containerised freight volumes, already hit by supply-side problems caused by Chinese factory closures in February, fell even further. International trade ground to a standstill as countries went into lockdown in an effort to prevent the spread of the disease, and in doing so all but closed their economies.

Economists issued dire warnings about a collapse in trade and a long period of global recession.

All those warnings appear to have been accurate. Figures from Container Trade Statistics showed that freight volumes during April fell 16.9% and were down 8% in first four months of the year.

Usually a collapse in demand would equate to a collapse in freight rates and with it a collapse in profitability. But capacity management by carriers has led to a situation that is, to use that much overworked word, unprecedented in container shipping history.

Rates have risen instead of falling, despite the slump in demand and carriers, if they hold their nerve, could be in line to make greater profits this year than last.

Maersk, the world's largest container line by capacity, reiterated earlier comments by CMA CGM, saying that second-quarter volume declines of 15%-18% were less severe than the 20%-25% it had initially feared.

While Maersk's full-year earnings guidance remains suspended, the company said it did expect second-quarter earnings to be slightly above the \$1.5bn in reported in the first quarter.

But as we reported earlier, cost savings made by carriers have been passed on to their suppliers, including non-operating owners and equipment lessors.

There was further evidence of that this week, with the news that Singamas Container Holdings has further trimmed assets amid the financial challenges of the pandemic.

Meanwhile, MPC Containers, the fast growing feedership owner, has mounted rescue talks with its bondholders as it faces potential bankruptcy due to liquidity problems.

This sentiment was echoed by German Shipowners' Association president Alfred Hartmann, who warned last week that the country's large number of small, and often family-owned, shipowners needed access to funds from their lenders if the German shipping sector was to avoid repeating the ravages of the global financial crisis in 2008-2009.

The large global carriers, fortified with a new sense of discipline and strengthened by their alliance arrangements, for now appear to be having a good crisis. Not everyone in container shipping is faring the same, however, and the full consequences of the pandemic will spread beyond just the carriers.

Tankers

Two Greek-linked tankers recently added to a blacklist by the US following new sanctions guidance on 'deceptive shipping practices' have been given a reprieve.

The US treasury department's Office of Foreign Assets Control announced last week that Afranav Maritime-owned *Athens Voyager* has been removed from its list of 'specially designated nationals', known as the 'SDN list', seemingly in return for a pledge of future compliance with the sanctions.

Also removed from the blacklist was the Dynacom-managed suezmax *Chios I*.

The delistings came just days after a meeting between the president of the Union of Greek Shipowners Theodore Veniamis and the US ambassador to Greece, Geoffrey Pyatt.

According to the Greek side, the ambassador — while reiterating the US' determination to strictly enforce sanctions — hinted strongly that the cases could have a “positive outcome”, given the shipowners' readiness to heed the warning and shun Venezuelan oil business.

However, at the same time, two further Greek-linked tankers were freshly blacklisted on Thursday for transacting with Venezuela's oil industry.

One of these, the 18-year-old aframax *Euroforce*, is managed by Eurotankers, which according to Lloyd's List Intelligence data has been one of the more frequent Greek callers in Venezuela over the last 12 months, going by tonnage arriving at terminals.

The other new addition to the blacklist, though, is the 2003-built aframax *Delos Voyager*, that databases link to Chemnav, begging the question of whether companies that play along are eligible for a blanket parole.

Ofac also blacklisted Mexican companies Libre Abordo and Schlager Business Group, as well as their co-owners, last week accusing them of helping Venezuela's president Nicolas Maduro evade US sanctions.

Meanwhile, the insolvency of oil trader Hin Leong has exposed its shipping unit Ocean Tankers to billions of dollars in contingent liabilities and vessel arrest risks.

Hin Leong's owners, the Lim family, have subsequently outlined a plan to wrest control over a third of shipping tonnage now on Ocean Tankers' operating fleet.

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' fleet of over 150 vessels.

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.

Finally, the Suez Canal Authority has extended its rebates for dry bulkers and tankers, including liquefied natural gas and liquefied petroleum gas carriers, until December 31 as it continues to encourage vessels to route voyages through the canal rather than around the Cape of Good Hope.

Dry Bulk

Capesize earnings continued their momentum, rising to the highest level in nine months as optimism spread. Vale, Brazil's mining giant, was allowed to reopen its mines in the Itabira complex, which had been shut in early June due to coronavirus cases.

The news meant that the market was expecting to see significantly higher volumes of iron ore move from Brazil in the second half of the year, lifting forward freight agreements higher. In the spot market, the average weighted capesize time charter was at \$26,672 per day at the close on Tuesday on the Baltic Exchange, from \$14,786 on June 16. That is the highest since September 26.

Meanwhile, the Baltic Exchange has concluded its review of the Baltic Capesize Index, with changes to be implemented in early July. The measure has been taken following feedback after the BCI turned negative twice this year. The proposed changes include stripping out voyage charters from the calculation to bring the index in line with the other dry bulk indices.

Smaller bulkers are also set to see increased earnings potential through the rest of the year, according to analysts, thanks to a strong Black Sea grains season, and low fleet growth.

The supramax and handysize segments should also benefit from higher values in the larger sizes as a ripple effect.

Globus Maritime, a Greece-based owner of five bulkers, however said the pandemic could add pressure to freight rates with negative consequences for its business.

The company, which raised \$12m through a public offering, said the proceeds would be used for general corporate purposes.

Supply chains to focus on 'resilience'

RESILIENCE is the key word for the maritime industry beyond coronavirus and applies to shippers, carriers, ports and other elements of the supply chain, according to a new report.

Firms “will have a new focus on resilience”, according to Michael Zimmerman, a partner at consulting firm AT Kearney Inc.

He said the pandemic has unleashed a “painful and chaotic period” as companies and logistics providers grapple with “halting recoveries of supply, ongoing demand destruction and secondary waves of infection”.

Mr Zimmerman is lead author of the annual “State of Logistics Report”, published this week by the Council of Supply Chain Management Professionals.

It is an annual assessment of how effective US companies — including manufacturers, retailers and their suppliers — have been in managing the costs and efficiency of their supply chains.

The report claims that corporate supply chains grew leaner in 2019 as spending on logistics and shipping-related business as a share of gross domestic product fell to 7.6% in 2019 from 7.9% the previous year.

Mr Zimmerman said companies now likely will need more warehouse space to keep more goods on hand to guard against potential shortages, while manufacturers will accelerate shifts that began before the pandemic, moving some production from China to “other parts of Asia and closer to home”.

Ocean shipping faces “continual disruption” the report states. It notes that in late 2018, volumes soared in anticipation of tariffs, so shippers entered 2019 with excess inventory that reduced ocean freight needs.

After the “cost anxieties and pricing uncertainty” of the International Maritime Organization’s sulphur regulations, which came into force on January 1 this year, the health crisis has now led to “planning chaos”.

“Ship and container imbalances and capacity uncertainty have driven up spot-market prices and suspended normal contracted rate negotiations as the demand picture remains clouded,” says the report.

Backlogs resulting from Asian production delays could boost volumes in the second half of 2020, but the 2021 and beyond end-market demand is “unclear”.

“Because carriers were already struggling with overcapacity, some will fail or be forced to merge,” the report says.

It cites the Altman Z-score as a financial metric which describes the overall financial health of a company. Companies with scores under 1.8 are considered at financial risk.

“The majority of ocean carriers are under that threshold,” the report states.

Furthermore, most carriers were performing poorly even during 2018’s relatively good times. These troubling trends will only accelerate with the coronavirus effects.

“Shippers reeling from the pandemic and eager to cut costs might serve as an accelerant in this deadly race,” the report states, adding that “carriers will either cover their costs or go out of business”.

As a result, shippers need to be prepared to react to certain market outcomes as a result of coronavirus, such as consolidation and bankruptcy, and “be ready to diversify their carrier portfolio”.

Ultimately, shippers need to anticipate those increased costs, prepare to negotiate, and keep options available to “quickly pivot” if needed.

Although ports started 2020 with optimism about growing volumes and newfound digital efficiencies, coronavirus now has them wrangling with declining volumes and other issues.

Many ports are experiencing congestion, with hundreds of thousands of boxes stranded at terminals as shippers are unable to pick up shipments and staffing conditions have been altered.

Throughput at the nation’s leading ports declined 8% in the first quarter of 2020, and 15% in March alone. With five locations fully or partially automated, US ports are catching up to European and Asian ports.

“The pandemic has spurred additional interest in automated cranes, automated guided vehicles,

automated port railway operations, and automated barge operations between nearby container ports.”

Meanwhile, the report states, “volumes are migrating to the east coast thanks to the widening of the Panama Canal, the raising of the Bayonne Bridge

between New York and New Jersey, and recent and coming upgrades to port infrastructure making the east coast more attractive”.

“Additionally, west coast ports have become relatively unattractive with congestion and strikes.”

Stimulus packages could accelerate decarbonisation

THE coronavirus outbreak could accelerate the push for decarbonisation in shipping as government stimulus packages and investments to rebuild economies focus on a re-setting on the carbon trajectory, according to Nick Brown, head of marine and offshore at Lloyd’s Register.

He has called on the UK to provide a supportive environment and appropriate policy initiatives that would help drive a transformation.

“The UK is well-placed to host or facilitate conversations on decarbonisation,” he told the Westminster Energy, Environment and Transport Forum.

He said it is in the shipping industry’s hands to shape what its decarbonised future looks like.

Lloyd’s Register believes the global shipping fleet will need to bring zero emission vessels into service in the next decade if the International Maritime Organization’s goals for 2030 and 2050 are to be achieved.

“There are many zero emission vessels technologies and combinations thereof that can be used to address decarbonisation — Lloyd’s Register has assessed 21 options — and the advantages and disadvantages, and the cost implications of future fuels are being sized up across the industry,” Mr Brown told the online forum.

“However, no shipping company will order ships utilising future fuels unless they are confident that the fuels they need are ready and available in the ports or routes they serve.

“Therefore, today’s fuel choice needs to evaluate how it transitions to a zero-carbon fuel in later life. At the moment some transition pathways look more resilient than others,” he said, “but there is a lot of

uncertainty and this space is continuously evolving.”

There is a cost to decarbonising the shipping industry. A study released in January by University Maritime Advisory Services and the Energy Transitions Commission for the Getting to Zero Coalition put a figure of \$1trn on the challenge that lies ahead for shipping over the next three decades.

“Depending on the production method of future fuels, the study’s authors estimate that the cumulative investment — including land-based infrastructure and production facilities — needed between 2030 and 2050 to halve shipping’s emissions amounts to about \$1.1trn, or an average of \$50bn-\$70bn annually for 20 years.”

However, Mr Brown observed that the study showed that just 13% of the investments needed are related to the ships themselves.

He said that while a variety of fuels will propel ships in the future, there will be only three sources: Electrons from renewable energy, bio feedstock, and natural gas with carbon capture and storage.

Renewables are subject to climate variables — although the European Union’s recovery package launched last week highlighted wind, solar and hydrogen — and the uptake of biofuels has so far been “incredibly limited.”

Even the production of hydrogen and ammonia from natural gas, now the focus of shipping’s attention, comes with its unique safety, supply and storage challenges.

Nevertheless, Mr Brown said the UK is well positioned competitively for hydrogen production and ammonia synthesis, so the country should take advantage of this through investments in clean energy growth.

MARKETS

Carriers beat a fleet retreat

REDUCED cargo demand has led to the cancellation and blankings of large numbers of container services, leaving vast amounts of capacity sitting idle.

Container lines are now responding to the new reality of demand by trimming their operational fleet sizes, according to new analysis by Alphaliner, which found that 11 of the top 12 carriers had reduced their operated fleet capacity in the first half of the year.

Maersk, the world's largest carrier by capacity, made the largest reduction in capacity, trimming its fleet by 236,000 teu to take it back down under 4m teu.

"The Danish carrier's chartered fleet has been reduced by 55 ships," Alphaliner said. "The capacity reduction fits the company strategy to focus more on logistics and not expand its liner fleet any further."

The decision not to follow the example of carriers which ordered ultra-large 23,000 teu ships would "not be regretted in these challenging times of reduced cargo demand", it added.

Maersk's share of the total containership fleet, which stood at 17.8% at the beginning of the year, has since dropped to 16.6%.

In percentage terms, the biggest cuts came from regional specialist Pacific International Line and Wan Hai, which fell by 14% and 10.7%, respectively.

The majority of the major lines have reduced their capacity by less than Maersk's 5.6%, with CMA CGM, Ocean Network Express, Cosco and Mediterranean Shipping Co only losing between 1% and 2% of existing capacity.

German carrier Hapag-Lloyd has been the most cautious in cutting capacity, with its fleet

standing at only five fewer vessels than at the start of the year.

"As some redelivered chartered ships were replaced by bigger units, the real capacity reduction only represented 3,780 teu (-0.2%)," Alphaliner said.

The odd one out in the pack is South Korea's HMM, which saw its fleet surge by 42% due to a mistimed fleet expansion programme and the redelivery of 100,000 teu of capacity that had been chartered to Maersk and MSC as part of the 2M+HMM agreement that expired on April 1.

"Not only did HMM have to redeploy these three 13,100 teu and six 10,100 teu ships during the second quarter, but it also took charge of the first ships in a 12-ship series of 24,000 teu newbuildings," Alphaliner said.

Four of these ultra-large containerships were already delivered by mid-June and are now trading between Asia and northern Europe as part of The Alliance.

But Alphaliner warned that HMM faced a "mission impossible" to fill the extra capacity it has coming into service.

"The steep fleet size increase had already led to vessel cascading at HMM and it has forced the carrier to idle ships," Alphaliner said. "A massive 33% of HMM's fleet was recorded as inactive at the end of May."

That figure had since fallen to 20% as ships returned to service, but the company still has eight more ULCs due for delivery before the middle of September, which will increase its fleet by 192,000 teu, taking it to the number eight position in the top 10 carriers, displacing Yang Ming.

IN OTHER NEWS

Crew crisis overshadows day to celebrate seafaring

SEAFARERS should be honoured and celebrated for the vital role they play in keeping the world supplied with goods.

Every year, for the past 10 years, the Day of the Seafarer recognises and thanks the 1.2m seafarers actively employed.

But, according to Synergy Group chief executive Rajesh Unni, this year's tribute on June 25 is "clouded with sadness and frustration".

UK prime minister pledges commitment to seafarers in crew change crisis

UK PRIME minister Boris Johnson has pledged to hold talks on how to solve the plight of seafarers caught up in the crew change crisis caused by the coronavirus outbreak.

He was asked by former shipping minister Nusrat Ghani during his weekly questions session in Parliament if he would be willing to meet industry representatives.

She urged the prime minister to meet the UK Chamber of Shipping in an effort to “marshal the global community, to help get our seafarers home and ensure that free trade continues to flow”.

Suez Canal extends rebates for bulkers and tankers

THE Suez Canal Authority has extended its rebates for dry bulkers and tankers, including liquified natural gas and liquefied petroleum gas carriers, as it continues to encourage vessels to route voyages through the

canal rather than around the Cape of Good Hope.

In its latest update circular, the SCA extends until December 31, this year the discounts offered to dry bulk and liquid carriers transiting the canal.

The rate reductions apply to laden or ballast dry bulk vessels coming from or heading to the east coast of North America stretching to ports located north of Savannah.

GoodBulk seals \$200m refinancing amid capesize market surge

GODDBULK has secured a \$200m five-year loan to refinance most of its existing credit facilities.

The move is consistent with the capesize bulker owner’s policy of “being prepared”, chief executive John Michael Radziwill said.

The loan, which has received credit committee approvals from the banks, is being provided by existing lenders to the company and will refinance the full amounts outstanding under five of GoodBulk’s existing credit

facilities on better terms.

Interest of Libor plus 2.35% is about 0.15% below the present spread and the new terms include a non-amortising period up until January 2021, the company said.

Valero signs fuel deal with UK port

THE Port of Cardiff, run by Associated British Ports, has agreed to the start of a new long-term contract with Texas refining firm Valero Energy Corp for the use of an existing storage and distribution terminal in South Wales.

The new agreement includes occupation of a 12-acre storage and distribution terminal adjacent to ABP’s Roath Dock in Cardiff, which will be fed by coastal tankers.

Valero will deliver predominantly road fuels, including petrol, ultra-low sulphur diesel and biofuels, as well as heating fuels, into Cardiff for further distribution to a regional market of 1.5m people.

Classified notices follow



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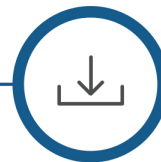
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