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UK shipping sanctions guide shows closer alignment to US

THE UK SEEMS set to take a tougher US-style approach to maritime sanctions in the wake of Brexit, following the issue of new guidelines from the Office of Financial Sanctions Implementation.

The expectation is for greater onus on owners to nip malpractice in the bud, on pain of breaching finance covenants and even risking loss of insurance cover, which could see greater demand for third-party monitoring services.

The move comes after the US separately introduced sanctions on Russia's previously excluded Nord Stream 2 and TurkStream gas pipelines, in a development with implications for some specialist vessels time and the provision of P&I cover to them.

The Office of Financial Sanctions Implementation stipulations contain no changes to current UK law as such, but instead counsel closer scrutiny of vessel behaviour and the structures of foreign companies involved in transactions, and greater awareness that trade documents may not be genuine.

The office points to a variety of tactics used to confuse or conceal the identities of vessels, cargo, routes and ports involved in the illicit movement of goods and funds.

UK companies should conduct checks on ownership structures, vessel flag information, details of home ports and recently visited ports before striking trade deals, it adds.

Special attention is paid to concealment efforts by a number of sanctioned countries, including North Korea, Iran, Libya and Syria.

Ships switching of their Automatic Identification System should in particularly be noted as an indicator, although switch-off does not necessarily confirm illicit shipping practices. Ship-to-ship transfers, while again often legitimate, is another red flag.

North Korean is singled out for tampering with bills of lading, invoices and insurance paperwork to obscure the origin of a vessel, its goods and its destination, and the country sometimes resorts to front companies.

According to shipping lawyers who have analysed the guidelines, there are obvious similarities with an advisory issued by the US Office of Foreign Assets Control in May this year, which placed increased onus on the maritime sector in the fight against financial crime.

"It looks increasingly likely that the UK's sanctions regime will diverge from the EU's current sanctions position when the Brexit transition period comes to an end," said Leigh Hansson, a partner at Reed Smith. "The guidance identifies a number of illicit and suspicious shipping practices that look remarkably similar to those of Ofac.

"The tough approach of the US sanctions regime has proved a notable element of the Trump administration, particularly on the maritime sector, and it is quite possible the UK will look to take the same aggressive enforcement stance in a post-Brexit world."

The UK is a key insurance and finance hub, as well as the jurisdiction of choice for many shipping and commodities contracts, Ms Hansson added.

A breach of UK sanctions could trigger an event of default under finance covenants, resulting in difficulties in enforcing contractual rights or triggering of sanctions clauses under insurance contracts, giving them an extra-territorial flavour.

Clyde & Co partner Patrick Murphy added: "Neither the Ofac advisory nor OFSI's note change the law in the US or UK. What it is clear, however, is that both are now looking to the maritime industry to tackle sanctions evasion by identifying bad actors and acting on deceptive shipping practices, in much the same way as they have previously looked to the financial services industry to assist in sanctions compliance."

Maritime companies should consider themselves on notice that if they do not adopt the recommended due diligence processes in the advisory notes and are found to have assisted sanctions evasion, they can expect the sort of punishments dealt out to some banks in recent years.

Sebastian Villyn, head of risk and compliance data at Lloyd's List Intelligence, said that while OFSI's document was published as a guideline, governments increasingly expect robust compliance checks as standard.

"The UK is the centre for the maritime insurance market, and it is unsurprising that the OFSI is issuing guidance to the maritime industry in the wake of Ofac's detailed instruction," he said. "Companies interacting with the maritime supply chain will be expected to stay on top of deceptive shipping practises. Access to tools which identify suspicious ship-to-ship operations, prolonged AIS gaps and absence of port calls, and beneficial ownership information for vessels is critical to mitigating a company's exposure."

A circular from Steamship Mutual has given an update on US efforts to limit Russia's influence over Europe's energy supply under the Countering America's Adversaries Through Sanctions Act 2017.

"The sanctions target the provision of cable-laying and other ships used in such projects, and a number of related services which could include the provision of P&I insurance," Steamship said.

S.232 of CAATSA gives the US government discretionary authority to impose sanctions in respect of activities related to the construction of energy export pipelines from Russia.

Until now, it had been assumed that the Nord Stream 2 pipeline between Russia and Germany via the Baltic, and the TurkStream pipeline connecting Russia with Turkey via the Black Sea were excluded, as both were initiated prior to the enactment of the legislation.

But updated guidance issued on July 15 specifically brings them by name into the ambit of s.232, on the grounds that they increase Russia influence.

"Nord Stream 2 and the second line of TurkStream — both of which are under construction — could undermine Europe's energy security by maintaining Russia's dominant share in Europe's gas markets for decades, discouraging investment in critical diversification projects, and limiting the ability of European countries to gain leverage over Russia on issues of price, commercial transparency and the environment," the US State Department said.

WHAT TO WATCH

Are shipping's banks finally coming back?

EUROPEAN banks, traditionally the mainstay of global ship financing, have seen their market share tumble since the global financial crisis sparked in 2008.

However, to use a phrase much in vogue, they may be flattening the curve — albeit in a financing landscape that, like much else, has been thrown out of its normal rhythms by the coronavirus pandemic.

Lending by the industry's leading 40 banks fell to $300bn at the end of 2019, according to analyst and ex-banker Ted Petropoulos, who regularly measures global ship finance portfolios through his Petrofin Research house. It is the lowest level since Petrofin started monitoring the industry in 2008.

European banks, though, showed a small increase collectively and their share of the global industry portfolio rose to more than 60%, up from 58.7% at end of 2018.

Standout names included BNP Paribas, which became the world's largest shipping lender coming into this year, with a portfolio of nearly $18bn; and second-placed KfW, which also saw its portfolio edge higher.

UK, French and Dutch banks overall increased the size of their shipping portfolios last year, including Amsterdam-based ING Bank, which sharply increased lending to vault into the ranks of the top 10 lenders.

At the same time, the Export-Import Bank of China — the world's top lender a year earlier — sank to third place as all the top Asia banks trimmed their exposure to shipping.

In the case of China Exim and fourth-placed Bank of China, this may have been a result of a broader tightening of credit conditions in the Chinese economy since early 2018 — a policy that persisted until June 2020, when the central bank sought to reboot the pandemic-hit economy.

After a long period of growth, ship financing by Asian banks receded by 6.45% last year, according to Petrofin, but Chinese leasing grew by 12.8%, it found.

"The decline of western banks' ship finance appears to have run its course and there was a much smaller reduction in overall lending last year," says Mr Petropoulos. "I think that the stage was set this year for an increase — but then the coronavirus happened and we had a complete change of scenery."

While the pandemic has hit shipping and its financing in several ways, with banks counting the cost of the damage inflicted on my other business sectors, Mr Petropoulos feels that in the longer term, the results may not be all bad for shipping.

"Shipping has been perceived as risky and volatile and that is priced into the loan margins to some extent. But the coronavirus has been a bit of a revelation — shipping has actually performed quite well and the numbers asking to restructure have been rather limited."

Meanwhile, leasing companies have been chastened, particularly because of their exposure to an aviation industry that for several months virtually shut down.

"Aviation was seen as the ultimate in safe lending and it has been a shock to the leasing system," he says. "A number of ship leasing transactions have been halted or at least delayed."

For shipping to continue growing, as well as meeting new environmental requirements, there remains a funding gap, Mr Petropoulos believes.

Yet this is not on the scale of past estimations that have been "discredited as huge figures were drawn out of thin air".

"Markets abhor a vacuum, so these gaps are gradually covered," he said. "Ship finance is not all rosy at the moment and I think that finance will continue to be constrained this year, given everything that is going on.

"But I think you can make out a positive case for shipping. If provisions are kept low, then inevitably banks will show more interest again. Despite the increased volatility of shipping markets, it has showed itself to be a lesser risk.

"Now, if existing banks make money, I think you will see ship finance departments get higher budgets over time, as well as new banks coming in — although we will probably have to wait for this crisis to be overcome for that to happen."

Apart from the amount of finance that the industry is able to attract, the cost of it is more than of passing concern. Recent developments include examples of alternative finance and one or two new banks moving into the space vacated by some traditional lenders, but providing loans at a significantly higher cost.

That is a concern that applies, too, to the capital markets' reduced interest in shipping deals.

The US stock markets have been closed for initial public offerings from within the industry for several years, while institutional private equity's fascination with shipping deals has also waned.

According to financial sources, funds may still be receptive to equity participations or clearly distressed shipping deals, but their ideas about returns on equity are higher than ever — with a 15% internal rate of return goal.

At the same time, several smaller US-listed shipowners have shown this year that they can still raise double-digit million-dollar amounts from the markets — albeit diluting existing shareholders and usually at discounted share prices.

The variety of financing activity being conducted in the market only goes to underline the mantra that funding will continue to be available to shipping and remains a question of cost.

Comparisons between the present — as the world battles the coronavirus pandemic — and the global financial crisis of a decade ago are inevitable.

However, analysts and shipping pundits have largely agreed on two underlying positives in today's situation: that the banks are better capitalised than they were back then; and that in the interim more shipowners have learned the lesson that reserves of liquidity are needed for precisely such difficult days.

OPINION

Industry tortoise derided by Mr Hare is unfair race

SOCIAL media has built for itself a reputation as a crucible of unregulated invective and unsupported opinions. Anyone unwise enough to express an alternative to the prevailing attitude should expect to receive a barrage of inbound flak, *writes Richard Clayton*.

And that's how shipping must feel as it tries, collectively, to edge towards a reduced carbon, then a zero-carbon future.

Among the more obviously unhelpful comments was a description of shipping emissions goals by Climate Action Tracker as "critically insufficient".

The tracker is an independent scientific analysis that measures government climate action against the globally agreed aims. It is produced by Climate Analytics and the New Climate Institute.

In a report released late in June, the team of independent analysts said that "shipping emissions may continue to rise... not least because the actions proposed are far too weak".

Not a definite 'would continue' but a more nuanced 'may continue'.

The International Maritime Organization's strategy for reducing emissions, with the target for 2030 and the goal for 2050, are, derided CAT, "very limited and slow".

Even the proposal of moving towards liquefied natural gas as a bridging fuel comes in for criticism.

"There is tremendous potential for shipping to decarbonise completely and reach zero emissions by 2050, yet there is very little sign of this sector moving anywhere near fast enough, and certainly nowhere near a Paris Agreement pathway," said Bill Hare, chief executive of Climate Analytics.

"Simply invoking the obvious measure of energy efficiency on new ships doesn't cut it, and the industry must rule out LNG as an option."

However, the options that would enable shipping to decarbonise completely appear lost to the industry.

Methanol? If so, why has no one followed Stena's lead over the past five years? Biofuels? A good choice but lacking in availability or sustainability. Hydrogen? Keeping it cold enough to remain a liquid would take more energy than it's worth. Ammonia? The first serious trials are only just beginning.

Then there's the huge investment in supply infrastructure that would mostly (85%) fall onto the upstream energy sector. That would put the decision as to which fuel to choose firmly with the energy majors, not with shipping. As energy leaders have not settled on the solution, how can shipping place newbuilding orders, and how can ports plan for storage and supply?

There is also the safety of those expected to be involved in handling these alternative fuels. It has taken decades to get the existing bunker sector safe, and we can anticipate it taking years to do the same for the handling of hydrogen and ammonia.

To charge shipping with critical insufficiency because progress in one area has been slow is to seriously misunderstand the complexity of this issue.

There are operational and technical factors in play that will involve class and flag as well as regulators at the IMO, and there are community considerations that must be taken on board when the fuel options are addressed.

And what of the "tremendous potential" for shipping to decarbonise completely? Please suggest a way forward, Mr Hare, because the industry is struggling to see it.

No one doubts shipping's need to rethink the fuels it consumes and the way it consumes them; what is in doubt is how shipping can be reconstructed while remaining afloat — literally and financially.

Analytics offers great potential to see the size and scope of a problem, but it does not give much clarity about how the problem can be solved.

Case highlights divide between law and perception

LEGAL experts say Bangladeshi widow Hamida Begum's bid for compensation from Maran is destined to fail, *writes David Osler*.

But whatever the outcome, the ethical and public relations repercussions for the industry stand to be considerable, and could take time to play out.

Ms Begum's husband, Khalil Mollah, died while working on the demolition of *Maran Centaurus* in 2018. The very large crude carrier had previously been owned by the UK-based tanker operator.

At an application for summary judgment last month, Justice Robert Jay concluded that her claim for unjust enrichment is unsustainable.

But he also ruled that she does have a real prospect of succeeding in her claim of negligence, and also a real prospect of establishing that the claim is governed by English law.

Don't take the wording too literally; "real prospect of success" is just legalese for "not a no-hoper" and carries no attendant suggestion of any given case being a racing certainty.

The matter is not thought to be over, although with the backlog caused by the coronavirus pandemic, any appeal is unlikely to be heard until next year.

In an interview with Lloyd's List, Robert Bright QC, who acted for Maran, seemed entirely confident of victory. We also published an opinion from a Clyde & Co partner, who largely concurred.

It is far from clear that Maran has any duty of care, or that an incident in Bangladesh is a matter for the English legal system. And given that the events ¬in question took place in 2018, the claim is likely to be time-barred.

But Ms Begum has formidable firepower behind her. She is being represented Leigh Day, a law firm dismissed by detractors as archetypal no-win no-fee ambulance chasers, and lauded by equally numerous supporters as principled defenders of the underdog.

The firm has routinely attracted frequent brickbats for taking up cudgels for Iraqis allegedly tortured by British soldiers. It has also acted for survivors of the British colonial authorities' internment of Mau Mau fighters in the Kenyan insurgency of the 1950s, the dumping of toxic waste by a vessel on charter to Trafigura in 2006, and numerous other causes célèbres.

Leigh Day maintains that Maran Tankers had the ability to control where the ship was scrapped. Bangladesh has a poor record on safety.

It also contends that shipping companies cannot rely on contractual clauses from cash buyers that stipulate the use of ethical shipyards, when it is obvious that these clauses will be ignored.

And while not part of Leigh Day's argument, had the fatal accident occurred after the current European Union guidelines on ship scrapping came into force just months later, there would have been a high likelihood of criminal prosecution.

Similar cases have simply been paid off out of court. Given that legal action is vastly expensive and time-consuming, that might have seemed the obvious course of action here.

But Maran has decided to stand firm against the prospect of further claims. Ultimately, it is down to the courts to reach their conclusion.

After all, even once current scandalously low occupational health and safety standards are raised — and that must happen, sooner rather than later — injuries and fatalities will continue to occur.

Then there is the PR angle. Leigh Day's arguments will find a ready echo from non-governmental organisations that campaign on the shipbreaking issue.

Whether shipping wins or loses in the court of law, the court of public opinion will be a one-way bet.

Ship breaking case turns spotlight on owners

SHIPOWNERS will have to be more vigilant and more involved in the ship recycling process if lessons from a high-profile legal case are to be learned, *writes Anastassios Adamopoulos*.

Bangladeshi national Hamida Begum has taken action against Maran Tankers in connection with the death of her husband, Khalil Mollah, while working on the demolition of *Maran Centaurus* in 2018.

The very large crude carrier had previously been owned by the UK-based tanker operator. At an application for summary judgment last month, Justice Robert Jay concluded that her compensation claim is unsustainable.

But he also ruled that she does have a real prospect of succeeding in her claim of negligence. Maran has said it will appeal.

Arjun Mital, legal counsel at GMS, a Dubai-based buyer of ships and offshore assets for recycling, said that if the shipping company were ruled to be liable it would force shipowners to become more active participants in the process of selling and scrapping vessels.

"It requires you to have corresponding clauses in the contract where you get into the issues of bringing the owners more involved in identifying where it is that the vessel is going to be scrapped, what the facilities are, what the regulations [are] and how the practices in the yard will be followed," Mr Mital said during a webinar.

A judge in the High Court in London ruled that Ms Begum would be eligible to seek compensation in the UK for her husband's death, potentially opening a path for claims for similar cases.

GMS legal counsel Nelson Cheng noted that while an out of court settlement could be the easiest option for the company, there is the risk it could open the "floodgates" for these types of claims.

"The arguments may not be legally sound but knowing the reputational risk and media attention that could be used to pressure owners, I think that could be dangerous... if for example there is no definitive conclusion in the case," he said.

Mr Mital said that in the case of a decision against the company, owners would need to plan ahead better for recycling and refrain from making last-minute decisions on sales for scrap.

Establishing which regulations apply to their ships, what processes they need to follow and which yards are most appropriate are all part of that process.

ANALYSIS

LNG's role as a bridging fuel for shipping faces challenge

LIQUEFIED natural gas has long been understood by the shipping industry as a bridging fuel, a low-carbon step on the pathway to a zero-carbon future.

Before the coronavirus pandemic, many vessel operators — especially in the container and cruise sectors — had committed to LNG.

"LNG is the fuel of the future," Rodolphe Saadé, chief executive of CMA CGM, said in December 2019 after signing an agreement with Total to supply 300,000 tonnes of LNG every year between 2020 and 2030. This would fuel nine newbuilding container ships.

But LNG has strong opponents. In a position paper on shipping's progress on decarbonisation, released in June, analysts at Climate Action Tracker stated that the fuel "is not an option to support the transition to alternative energy sources, notwithstanding a perception in the industry that it is a key bridging fuel".

They claimed studies had shown that instead of reducing emissions, adopting LNG would actually increase shipping's climate impact when the whole lifecycle of all GHG gases is taken into account.

For this reason, Climate Action Tracker rated the 2030 climate targets for shipping as "critically insufficient" and commented that actions currently proposed are "far too weak".

So what progress has been made with the zero-carbon synthetic fuels that would get the industry across the International Maritime Organization's regulatory lines in 2030 and 2050?

Methanol has successfully fuelled the Baltic Sea ferry *Stena Germanica* for five years. When produced from renewable sources, methanol offers a pathway towards meeting carbon reduction targets.

The methanol for *Germanica* is supplied by Methanex. Waterfront Shipping, a wholly owned subsidiary of Methanex, also operates 11 methanol-fuelled tankers.

Stuart McCall, head of business development at Methanex, said the company "continues to uncover innovative technological advances that optimise the performance and efficiency of the fuel". But the lack of wider take-up after five successful years speaks of the industry's uncertainty.

Biofuels are also under trial, with container lines showing interest.

MSC has committed to using 30% biofuel blends, CMA CGM has linked up with Shell to supply second-generation biofuel, and Maersk is working with H&M Group on carbon-neutral transport options involving biofuel.

These trials have used bio-derived feedstocks such as waste frying oil, industrial waste residues, and lignocellulosic biomass. These have proved successful as a drop-in fuel, however, the option is expected to suffer from problems of availability and sustainability.

Before the coronavirus grounded the world's airplanes, airlines were trialling biofuels and would compete with shipping for supplies. Finding sufficient volumes is known to be a major concern.

Meanwhile, a forum run by the Sustainable Shipping Initiative in Madrid last December heard that biofuel generated from crops grown on former Brazilian rain forest couldn't be considered a sustainable source.

The prospects for hydrogen and ammonia have been addressed by the Hydrogen Council, which was set up in 2017 to increase the visibility of hydrogen solutions in helping to meet climate goals.

In a paper entitled Path to Hydrogen Competitiveness: A Cost Perspective, published this year, the Council concluded that there was potential to use hydrogen fuel cells in small regional ferries in the near term.

Hydrogen could serve as a competitive low-carbon alternative to electric ferries before 2030, the paper said, as the latter requires expensive large batteries and associated charging and infrastructure.

For larger ferries, the low carbon option would be biodiesel after 2030 because of the high cost, weight, and volume of the batteries required for vessels demanding high fuel consumption.

After 2035, the hydrogen fuel cell ship could become competitive as the cost of fuel cells and hydrogen fuel declines. It was noted that the competitiveness of hydrogen as an alternative fuel would be highly sensitive to the cost and availability of biodiesel.

But for deepsea shipping, especially containerships, the Hydrogen Council acknowledged that the most viable low-carbon fuel would be ammonia. To remain a liquid, ammonia must be kept at –33.6°C (hydrogen must be kept at –252.87°C); and unlike hydrogen, ammonia can be used directly, although the conversion of hydrogen to ammonia is a well-established and low-cost process.

In June, a partnership of Wärtsilä, Repsol, and shipowner Knutsen OAS announced the first long-term, full scale testing of ammonia as a fuel in a marine four-stroke combustion engine.

The project is scheduled to begin early in 2021 at the Sustainable Energy Catapult Centre's testing facilities in Norway. It has been underpinned with a grant from the Norwegian Research Council.

Speaking at the launch, Norwegian petroleum and energy minister Tina Bru said the project would provide "important input to the development of regulations for the use of ammonia and other low-carbon fuels."

Egil Hystad, general manager, power systems at Wärtsilä, said he was keen to understand the combustion properties of ammonia as a carbon-free fuel in multi-fuel engines. "Ammonia storage and supply systems will be designed and developed for maximum personal safety, and in parallel with the Fuel Gas Handling System under development as part of the European Union's ShipFC project."

ShipFC is a five-year demo project where the Eidesvik offshore ship *Viking Energy* will become the world's first zero emissions supply vessel – with fuel cells powered by ammonia.

In their March 2020 Techno-Economic Assessment of Zero-carbon Fuels, Lloyd's Register and UMAS (University Maritime Advisory Services) provide estimates of the economic viability, technological feasibility, and community readiness of zero-carbon fuels.

They conclude that different zero-carbon options will be more competitive in different decades. "There is not one option which is the most competitive from today through to 2050."

From the perspective of technology readiness, diesel, LNG, and methanol are more mature than hydrogen and ammonia as rules and regulations currently exist and there are vessels already using these fuels. Moreover, to be widely available, proponents of ammonia and hydrogen must solve the challenges of storage and bunkering infrastructure.

The selection of fuel is just one of the many decisions the industry must make if the 2030 and 2050 targets are to be met.

With an estimated 85% of investment required from the upstream supply of these fuels — only 15% from shipping stakeholders — maritime must also factor in upstream choices.

Shipping's green push faces virtual halt

THE coronavirus pandemic has halted progress on decarbonisation regulatory negotiations in 2020.

The International Maritime Organization postponed official meetings until further notice in March — and, with the world still very much in a precarious situation with the pandemic, it is likely that there will not be any conventions at the London headquarters of the global regulator for the rest of the year.

This has already caused a delay in crucial decisions around short-term greenhouse gas emissions-reducing measures that were expected to be taken this year.

While a missed year will not derail the long-term decarbonisation regulatory trajectory, it does add to regulators' workload and could complicate the agreed timeline in the short term.

There are efforts to keep the momentum going so the pressure of delivering in time is not lost on countries.

The IMO member governments and organisations held an informal meeting in July to exchange views on short-term measures, generating a positive reaction from NGOs that are often the organization's biggest critics.

Although member states appear to be converging on what short-term measures they would like to adopt, with technical and operational efficiency measures on the table, without an official meeting, there will not be any new regulations agreed upon.

There is still hope yet.

The green lobby has been pushing the IMO to hold the missed meetings virtually. The organisation initially said it did not have the capabilities to do that.

However, there is hope that the informal virtual talks held earlier in July are a good start — and, with some more work, this could be feasible.

The IMO has been clear that its biggest priority in the middle of the coronavirus disruption was attending to its environmental obligations.

Difficulty doing this means it is even less likely that any official work on matters of security, safety and crewing regulations will be achieved in 2020.

With international regulations in induced hibernation, regional actors will take centre stage.

For the rest of the year, the single biggest regulatory development for maritime will be the discussions of emissions regulations at the European Parliament in September.

MEPs on the environment committee have proposed that ships calling at European Union ports not only reduce their carbon intensity by 40% by 2030 — based on an undefined year for now — but also that maritime should be part of the EU Emissions Trading System.

This is a move the industry has vehemently opposed and previously fended off successfully.

However, this time it's different — and, with the full backing of a vigilant European Commission, shipping will almost certainly become part of the ETS. The question is when and how.

The European Parliament, which has long wanted shipping in the ETS, could demand amendments to the MRV proposal, before approving it, potentially yielding a less stringent text.

Regardless of when it happens, though, the parliament will support the reform proposal and amendments are unlikely to be major.

Negotiations with EU governments, where shipping lobbies will have more influence, will follow.

Despite things moving forward, there will not be any agreements this year out of the EU either.

Trilateral negotiations are known to be cumbersome and long, but these early stages will no doubt be consequential to the final outcome.

Keeping an eye on developments out of Brussels, shipowners should also be ready to comply with new rules starting on January 1, 2021.

Ships of 500 gt and above must have an inventory of hazardous materials on board if they want to call at an EU port or anchorage.

MARKETS

Box freight rates in the balance

CARRIERS face a "delicate balancing act" as they seek to return capacity to the market and maintain the solid rates gains they have made this year.

"We've seen contracted rates holding comparatively steady, while spot rates have actually been rising from April and through May and June," said Patrik Berglund, chief executive of rates specialist Xeneta.

"Given the short and mid-term macro-economic situation that has taken many by surprise. The key has been carriers conducting a delicate balancing act to remove tonnage and adjust routes in accordance with demand. However, it is difficult to maintain that for the long term and, let's face it, the coronavirus is not going anywhere fast."

The latest spot rate data from the Shanghai Shipping Association shows that spot rates on the transpacific jumped 17% this week, rising $463 to $3,167 per feu. The wider Shanghai Containerised Freight Index was up 8%.

But Mr Berglund warned there were signs of a slowdown.

"Our latest intelligence shows that spot rates have finally begun to slide on key Asia-northern Europe and Asia-US west coast trades, suggesting the recent reinstatement of routes and tonnage is driving down prices. That is obviously a concern for carriers who face a difficult decision: keep reintroducing tonnage and try and gain market share, yet undermine rates, or withhold services and keep propping them up."

Moreover, trade data indicated that demand did not support a rapid expansion of capacity, he added.

Xeneta's trade figures showed that after four months of declines, European imports rose only 0.2% in July but were still down 2% on the corresponding period last year, and exports were also down 2%.

In the US, July imports declined 0.1%, although exports were up.

"The carriers have been working flat out on strategy and that has maintained a relatively solid rates course in this most trying of times," Mr Beglund said. "However, they cannot control external factors and key indicators are undoubtedly a cause for concern."

The continuing impact of the pandemic on consumer spending suggested any recovery would take time.

"It is a highly complex picture, and that creates a real challenge for both carriers to effectively manage rates and shippers to know what they should be paying to gain real value for cargoes," added Mr Berglund.

Pandemic overhang clouds LNG uptick in second half

LIQUEFIED natural gas demand may have staged a rebound in two of the world's most populated countries but growth in the commodity trade has slowed to crawl following a benign winter and coronavirus-led demand disruption, which is holding back commodity prices and shipping rates.

China's LNG imports sharply rose in May, clawing back losses triggered by the coronavirus pandemic, to post a 7.8% year-on-year increase for the first five months of this year, data released by China's customs department showed.

Separately released data from India's oil ministry also showed the country's LNG imports edging up by only 0.5% to 1.83m tonnes in May, a marked improvement from levels seen in April when stricter lockdown measures were in place.

These developments in two fast-rising LNG importing countries did not significantly boost rates for oceangoing LNG tankers.

Shipbrokerage Fearnleys assessed shipping rates for spot trades in the east of Suez at $32,000 as of July 20, 2020, up $1,000 from a week ago but down from $58,000 on July 29, 2019.

One-year term charter rates were flat week on week at $44,000 on July 20, 2020, just over half of the going rate of $84,000 as at July 29, 2019, according to Fearnleys' assessments.

LNG shipping was not spared the bruising damage of the coronavirus pandemic, extending the pain of a lack of seasonal boost from a milder than usual 2019–2020 winter in the northern hemisphere.

What did not help bolster trade and shipping demand is the fact that LNG spot prices in the two largest regional markets, Asia and Europe, fell to record lows, vastly compromising the margins supporting cargo flows, particularly from the US — the third-largest LNG exporter after Qatar and Australia.

Still, S&P Global Platts' manager for Asian LNG Analytics, Jeff Moore, noted that US exports to Asia have continued despite a surge in US cargo cancellations.

Qatar, on the other hand, "sent their lowest-ever volumes to Asia in April, delivering just under 3m tonnes in that month".

He argued that these changing trade flows should have been "positive" tonne-mile wise, but shipping rates may have been hurt by excess vessel supply and lower global liquefaction utilisation.

The Paris-based International Energy Agency projected that global liquefaction utilisation would fall to about 90% this year, down 6% from 2019.

Economies worldwide have slowed and struggled to lay to rest fears of a resurgence in the pandemic.

This has dampened LNG demand and depressed prices for the commodity to persistently low levels, which is not supporting ramp-ups at liquefaction plants.

Brokerage Poten & Partners projects a decline of 6.7m tonnes in LNG demand this year from 2019 levels, with potential for this loss to widen to 13.8m tonnes on taking in the risks of secondary waves in the pandemic and economic recessions.

Demand falls would be widespread, save for China and some European countries that may still see marginal growth, head of global business intelligence, Jason Feer, said.

Poten also expects monthly global LNG imports to average 29m tonnes during May to December, down from 32m tonnes for January to April.

Platts has, however, held on to the view that the LNG market will still expand this year by less than 9m tonnes, to 363m tonnes.

This increment is less than a quarter of the more than 40m tonnes added to global trade in 2019 compared with levels in 2018.

Meanwhile, any trade expansion this summer looks likely to be challenged, both by demand and supply-side factors.

Wood Mackenzie projected that the first “annual season-on-season” contraction in eight years would take place this summer, with demand expected to fall 2.7% or 3m tonnes, research director, Robert Sims said.

The US Energy Information Administration has already flagged a fall in exports from the country now considered as the swing producer in the LNG sector.

The US exported just 4bn cu ft per day of LNG in June, less than half of the 9.8bn cu ft per day posted in March.

“A lot is riding on the opening of arbitrage opportunities as we approach the winter months,” said Poten chairman emeritus Michael Tusiani. “Short of that, despite some bright spots in LNG demand, a low-price environment will continue for months to come.”

Drawing on prices of LNG futures traded during Eurozone afternoon hours on July 22, he said the arbitrage for US cargoes “was closed into October” but “prospects are improving significantly for November and December, given winter prices are much stronger than fall”.

Arbitrage for US cargoes into Asia Pacific “appears open from September onwards”, he said.

These numbers, based on inter-basin price spreads, change on a daily basis and have been even more volatile since the start of the pandemic.

While LNG prices in Asia and Europe are still trading at depressed levels, the inter-basin price spread has widened in favour of trades in Asia over Europe. This has encouraged Asian importers to buy cargoes from the spot market, fueling an increase in short-term hires of LNG tankers.

India-based companies issued 65 buy tenders for spot cargoes during the first half of the year, up from 37 for the same period a year ago.

Buyers in Thailand issued another four tenders during the six months to June 30, having issued none during the first half of last year, according to Platts global LNG director, Ciaran Roe.

Spot fixtures on ocean-going LNG tankers in the first quarter of 2020 have doubled to 102 compared with the previous year’s level, GasLog separately noted, citing Poten’s data.

IEA forecast showed growth in new liquefaction capacity plateauing at least through to 2023, suggesting that term charters for LNG tankers would be harder to come by in today’s market.

Poten estimated that 41 out of 117 conventional LNG tankers on order, or 35% of the newbuilding backlog, were uncommitted to charters as of March 31, 2020.

Tankers on backlog are likely to come under pressure to pursue spot charters when and if they get delivered according to their contracted schedules.

Trade imbalances smother LPG sector

OPTIMISM is lacking in the liquefied petroleum gas markets, where charter rates have slipped to roughly one third of the levels seen at the beginning of 2020.

Shipowners and operators are buckling up for tougher competition on regular routes that have steadier earnings as longhaul arbitrage becomes scarcer.

The year had initially looked resilient for the LPG segment. Spot rates remained well supported through the first quarter, amid a global pandemic that has otherwise wreaked havoc on most other sectors of the global economy.

However, freight rates witnessed a steep decline to five-year lows in June.

The general consensus is that tonnage overcapacity will eventually have to catch up with slow demand growth, with most shipowners anticipating rates to remain at depressed levels for the second half of the year.

The number of newbuilding LPG tankers expected to hit the market in the final two quarters of the year is a looming threat for freight rates. The LPG fleet is expected to grow by 17 units this year to 1,150 units, according to Poten & Partners' data. Another 32 vessels are expected to join the fleet in 2021.

The very large gas carrier fleet is expected to increase from 296 vessels currently to 303 vessels by the end of 2020 and to 320 vessels by the end of 2021.

With increasing vessel supply, freight rates have been on a shaky ground.

On the positive side, around 30% of the trading VLGC fleet is due for drydocking over the next 18 months, which should support charter rates.

Poten LPG shipbroker Peter Stebbing pointed out in a webinar that drydockings will continue to play a supportive role for freight rates over the next 18 months.

He anticipates that the 80 VLGCs built in 2015 and 2016 will need to drydock this year and 2021.

Until May this year, the LPG shipping market momentum had persisted, even amid the onset of the coronavirus pandemic as continued growth in US exports, combined with growing demand in India and China, supported optimism for LPG tonne-mile increases.

However, a decline in Middle East liftings — largely due to OPEC+ production cuts on declining demand for refined products due to lockdowns, as well as unworkable arbitrage economics to ship US barrels to both Asia and Europe — weighed on LPG shipping markets, said Poten's LPG consultant Shantanu Bhushan.

Mr Stebbing noted that US production is key for future freight rates, combined with a continued healthy global economic recovery.

However, lower US output and exports on the back of reduced shale production due to the recent low oil-price environment has put a halt to the rapid pace of export development that had been a boon to LPG vessel owners.

Meanwhile, the loosening of lockdowns in Europe and northeast Asia should drive recovery in LPG use as auto gas, while petrochemical use remains dependent on the interplay between LPG and naphtha prices, MSI analyst Stuart Nicoll conceded.

"With wider propane-naphtha discount, many petrochemical units — especially in the Europe-Mediterranean region — have started considering switching back to LPG cracking, thus helping markets to recover," Mr Bhushan said.

Drewry's gas shipping analyst Aman Sud forecasts shipping rates to recover marginally during the second half of the year but said rates "will be much below the 2019 level".

He pointed out that the threat of a second wave of the virus and an economic recession are the big points of concern for the remainder of the year.

Mr Stebbing added: "On the VLGC supply side, we finally see the impact of owners reducing their ballast speeds and opting to take the longer Cape route to reposition vessels back to the US Gulf from Asia, thus supporting freight rates."

OTHER NEWS

Mitsui E&S in talks to join with Tsuneishi

JAPAN's shipbuilding sector faces more consolidation, with Mitsui E&S Holdings announcing it is talking with Tsuneishi Holdings to form a shipbuilding joint venture.

The tie-up plan would see Tsuneishi Holdings acquiring a minority stake Mitsui E&S shipbuilding subsidiary Mitsui E&S Shipbuilding. The combination of both companies would create Japan's third-largest shipbuilding group by volume.

Mitsui E&S and Tsuneishi entered into an operational tie-up in 2018 involving ship design and parts procurement.

Another bulker detained in Australia for crew violations

A TAIWAN-owned, Hong Kong-flagged dry bulk carrier is the second vessel in less than a week to be detained for crew violations, this time in a more serious case, with allegations of abuse and intimidation being levelled at officers this time.

The 2019-built bulk carrier *Unison Jasper* was bringing alumina to the Tomago Aluminium smelter when it was detained by the Australian Maritime Safety Authority in the port of Newcastle following allegations that crew members were abused, intimidated and forced to sign contract extensions that would have kept them on board for up to 14 months, the Maritime Union of Australia said in a press release.

The handysize vessel had been operating under a temporary license issued by the Australian government to undertake coastal shipping between the ports of Gladstone and Newcastle, MUA said.

ONE cost cuts boost first-quarter profit

OCEAN Network Express has again delayed offering full-year guidance because of the "ongoing and uncertain situation" surrounding the global pandemic.

"Forecasting financial year 2020 performance reasonably is still difficult and therefore 2020 full-year forecasts are not yet fixed," the line said in its first quarter of the year results.

The carrier, which starts its financial year on April 1, said the decrease of cargo caused by global fall in demand was approximately 20% or slightly less in first financial quarter compared with the same period last year.

Capesize remains grounded off Mauritius

THE crew of the capesize carrier that grounded off Mauritius last week are reported to be safe and healthy.

Lloyd's List Intelligence said there are sufficient food stocks on board the vessel and results from coronavirus tests carried out on the 20 crew were negative.

The Panama-flagged, 203,130 dwt *Wakashio* (IMO 9337119) grounded on a reef on July 25 while ballasting from Singapore to Brazil. Heavy weather had hampered salvage operations.

Shipping lawyer offers remedy to US legal headaches

THE US legal system can be a minefield for the global maritime industry, with each of the nation's 50 states having its own laws.

That means "50 different headaches" to be faced by overseas clients, according to Chris Nolan, a lawyer with a background in international transport cases.

"It takes a bit of additional care to explain the US legal system to non-US companies," he says. "They have seen culture and TV movies all the time, and there's a concern level. But if you explain it, if you are able to tell them that you are in front of an arbitrator who works at a shipping company in the US, they'll understand that better."

MOL forecasts more car carriers will be scrapped

JAPAN'S Mitsui OSK Lines warned that more scrapping of car carriers is on the cards after it carried 406,000 fewer cars in the first quarter of the year, as the industry continues to struggle with the pandemic.

The shipowner said it expects to carry 930,000 fewer cars in the first half of 2020 amid production cuts and delays caused by the coronavirus. Its net profit fell 55% to ¥5.4bn ($51.7m) for the most recent quarter, while revenue fell 11% to ¥251.4bn.

MOL said profitability "worsened significantly" year on year despite efforts to scrap, redeliver and idle vessels.

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M/V MAERSK HONAM – FIRE ON 6 MARCH 2018
NOTICE OF GENERAL LIMITATION DECREE

In The High Court of Justice of England and Wales
Business and Property Courts
Queen's Bench Division
Admiralty Court

AD-2020-000024

BETWEEN

MSC Mediterranean Shipping Company SA

Claimant

and

(1) Becton Dickinson Medical (S) Pte Limited

(2) All other persons claiming or being entitled to claim damages by reason of the fire on board the "MAERSK HONAM" in the Arabian Sea on or about 6 March 2018

Defendants

BY A GENERAL LIMITATION DECREE made on 15 July 2020, the High Court of Justice ordered that by reason of the provisions of the Merchant Shipping Act 1995 (as amended) the Claimant is not answerable in damages beyond:

a) **123,308,412** Special Drawing Rights or GBP **138,430,128** in respect of loss of life or personal injury; and
b) **61,654,206** Special Drawing Rights or GBP **68,206,267** in respect of all other claims (including, but not limited to, any claims in respect of the loss, damage and delay to any property or to the infringement of any rights);

caused through its act or omission or through the act or omission of any person on board the vessel "Maersk Honam" in the navigation or management of the "Maersk Honam", when she suffered the casualty in international waters on or about 6 March 2018.

The Court also ordered that all further proceedings in any claim against the Claimant arising out of the aforesaid casualty be stayed.

The Claimant was not the operator of the "Maersk Honam". A Limitation Fund has already been constituted in respect of this casualty by the provision of a Letter of Undertaking from the vessel's owners' P&I Club, the Standard Club, to the Court in accordance with the Order of Mr Registrar Kay, dated 10 September 2019 in case number AD-2018-000156.

TAKE NOTICE THAT in accordance with the Decree parties intending to file a claim against the Limitation Fund or to issue an application to have the Decree set aside have until **30 September 2020** (being a date at least 56 days after the publication of this advertisement) to do so. Any such claims or applications must be filed in The High Court of Justice (Queen's Bench Division – Admiralty Court), Ground Floor, 7 Rolls Building, Fetter Lane, London EC4A 1NL (Claim No. AD-2020-000024). Attention is drawn to the provisions of CPR Part 61, including rule 61.11(15) which concerns service of any statement of case.

For the avoidance of doubt, this advertisement and the Decree are without prejudice to the question of liability for the casualty and their contents are without prejudice to, and do not affect, any and all rights that the Claimant may have, including in relation to limitation and/or time bar.

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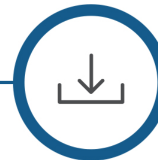

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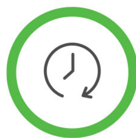

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