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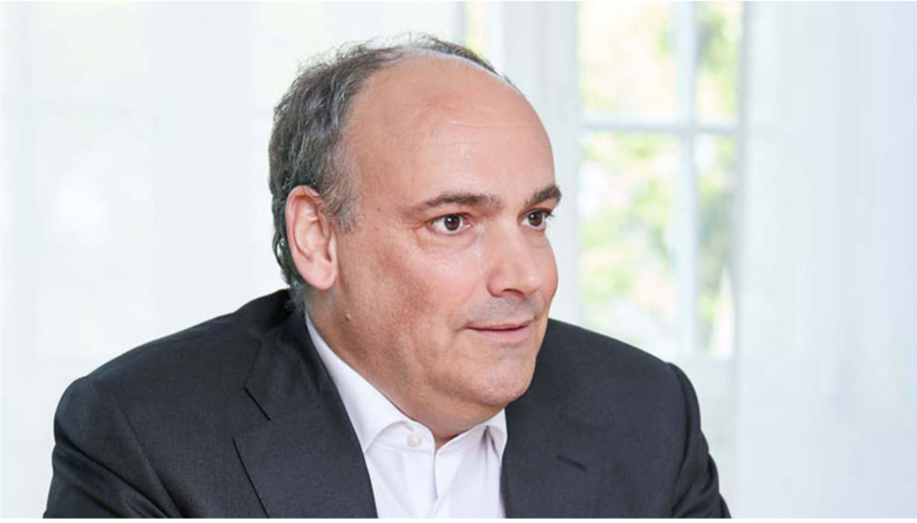
Pandemic impact 'definitely not over', says Hapag-Lloyd chief



THE OUTLOOK FOR the global container trade remains volatile despite signs of improvement over recent weeks, according to Hapag-Lloyd chief executive Rolf Habben Jansen.

While the outbreak of the coronavirus pandemic had led to a "substantial decline in volumes," there had been some uptick since June, he told analysts during a call following the release of the German container line's first-half results.

"We are now looking at a contraction in the global economy of about 5% and a 7% decline in global container transport, which is fairly consistent with what we have seen so far," he said. "But it is a little bit better than some months ago when we were seeing forecasts that were down over 10%.

"I would hope that in the end it will turn out a tiny bit better than this, but it is clear that we still face a significant decline in global transportation volume and a recovery going into 2021."

Following the steep declines in volumes seen in April and May, an improvement had begun in June and July that was likely to continue into the second half.

"I would say we have seen a further improvement in volumes but we're still below where we were last year," Mr Habben Jansen said. "We now need to see what's going to happen over the next couple of months and quarters."

But he warned that nothing was guaranteed.

"The pandemic is definitely not over," he said. "You just need to look at the number of new cases being reported around the world. It is very easy to get carried away by optimism when you see a couple of good weeks but we need to keep an eye on the global situation around the pandemic."

There remained significant volatility, with Hapag-Lloyd bookings varying by as much as 20% from week to week.

"That is something we do not normally see and indicates the amount of uncertainty that there still is out there," he said. "I think we will continue to see swings up and down over the coming quarters. We will need to react to that properly."

The company would stick to its earning guidance, he said, but it remained subject to "considerable uncertainty" because of the backdrop.

"Volumes will be down for the full year, but average bunker prices should also be somewhat below what we had last year," Mr Habben Jansen said. "But it would be naïve to assume we are through the pandemic because we are definitely not."

Hapag-Lloyd would also continue to remain flexible with its capacity management in order to keep a lid on costs.

"If you see demand falling, the only thing you can do is blank sailings," Mr Habben Jansen said. "You have to save costs. We should not forget that if we cancel a sailing we save about 60% of the costs associated with that."

But as things improved, there was also the need to react quickly and put services back in.

"We will continuously monitor what is going on. If something happens, we will make sure to adapt," he said. "If demand turns out to be stronger, we will push more services back in, as we have been doing over the past couple of weeks. If demand is not there, we will take out the cost wherever we can."

WHAT TO WATCH

US seizes Iranian gasoline on Greek-owned tankers

THE seizure of gasoline cargoes from four Greek-owned tankers represents the US government's "largest-ever seizure of fuel shipments from Iran," according to Justice Department.

Cargoes totalling around 1.1m barrels of gasoline were confiscated "with the assistance of foreign partners," the department said in a statement on its website.

The US "successfully executed" a federal warrant issued on July 2 for the arrest and forfeiture of the cargoes that were being carried by the tankers — *Bella* (IMO 9208124), *Bering* (IMO 9149225), *Pandi* (IMO 9105073) and *Luna* (IMO 9208100).

"The Justice Department today announced the successful disruption of a multi-million dollar fuel shipment by the Islamic Revolutionary Guard Corps, a designated foreign terrorist organization, that was bound for Venezuela," the statement said.

"These actions represent the government's largest-ever seizure of fuel shipments from Iran."

It added: "The government... has successfully executed the seizure order and confiscated the cargo from all four vessels, totaling approximately 1.116 million barrels of petroleum. With the assistance of foreign partners, this seized property is now in US custody."

The statement included photos of all four tankers that are in the fleet managed by Greece-based International Marine Services and affiliates.

The whereabouts of the four tankers could not be independently verified as their Automatic Identification System transponders have been switched off for several weeks.

Citing unnamed government officials, various media reports said that the tankers themselves have not been confiscated. However, accounts of the confiscation of the cargoes varied.

Some reports suggested that the four tankers were headed for Houston with the cargo on board, but others reported that the gasoline is now on board two other tankers after ship-to-ship transfers in two separate locations.

The American P&I Club told Lloyd's List that the tankers had been able to retain coverage throughout this period due to special permission granted by the Treasury Department.

George Gialozoglou, the founder of Greece-based International Marine Services, which operates the ships, declined to comment on the location of the vessels in a recent interview.

He also said he was "restricted" from discussing whether all or some of the cargo remained on board due to ongoing court proceedings in the US and elsewhere.

Last month, the shipowner said that being caught in the middle of the Trump administration's sanctions campaign against Iran and Venezuela was "a nightmare".

According to Capt Gialozoglou, his company thought the cargoes were legitimate and bound for nearby Aruba.

Two of the tankers last transmitted an AIS signal back in early May, while the other two have gone "dark" since early last month, shortly after the US court order authorising the seizure of the gasoil, Lloyd's List Intelligence tracking shows.

The 8,055 dwt International Marine Services-managed tanker *Wila* was boarded by Iranian forces several days ago and kept for five hours near the Strait of Hormuz before being released.

The latest Justice Department announcement linked that incident to the seizure of the cargoes.

"After enforcement of the US forfeiture order, Iran's navy forcibly boarded an unrelated ship in an apparent attempt to recover the seized petroleum, but was unsuccessful," it said.

ANALYSIS

Crew quarantine costs not covered by P&I

CORONAVIRUS tests, quarantine expenses and additional repatriation costs cannot be claimed under marine protection and indemnity insurance, according to Human Rights at Sea.

The non-governmental organisation said quarantine rules within P&I cover faced scrutiny for the first time because of the global coronavirus pandemic and "exposed an undeniable pattern of systemic risk".

"Shipowners have been compelled to navigate complex restrictions to mitigate the risk of their liability exposure amid concerns over rising fatigue and safety of their crew members after several months at sea," its report said.

P&I clubs differed in their approach over who bore responsibility for the costs of precautionary measures such as quarantining crew, the investigation into the International Group of P&I Clubs circulars found.

"The divergence occurs in the arena of quarantine expenses where they seem to be escalating and causing deep concern for shipowners who may not have adequate or any business disruption insurance to address such a seemingly significant shortfall," the report said.

Clubs generally agreed that liability for infections were covered like any other crew illness.

Quarantine costs averaged around $1,600 per seafarer, while tests cost about $150, and additional transportation about $300, according to InterManager, which represents shipmanagers globally.

About three quarters of crew changes have not occurred since lockdown measures were introduced across countries in Asia and Europe from February, affecting about 40% of the world's 1.5m seafarers. About 300,000 were estimated to be trapped on vessels with expired certificates but unable to disembark by late July.

There are now 50 countries where crew changes can occur to varying degrees according to the International Maritime Organization.

Neil Godfrey, group commercial director of global port agency GAC, which is helping organise crew changes worldwide for shipowners, said not all countries were following the 12-step protocols developed by the IMO for crew changes.

The UK, US, Finland and Norway were the easiest, he noted.

Mr Godfrey outlined the additional coronavirus-compliant expenses that the agency incurred on behalf of owners to allow crews to sign off and join vessels.

These included organising vehicle modifications, such as screens for buses and cars for crew in transit, and arranging personal security for seafarers disembarking with expired visas who need to be escorted directly from ship to airport.

"The elements to conducting a coronavirus-compliant crew change … which vary in extent and depending on the locations involved see GAC officers involved in additional arrangements and conducting additional services such as polymerase chain reaction testing, advice on personal protective equipment required according to local protocols, and the local supply of that PPE if needed, we are advising on approved hotels or quarantine centres," he said.

"These extra costs are being met by us as an agent but they are being passed on from third-party suppliers."

The Human Rights at Sea report concluded that contract extensions for crew did not invalidate cover for usual risk but that "overlap" wages were excluded from coverage. Expenses incurred in relation to another person infected while performing work on a vessel, such as a surveyor, would "potentially" be covered, the report said. Cover was triggered if there was a proven liability.

Preventative expenses to comply with local regulations including quarantine were not covered, unless they were the direct result of an outbreak on a vessel. If a vessel had to divert to secure treatment for an infected crew, cover was restricted to additional fuel costs, the report found.

LNG backers say methane can be managed

SHIPPING should not abandon liquefied natural gas because of its rising methane emissions, industry backers have said after an International Maritime Organization report renewed concerns about the greenhouse gas.

Industry groups defended LNG as a bridge to zero-carbon ships and said its potential to reduce overall emissions could offset the problem of 'methane slip', which happens when unburned methane escapes from an LNG engine.

The IMO last week reported emissions of methane, a far stronger greenhouse gas than CO_2, rose 151%-155% from 2012-18 as use of LNG as fuel rose 28%-30%.

Emissions watchers like the International Council on Clean Transportation said the report's findings meant shipping should abandon LNG and shift investment to zero-emission fuels.

But Christos Chryssakis, a business development manager at DNV GL Maritime, told Lloyd's List the rise in methane was the expected result of the industry moving from steam turbines to LNG combustion engines, which emitted more methane but much half as much CO_2.

He said the bigger, two-stroke LNG engines increasingly used in deepsea ships emitted much less methane than four-stroke engines on smaller, coastal ships. Newer ships were better than older ones and high-pressure LNG engines better than low-pressure engines, he said.

Mr Chryssakis said engine makers knew methane was likely to be regulated soon and were doing all they could to reduce it. Treatments to strip methane from exhaust gases were also being developed.

"Technology today is much better now than it was five or eight years ago," he said. "LNG actually has the potential to reduce overall greenhouse gas emissions by 20%."

Mr Chryssakis said methane emissions would increase with LNG usage, "but we actually have to look both at CO_2 and methane together and look at the overall greenhouse gases".

The industry could not wait another 10-15 years for zero-carbon fuels to became available and no other fuel yet offered the savings of LNG, he said.

Lloyd's Register marine and offshore director Nick Brown said the IMO's Energy Efficiency Design Index should be broadened to regulate methane and other greenhouse gases.

"We look forward to continuing working across the supply chain to assist in further reducing methane emissions in order that LNG as a fuel remains a viable investment until there is a better deepsea alternative fuel," he said.

Kongsberg Maritime Finland senior vice-president of business concepts Oskar Levander said LNG engines still offered "a clear environmental benefit" even with the methane slip problem.

"It is an important issue to keep in mind and try to improve, but it is not a reason to not use LNG today," Mr Levander said. LNG also emitted less sulphur and nitrogen oxides and particles, he added.

Lobby group Sea-LNG said: "Today, and for the foreseeable future, LNG is the only viable fuel for deepsea ocean shipping which improves both air quality and GHG performance."

BIMCO deputy secretary general Lars Robert Pedersen said: "We are currently studying the method used to estimate the methane emissions [in the IMO study] as well as the assumptions made about technology assigned to each LNG-fuelled ship in this connection."

MARKETS

Hapag-Lloyd profit almost doubles despite downturn

HAPAG-Lloyd has warned the outlook for the second half of the year remains uncertain due to the pandemic and its effects on both volume demand and freight rates.

"On the whole, the pandemic is and will remain a major source of uncertainty for the entire logistics industry," said chief executive Rolf Habben Jansen in a statement.

He was speaking as the German container line reported an increase in earnings before interest, taxation, depreciation and amortisation of almost a fifth to $1.2bn during the first half of the year.

Net profit for the first six months of the year almost doubled to €285m ($337m), compared with €146m in the year-earlier period, despite a decline in revenue driven by an 11% fall in freight volumes. Average freight rates across the first half were up 3%.

"After the year got off to a decent start, transport volumes significantly declined in the second quarter as a result of the pandemic," Mr Habben Jansen said.

But the sudden fall in bunker prices during the second quarter, capacity reductions and additional cost-cutting measures had benefitted the bottom line.

"On the whole, we have a good first half year behind us despite the coronavirus crisis," he said.

Transport costs were down 3.5% on 2019 to 5.8m teu despite the average bunker price across the period being higher than in 2019 following the introduction of the new sulphur rules. But this was offset by the volume-related fall in consumption and "active cost measures" from the container line's performance safeguarding programme.

"Thanks to the wide range of measures we have introduced in recent months, we are still on track," Mr Habben Jansen said. "We will continue to advance our performance safeguarding programme and to implement our Strategy 2023. While doing so, we will keep a close eye on the future course of the pandemic and flexibly react to market changes."

Hapag-Lloyd has maintained its guidance for the current year of ebitda of €1.7bn-€2.2bn ($2bn-$2.6bn), but warned the outlook remained subject to "considerable uncertainty".

"The development of transport volumes, the development of freight rates and a further potential increase in bunker prices, in particular, should have a significant impact on Hapag-Lloyd's results in the second half of the 2020 financial year," the company said.

MISC second-quarter net profit drops 25% on impairments

MISC has revealed that it called the market correctly earlier in the year and was able to prepare for the expected downturn in oil tanker spot rates in the latter part of the first half of 2020.

As a result, the Malaysian energy logistics company was able to turn in higher revenue and operating profit for the period, it said in a statement.

However, the company posted a net loss at RM857.3m ($204m), compared with a profit of

RM910.3m in the first half of 2019, after taking charges due to the loss of a key court case as well as for losses on assets in its heavy engineering division, which has been hit by the coronavirus outbreak.

Net profit for the second quarter dropped 25.1% to RM299.5m, compared with RM399.8m in the year-earlier period, due mainly to business disruption from lockdown measures and impairments.

Group revenue in the three months to June 30 rose 1.1.% to RM2.19bn, due to higher contributions from the petroleum and LNG segments.

MISC made some RM1.05bn in provisions for litigation claims. This was amplified by more than RM1.2bn in impairments and write-offs on asset values and bad debts.

It had said it did not expect the spot rate spikes in the tanker market during March to April to continue and it revealed that "rates have since plunged due to lower tonnage demand on the back of weak oil demand and Organisation of the Petroleum Exporting Countries-led production cuts as well as US shale output shut-ins".

"With the global economy expected to take some time to recover to pre-pandemic levels and with a large oil inventory overhang yet to be cleared, freight rates will likely remain under pressure for the remainder of the year," it said in its statement.

MISC said it would continue to focus on building secured income through the expansion of its niche shuttle tanker business and rejuvenation of its very large crude carrier fleet with eco-friendly LNG dual fuel systems to mitigate any weaknesses in the spot market.

The health crisis had an adverse impact on its liquefied natural gas transport and heavy engineering businesses.

LNG spot charter rates remained soft as the ongoing outbreak continues to dampen LNG demand resulting in cargo cancellations and output cuts by producers, while yard operations were constrained, similarly to shipyards in Singapore and other production centres.

Weak LNG charter rates are "expected to persist in the coming quarter as the market enters the seasonal low-demand period," MISC warned.

However, the group expects its new charter deal for six very large ethane carriers, which are expected to begin their long-term charters from the fourth quarter of 2020 onwards, will provide further growth in secured income.

"While yard operations have resumed since April 2020, operational activities are still constrained to the 'new normal' and restrictions imposed to ensure the pandemic is kept under control," it said.

This will be exacerbated by the slump in LNG demand and steeper competition from yards in China and Singapore vying for the limited number of jobs available in the market, MISC added.

"Given the prolonged oil market recovery outlook, the segment remains cautious on the prospect of securing new orders for the remainder of the year," it said.

MISC posted a 6% rise in first half revenue to RM4.70bn from RM4.44bn previously, mainly due to higher freight rates in the oil tanker segment and higher earning days in the LNG segment.

Operating profit rose by more than a quarter to RM1.37bn on higher margins on tanker freight rates.

However, this was countered by higher operating loss recorded in heavy engineering due to additional cost provisions and associated higher unabsorbed overheads arising from the coronavirus backdrop.

IN OTHER NEWS

Nigeria convicts pirates under new law but doubts over enforcement remain

NIGERIA's maritime safety agency has brought the first convictions under its new anti-piracy law, but industry groups say the state must do more to police its waters.

The Federal High Court in Port Harcourt fined three men 20m naira ($52,000) each in connection with the March 21 hijack of the ferry *Elobey VI* (IMO: 7422867), about 22 nautical miles off Gabon, West Africa, in which three crew were kidnapped.

In a statement, the Nigerian Maritime Administration and Safety Agency said the Nigerian Navy had arrested nine men suspected of attacking the vessel and securing a $200,000 ransom for the crew's release.

UK Club is back in black, but combined ratio hits 120%

THE UK Club has returned to surplus, although an uncomfortably high combined ratio of 120% has left it dropping hints of premium hikes to come.

The development comes at a time when many P&I clubs are seeing their CRs drift into six figures, although the UK Club's outcome is at the higher end of the range.

Its directors' report and financial statement concedes that the present CR exceeds the marine mutual's long-term target range and directors are said to be assessing the actions necessary in this light.

Okeanis secures new Korean loan as profits soar

OKEANIS Eco Tankers, the Greece-based tanker owner that is traded on the Norwegian over-the-counter market, has lined up a $103m loan for its two outstanding newbuildings after a sharp increase in profits during the second quarter.

The owner of 17 scrubber-fitted tankers said that last month it received a firm commitment for a secured loan facility of that amount from the Export-Import Bank of Korea, BNK Busan Bank and BNK Kyongnam Bank.

EnTrust gains independence after reacquiring Legg Mason interest

ASSET manager EnTrust Global — which has involvement in ship finance through its $1.5bn Blue Ocean funds — has regained full independence after buying out the 65% interest previously held by Legg Mason.

The transaction follows the acquisition of Legg Mason by Franklin Templeton, the listed US fund major, earlier this year.

Marquee deals from EnTrust include a $150m sale-and-leaseback with Danaos Corporation, which marked its first foray into the Greek sale-and-leaseback market.

Hin Leong shipowning affiliates placed under court supervision

SINGAPORE High Court has ruled to place Xihe Holdings and four units related to the insolvent oil trading firm Hin Leong under judicial management.

The court in a hearing on an application submitted by OCBC Bank appointed Grant Thornton Singapore as the supervisor.

OCBC Bank, which is one of 12 lenders identified for the larger Xihe Group and 23 bankers to Hin Leong, filed the application in late July.

Classified notices follow