Monday August 24, 2020

Lloyd's List
Maritime intelligence | informa

Daily Briefing

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Learn the lessons before the next Wakashio comes

HERE WE GO again; a ship split in two, bunker fuel flooding over pristine beaches, the livelihoods of hoteliers and fisherfolk wiped out overnight, local flora and fauna decimated.

And the best public relations response the industry can rustle up for an angry mainstream media and an even angrier populace is scholastic reiteration of the arcana of liability conventions.

It would be better if the grounding of *Wakashio* had not happened. But given it did, attention must now focus on both the adequacy of the immediate reaction and the longer view.

For most industries, a willingness on the part of those in the firing line to front up to the television cameras would be the default setting.

But to use shipping's woeful past environmental misdeeds as a yardstick, the level of public engagement by those linked to the vessel can probably be categorised as depressingly adequate.

We can be grateful that in Panama, Nagashiki and MOL respectively, we have a flag state, an owner and a charterer who are ready to engage rather than go into hiding.

The next priority is to establish what went wrong and why; investigations must be urgent, fully funded, forensic, unstinting and above all transparent.

They must also be in the public domain. That shouldn't need saying, but don't forget that around half of flag state reports never see the light of day.

Another thing that shouldn't need saying is that truth must be established before blame is apportioned. In that light, the arrest of *Wakashio's* master and chief officer is worrying.

The criminalisation of seafarers — need we mention *Prestige* and *Hebei Spirit?* — has been a scandal for decades. Without indulging in special pleading, we urge the Mauritian authorities to ensure these officers are not scapegoated for the actions of others.

As Lloyd's List has also reported, at least two crew had been on board for more than a year prior to the grounding. Correlation is not causality, but the possibility that fatigue played a part in any operational errors is at the very least relevant context.

Openness and honesty is the sine qua non, both from those operationally involved and from the governments, authorities and institutions that have singularly failed to rise to a hidden crisis that has left seafarers at sea long after the tours should legally have ended.

Finally, it is unacceptable for a poor third-world government only to receive tens of millions of dollars in compensation for a clean-up that will cost hundreds of millions of dollars to undertake.

Even if that is legally right, it is morally wrong. Public pressure for a revision of the industry compensation regime will be as irresistible as inevitable.

There will, of course, be a 'next *Wakashio*'. But when the next incident does come, shipping owes it to all concerned to learn the lessons of this one.

WHAT TO WATCH

West of England members face third successive hike in P&I cover

WEST of England Ship Owners Mutual Insurance Association (Luxembourg) has given its strongest indication yet that a third successive rate hike is in the offing at the coming renewal round.

But what form the higher pricing will take is still unclear, after chief executive Tom Bowsher told Lloyd's List earlier this year that "the jury's out" on whether a further general increase is the way forward.

West was the only club to levy a GI in 2018, and one of many to do so in 2019. However, some of its peers opted to generate more revenue through ship-by-ship pricing last time round, rather than take the 'one size fits all' approach.

West's annual report confirms an earlier-announced combined ratio of 107% thanks to an overall underwriting deficit of $13.2m, offset by a net investment return of $44.9m which resulted in a final $31.7m surplus.

"The average combined ratio of the last five years is 101.7% but the results of the last three years demonstrate that premium rates need to increase if operating results are to return to a positive position," Mr Bowsher argues in his personally-signed managers' review section of the document.

For the year-ending February 20, 2020, run off on members' claimed developed favourably. This is particularly the case for the 2018 policy year, which has developed better than was projected at this time last year, with an incurred cost some $25m better than policy year 2017 at the same stage.

Policy year 2019 also developed within expectations for its first 12 months. At the 12-month point, policy year 2019 has a net incurred claims cost of $97.8m, compared to $108.2m and $123.3m in the preceding two years.

Policy years 2017 and 2018 were blighted by an abnormal and unforeseen level of large losses, although there was a return to a level around the historical average for 2019.

In the latter case, only two claims in excess of $5m have been recorded at the 12-month point, in contrast for seven claims at the same stage for policy year 2017 and five for policy year 2018.

In addition, West continues to benefit from a positive loss record on the IG pool, which reduces the contribution it has to pay towards other clubs' claims, which have increased in number over the last two years.

In his chairperson's remarks, Francis Sarre also hinted at rate hikes ahead.

"[O]ur combined ratio of 107% — whilst very positive when compared to many others — remains above the long term target set by the board. We have made it very clear as a club that premiums must ultimately match exposure and if… large and expensive claims continue, the price ship owners pay for their insurance cover must inevitably also rise commensurately," he said.

Industry on alert as off-spec IMO 2020-compliant fuel oil is detected

BUNKERS with off-specification sediment content, which could compromise ship engines' integrity or performance, have resurfaced in the Antwerp-Rotterdam-Amsterdam region.

Tests on samples drawn from very low sulphur fuel oil or ultra-low sulphur fuel oil supplied out of Rotterdam last week reflected sediment levels above a commonly observed bunkering standard, according to an alert published by the Fuel Oil Bunker Analysis Service, an advisory unit of Lloyd's Register.

These samples of fuel oil with less than 80 cSt viscosity were found to hold 0.16% m/m (mass by mass) to 0.43% m/m in total sediment content.

The ISO8217 standard for bunkering operations sets the limit on sediment content at 0.1% m/m.

Fuels with high levels of sediments that can lead to excessive sludge clogging up ship engines, were detected at the start of this year in the bunker streams of the ARA region and Singapore.

Singapore and Rotterdam rank as top bunkering hubs by marine fuel sales in Asia and Europe respectively.

FOBAS has also warned last week of low flash point fuels being found among marine gas oil products supplied out of Singapore.

Low flash point fuels are widely considered as contributing to the higher risk of fire on board vessels.

Concerns about such off-spec bunkers have heightened following the implementation of the IMO 2020 regulations imposing a 0.5% limit on sulphur content in marine fuels.

Many bunker products in the market — whether marine gasoil, VLSFO or ULSFO — complying with the IMO 2020 sulphur limit are blends with low-sulphur components that can contribute to fuel instability, experts have warned.

ANALYSIS

Rise of leasing could see ship finance converge with aviation

AVIATION has long been shipping's more glamorous cousin in the international transport sector, with an infinitely higher public profile and the political clout to match.

It has also been financed by very different means, with leasing long established as the most common method for airlines to get their hands on Airbuses and Boeings.

Likewise, the rise of ship leasing in the wake of the global financial crisis, with Asian institutions leading the way, is already transforming the ways owners obtain on new boxships and bulkers.

While specific differences remain, the two financial models do now appear to be converging, and could move closer still in the coming period, according to two lawyers with specialisms in ship leasing and aircraft leasing respectively.

Watson Farley & Williams maritime partner David Osborne and global aviation sector co-head Jim Bell spoke to Lloyd's List on some of the parallels and some of the differences.

Mr Osborne points out that ship leasing is nothing new. It was already on the scene even in the era when straight debt financing was the most common method of paying for new tonnage.

A limited number of players were ready to offer off balance sheet structures to shipping companies. But this was generally done for specific reasons, usually for tax advantages that have now disappeared.

However, it is only since the financial crisis in 2008, ship leasing has come into its own, taking up some of the slack left by withdrawal of the banks from plain vanilla mortgage products.

At this point, it is worth distinguishing between ship leasing proper and the practice of bareboat chartering, sometimes painted as essentially a form of hire purchase for ships.

Bareboat chartering is the practice of one shipping company chartering to another shipping company, handing over control and possession as well as legal and financial responsibility for the duration of the agreement.

It is old school these days, but still a thing. In ship leasing proper, by contrast, it is a financial institution rather than a shipowner that acts as the lessor.

“I do not see the two as being directly linked,” said Mr Osborne. “What you might call commercial bareboat chartering has always been much less common than timechartering, and is not nearly as significant as leasing involving a financial institution.

“There’s no bespoke template, and the market is slightly all over the place in terms of documentation. The terms can vary quite widely between different leasing companies with different business models, who do things in a different way.”

Another distinction is that between financial lease agreements, in which the ownership of the asset is transferred to or purchased by the lessee at the end of the lease term, and operating lease agreements, in which the ownership of the property is retained during and after the lease term by the lessor.

Operating leasing has always been the most common technique for aviation, but has not taken off for ships. The Chinese leasing boom has concentrated heavily on financial leasing.

The salient variable is the residual value of ships, which are more volatile than the residual value of aircraft. In shipping, lessors are reticent to take on residual value risk, even though residual value insurance is available.

“Some parts of the shipping industry quite like asset play and don’t want the upside potential taken away as it would be by pure operating leasing,” Mr Osborne added. “Chinese banks like being owners, they like having title.”

Aviation specialist Mr Bell pointed out that many Chinese banks have long been active in aviation leasing, on an operating lease basis. The apparent contradiction is resolved by the realisation that aviation assets are far more homogenous.

“If I repossess an A320 from one airline, I can readily lease it to other airlines. It will have its livery repainted and perhaps some changes to the seating configuration, but nothing else really changes.

“In the shipping market, assets tend to be a lot more bespoke, and if you have a bespoke asset, it’s hard to find new leasing opportunities.”

This is especially true with so-called narrowbody aircraft such as the Airbus A320 and the Boeing 737, which are easier to place because more airlines use them.

The model was pioneered in the 1970s by Guinness Peat Aviation, an early career venture of Tony Ryan, today the billionaire owner of low-cost carrier Ryanair.

Its centrality to both aircraft manufacturers and airlines themselves made it a big name company in the 1980s, recruiting a number of big name British and Irish politicians to its board. Its collapse in 1992, with debts of $10bn to its account generated massive publicity.

But despite GPA’s ultimate crash landing, it transformed modern aviation finance, and has been widely emulated.

Nowadays, around 50% of the world’s airline fleet are on operating leases, in a market dominated by some 150 operating lessors. The top six in the niche all have 700 or more aircraft to their name.

If you have ever wondered why airlines like Monarch, Flybe and FlyBMI arrive on the scene offering rock bottom prices, make a profit for a while, then go under and leave thousands of holidaymakers stranded in the Mediterranean, this is a big part of the reason.

Leasing means aviation is typically thinly capitalised, and when things do go wrong, operating lessors can simply repossess the aircraft and farm them out to somebody else.

Flag carriers, by contrast, tend to buy aircraft, on the back of capital market funding, which family-owned shipping companies are reticent to adopt.

The upshot is that aviation finance hasn't seen the same sort of dire straits as shipping since the global financial crisis. While the coronavirus pandemic has hit aviation for six, participants are expecting a rapid rebound.

"In the coronavirus crisis, there are some similarities with the 2012 shipping market, with an oversupply of assets to current requirements," said Mr Bell.

"But while there might be an oversupply immediately, people expect that to be rectified in the next two to four years, and there are strong long-term growth forecasts for passenger travel.

"There will be problems some aircraft lessors where lessees have gone insolvent and there is little or no market left for certain aircraft types, which may result in some assets being stored until they are viable again."

Mr Osborne's expectation is that ship leasing will more standardised and converge with aviation over time, but that is going to be a gradual process.

Meanwhile, the aviation market could bifurcate into finance and operating lessors.

"Without looking into a crystal ball, you can see that shipping might move closer to an aviation model, with more transparency, and less concern to play the market and more concern for certainty and predictability," he noted.

One factor at work is the adoption by some flag states of measures mimicking some of the desirable traits of the Cape Town Convention on International Interests in Mobile Equipment 2001, which applies to aircraft, rolling stock, space assets and mining and construction equipment, but not shipping.

"If you end up in a Chapter XI situation, it can take you a while to get shipping assets back," said Mr Bell. "But in aviation the Cape Town Convention has dealt with that, as the automatic stay for aircraft assets is limited to just 60 days."

Flags — in particular the Marshall Islands and Liberia — have developed a form of security interest through registered mortgage, deemed to be granted by lessee in favour of lessor, with very much an eye to leasing interests.

"It's nothing like Cape Town but it's an attempt by those registers, for marketing reasons, to come up with something which may help legally in terms of ship leasing."

These provisions await a major test in the courts, however.

MARKETS

India's crude imports have fallen to the lowest level in a decade

INDIA's crude oil imports fell to their lowest in a decade in July as fuel demand slowed amid coronavirus-induced lockdowns and sliding refining throughput, government data revealed on Thursday.

Crude oil imports last month slumped about 36.4% from a year earlier to 12.3m tonnes, or 2.92m barrels per day, data from the Petroleum Planning and Analysis Cell of the Ministry of Petroleum & Natural Gas showed.

Indian state-run refiners, which control around 65% of the country's 5m bpd refining capacity, were forced to slash runs to as low as 75% during July and August from more than 90% in early July as lockdown reduced economic activity and disrupted supply chains.

India's oil demand is expected to remain subdued and is unlikely to reach levels seen before the virus outbreak at least until the end of the year. This would have a significant impact on tanker demand and freight rates.

Exports of refined products fell 22.7% in July to 3.92m tonnes, the lowest in the past three years because of a decline in overseas sales of diesel.

However, diesel shipments continued to hold a major share of the total exports at 2.06m tonnes, down 21.1% year on year, the data showed.

According to Facts Global Energy, India's demand for key oil products will be down 12% year on year in 2020, but is expected to rebound 15% in 2021 because of a lower base number this year.

High pump prices will be counter-productive in resuscitating the country's oil demand. As a result, refiners will need to cut back on crude throughput for a prolonged period, it added.

Hamburg adds to box ports' coronavirus woes

THE PORT of Hamburg is yet another of the world's largest ports to suffer a sizeable drop in traffic because of the coronavirus, as blank sailings and a hit on trade with China dragged volumes down at the German gateway.

Hamburg, Europe's third-largest container port, reported on Friday that its container throughput for the first half of 2020 dropped by 12.4% compared with the same period in 2019 to 4.1m teu.

Port of Hamburg marketing joint chief executive Axel Mattern said the result has been disappointing but stressed that northern Europe in general has suffered.

"Owing to the weakness of the world economy and some withdrawals or considerable delays of global supply chains, as expected the effect turned out to be more severe in the second quarter of the year than in the first three months," Mr Mattern said in a statement.

Hamburg also recorded a 12.2% decline in general cargo handling to 42.5m tonnes and 11.7% drop in bulk cargo handling to 18.7m tonnes.

In its container business, Hamburg suffered a 16.4% drop in trade with China, the port's biggest partner, and experienced similar levels of downturn in trade with other key trading destinations such as Russia, South Korea and Sweden.

"The slowing down of the Chinese economy and the resultant cancellations of sailings on liner services — or 'blank sailings' in shipping parlance — led to lower throughput totals. With some delay, these repercussions were reflected in the first half of the year figures," said Mr Mattern.

He did, however, note that there is an initial recovery seen on both imports from and exports to China.

Container business with other countries such as the US, UK and Singapore, marked a positive performance during the first six months of 2020.

"This strikingly good trend is attributable to the four transatlantic services that started operating from Hamburg at the beginning of 2019. These have developed extremely well and ensured higher throughput volumes with the US, especially on container services," Mr Mattern said.

Hamburg's report follows a similar outing by its neighbouring behemoth, the port of Rotterdam. Europe's biggest container port saw a 7% throughput decrease in terms of teu during the first half of 2020 and total throughput decline of 9.1% across the port on tonnage terms.

The port of Antwerp, the second-largest container port in the continent, managed to record a 0.4% increase in the first six months of the year in teu terms, spurred on by a positive first quarter of 2020 that held off the challenging period between April and end of June.

Odfjell profits surge on strong chemical tanker market

CHEMICAL tankers giant Odfjell has posted stronger profits for the second quarter of the year on the back of high spot rates, saying it experienced only limited effects from the coronavirus pandemic so far.

The company posted a net profit of $31m for the second quarter of the year, up from a $10m loss for the same period a year earlier and a $4m net loss in the first quarter of 2020. Revenue fell 3% for the second quarter of the year compared with the first quarter, to $252.4m — still 6% above last year's year to date figure.

"We are happy to report positive figures in light of the unprecedented times of the global economy," chief executive Kristian Mørch said in a statement.

"Covid-19 continues to cast high uncertainty about the future, but we are so far not experiencing any major negative impact overall in our markets."

Odfjell Tankers' 35% contract coverage let it take advantage of the strong spot market. Its earnings before interest, tax, depreciation and amortisation increased from $57.9m to $73.9m.

"The chemical tanker market improved considerably in the second quarter driven by reduced supply as a consequence of a strong clean petroleum products market reducing competition from swing tonnage and chemical tanker operators also employing capacity in the CPP market," the company said.

Bunker costs also fell from $50m in the first quarter of the year to $36m in the second quarter. Odfjell expected usual seasonality to lead to "weaker but still positive results in the next quarter".

Odfjell, based in Bergen, Norway, predicted chemical tanker demand will continue to deviate from falling global gross domestic product, "driven by the wide variety of cargoes transported and the majority of end-use applications being relatively resilient to an economic downturn of this type".

Gradual economic recovery and growth in demand for products such packaging, health and pharma, and consumer goods would mitigate falling demand in the automotive and construction industries. Demand was expected to grow 2% to 4% until 2022 depending on the pandemic.

Odfjell Terminals' net profit was $11.6m. Its ebitda fell to $7.6m, from $8.1m in the first quarter of the year, reflecting Odfjell's sale in May of its share in the Dalian terminal in China. It said underlying demand for storage was strong even though handling at terminals fell.

Odjfell had $148m in cash by the end of the second quarter, up from $121m in the first quarter.

IN OTHER NEWS

Broken Wakashio to be scuttled off Mauritius

THE Japanese-owned capesize *Wakashio* is heading for a scuttling site off Mauritius almost a month after it hit a coral reef, spilling fuel oil into the Indian Ocean.

The scuttling operation for the forward section of the vessel was planned to start on Friday following confirmation from the chief salvage master that all the hydraulic oil and floating debris had been removed, according to Lloyd's List Intelligence, citing local agents.

The UK's Department of International Development reportedly said that it was providing legal and technical advice on how to safely dispose of the stricken ship. Concerns have been raised by local residents and environmentalists about the scuttling operation.

Mauritius may only see limited compensation from Wakashio spill

THE oil pollution incident from the grounded 203,103 dwt bulk carrier *Wakashio* is threatening an ecological catastrophe around the Indian Ocean island of Mauritius, but compensation for the disaster may be limited, a UN report states.

"Liability and compensation will be critical in the aftermath of the spill and in respect of the economic consequences, as well as in respect of the costs of reinstatement of the environment," states the report by the United Nations Conference on Trade and Development.

But Unctad claims that the very comprehensive international regime on liability and compensation for oil pollution damage caused by persistent oil spills from tankers does not apply in this case, "as the bunker oil spill is from a bulk carrier, not an oil tanker".

Navios eyes public listing in Brazil for logistics subsidiary

NAVIOS South American Logistics could become the fifth publicly listed member of the Angeliki Frangou-led Navios Group after filing for a potential initial public offering on the Brazilian stock market.

The 63.8%-owned subsidiary of Navios Maritime Holdings has submitted a registration request for an offering of Brazilian Depositary Receipts backed by its common shares.

If the move is approved and goes ahead, the securities would be listed on the B3 market (Brasil

Bolsa Balcão, or in English the Brazil Stock Exchange and Over-the-Counter Market).

Pirates dressed as police hijacked chemical tanker, reports say

PIRATES dressed as police may have hijacked the chemical tanker *Aegean II*, according to reports.

The Panama-flagged, 8,143 dwt tanker was reportedly hijacked on August 16 about 180 nautical miles southwest of Socotra, near the Horn of Africa, after engine trouble en route from the United Arab Emirates to Mogadishu.

Reuters reported the hijackers appeared to have links to a local militia that function as a police unit in the Bari region. It said a group of men wearing police uniforms had boarded the ship, robbed the crew of 20 and taken its security team's weapons.

Hyundai Mipo wins $410m in tanker newbuilds from Bahri

KOREA Shipbuilding & Offshore Engineering, formerly known as Hyundai Heavy Industries, has contracted 10 newbuilding chemical tankers with Saudi Arabia's national shipping company Bahri.

The 50,000 dwt vessels, worth a total of Won485bn ($410m), will be built by subsidiary yard Hyundai Mipo Dockyard Co, according to an exchange filing. Delivery is scheduled for February 2023.

Bahri has been a regular customer at KSOE, having ordered a total of 51 very large crude carriers, chemical tankers and containerships with the Seoul-listed shipbuilding group, including the latest deal.

UN denies clearing Rhosus into Beirut port with explosive cargo

THE UN has rejected claims that it inspected and cleared the cargo of *Rhosus*, the ship that delivered some 2,750 tonnes of ammonium nitrate to the port of Beirut in 2013.

On August 4, the seven-year-old cargo exploded in a warehouse at the port, killing nearly 200 people and wounding thousands more. Accusations and denials are now flying furiously as the Lebanese government investigates the cause of the blast and the people responsible for it.

"Unifil does not board and conduct physical inspections of ships, nor does it have the responsibility to authorise entry into Lebanese ports," Andrea Tenenti, spokesman for the United Nations Interim Force in Lebanon, told Beirut's Daily Star newspaper. "The role of Unifil is to hail ships that are approaching Lebanon and refer any suspicious ships to the Lebanese authorities who carry out the inspection independently."

Performance Shipping sheds last container vessel

PERFORMANCE Shipping has sold its last containership, completing its transformation into a pure tanker owner.

The 19-year-old *Domingo*, a panamax boxship, was sold to an unnamed buyer for $5.6m and has already been delivered to its new owner, the Nasdaq-listed company said.

The transaction has increased Performance's cash position to $38m and the company is already aiming to add to its current fleet of four aframax tankers.

TOP Ships calls halt to equity offerings amid raft of 'shareholder-friendly' measures

TANKER owner TOP Ships has adopted a series of "shareholder-friendly" measures to try to steady the company's share price.

The moves appeared to have gone down well with investors as the share surged in after-market trading on Thursday although some of the gains were lost in early trading in New York on Friday.

Chief among the new measures is a 12-month halt to any new equity offerings, whether public or private, while for the same period chief executive Evangelos Pistiolis and affiliates will refrain from selling any shares. There will also be a one-year moratorium on reverse stock splits and executive bonuses.

StealthGas posts best results since 2013

STEALTHGAS, the owner of liquefied petroleum gas carriers, has reported its best quarterly performance for seven years partly thanks to a "conservative strategy" that led it to seal time charters for a number of vessels prior to the coronavirus outbreak.

The Greece-based owner posted second-quarter net income of $8.9m, reversing last year's second-quarter loss of $200,000.

Adjusted for a $700,000 impairment loss taken on two of the oldest vessels in the fleet, net income came to $9.5m. Revenues increased by 6.5% to $36.3m as StealthGas nearly halved its exposure to what proved to be a soft spot market.

Classified notices follow on the next pages