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Carriers summoned by China to curb transpacific mark-ups

GOVERNMENT AUTHORITIES IN China have summoned a string of container shipping lines, with the intention of reining in soaring transpacific rates.

In a notification seen by Lloyd's List, the Ministry of Transport invited the heads of China from 14 carriers involved in the transpacific trade — including all members of the three major shipping alliances — to a "consultation" held at the Shanghai Shipping Exchange last Friday.

Officials from the National Development and Reform Commission, China's top economic planner, and the State Administration for Market Regulation, were also expected to attend the discussion

Aimed at "stabilising the international container shipping markets", the Ministry of Transport made a series of inquiries about the business and operations of the shipping lines.

These included the impact from the coronavirus backdrop, the blank sailings between July and October and the pricing mechanism of the spot rates on China-US trade.

The ministry specifically asked what measures the shipping companies had taken to "curb the excessively fast mark-ups on China-US routes", and to pass on the cost savings from the drop in oil prices and reduction of port fees.

Market talk has circulated over the weekend that the authorities had asked the carriers to halt the general rate increase set for September 15 and reinstate planned blank sailings.

However, one shipping executive who attended the gathering said no such explicit request was made during the discussion, adding that the government officials were refraining from direct intervention in the market.

The same alleged request was also missing from his company's memo about the Ministry of Transport consultation, according to another China-based executive from a separate carrier involved in the meeting.

"It is mainly about improving the SSE filing system of freight rates, deployed capacity and service schedules," he said.

China established a nationwide freight rate registration system for international shipping lines in 2009, and appointed SSE to help receive and monitor the filings.

However, Cosco Shipping, which controls the world's third-largest box shipping fleet, was said to have withdrawn the next price increase on at least a couple of China-US west coast services and abandoned earlier scheduled void sailings for October.

The second executive said that state-owned Cosco might have taken a hint from the Chinese government to take the lead in these actions, with the expectation that its foreign peers would follow suit. He said he was not yet sure how his company would react.

Lloyd's List has sought comment from Cosco and the Ministry of Transport.

These moves come in the wake of a robust recovery on several international trades originating from China — led by skyrocketing transpacific rates — over the past few months, amid massive blank sailings by major carriers that have displayed stricter capacity discipline after the latest wave of consolidation in the sector.

Most of them, although previously warning of a coronavirus-led slump, reported satisfying profits in the second quarter of the year and are set to earn even more for the third quarter.

They argued that the price increase was primarily driven by a strong rebound in cargo demand from the large consumer countries, and that vessel capacity had already been ramped up to cope with a surprisingly bullish summer peak season.

But that appeared not enough to quell shippers' complaints and regulators' concerns about shipping lines' possible violation against competition rules.

"[Shippers] experience price increases, at a time where they also see severe disruptions to their supply chains — first in terms of blank sailings, now in terms of cargo rollings because vessels are full," said Sea-Intelligence in a Sunday report.

The consultancy reckoned that such regulatory intervention was "inevitable", with the current level of market tightening and the history of the container line shipping industry.

"In this vein, we would also not be surprised to see especially the EU competition authorities, as well as the US Federal Maritime Commission get involved in the coming months, as well," it added.

Last month, the Chinese Ministry of Transport approached six major container shipping carriers for explanations about the "rate fluctuations" on some routes, including China-US.

One Chinese shipping analyst close to the ministry said the latest "summons" was mainly triggered by alliances' decision earlier this month to again cut service capacity for next month.

The Chinese Golden Week holidays, which start from October 1, traditionally signal the end of the busy season on the main east-to-west trade for liners.

Nevertheless, the analyst said advice given by Chinese government officials in a discussion with company management, such as the Friday meeting, was normally dispensed in a mild manner and considered less mandatory compared with a written order.

"There has been no precedent that the Chinese government has forced carriers to release capacity," he said. "But obviously they will feel the pressure from the regulators. And the next step will depend on what Cosco will do and whether other lines will follow."

WHAT TO WATCH

Pandemic to knock 1bn tonnes off sea trade

WORLD trade by sea will be down by an estimated 1bn tonnes due to coronavirus, but the worst pain may already be over, according to Clarkson Research's managing director Stephen Gordon.

He was speaking at the world's biggest marine insurance gathering in a discussion about the effect of the pandemic.

According to Mr Gordon, the average forecast for global aggregate GDP in 2020 is a 4.9% decline, almost twice the 2.5% fall recorded in the 12 months following the start of the global financial crisis. "It has been a pretty harsh, severe, dramatic economic downturn," he conceded.

China — shipping's biggest market — saw a 10% drop in seaborne trade volumes in April-May and a further but less pronounced 4% drop for June-July.

Both domestic industrial production and the Chinese purchasing managers' index indicators are looking a little more robust over the summer.

"The peak impact… may have just been passed, early in the summer or late in the second quarter," he told the session of the International Union of Marine Insurance conference.

The event, which is being organised as an online gathering owing to the coronavirus backdrop, also features contributions from James Whitlam, a data strategist with insurtech Concirrus, and Rolf Thore Roppestad, chief executive of P&I club Gard.

Turning to the outlook for world sea trade, Mr Gordon stated: "The bad news is we expect to lose almost a billion tonnes of trade this year, and that is including initial growth of 3% at the start of the year."

Clarkson's projection for the fall in seaborne trade in 2020 is around 4.1% in tonnes and 4.6% in tonne-miles, this time broadly comparable with the financial crisis.

"We have a sense that it could have been a lot worse, and disruption so far has been relatively well-managed from a shipping trade and a shipping demand perspective."

Ranking shipping alongside other industries in terms of how well they have contended with the challenges of the pandemic, shipping would be in the top half. Cargo shipping would be in the top quartile.

Mr Whitlam used his company's data to give an aggregate view of the impact of coronavirus on shipping.

Average weekly mileage for all vessel types globally is down by 10.8% in 2020 compared with last year. But the curve seems to be off the bottom, as the figure for August is only 4.8% down on August last year.

Using average weekly unique port visits for all vessel types as a yardstick, the figure for 2020 is 1.21, a drop of 11.7% on 2019. But the figure for August is down only 6.5%, again suggesting partial recovery.

Average weekly nautical miles travelled per ship were around 690 nautical miles a week in 2019, which at one point this year fell by over 10% to 612 nautical miles a week, although there was some recovery in August.

Incidentally, the weekly unique port visit measure shows wide variance between vessel types: boxships fell 16.1%, compared with a smaller decline of 11.9% for bulkers, while cruiseships plummeted by 78.3%.

These trends amount to a big change in risk profile for marine insurers, Mr Whitlam said.

"Put simply, the more time a vessel spends at sea, it is navigating for longer periods of time in potentially hazardous waterways, there is more time with machinery running, and there are more opportunities for losses to occur."

The hugely changed risk profile will result in a very different claims experience this year, he opined.

A 70% or so fall in bunker prices in the year to date has likewise had a major impact on routing, after prices hit the inflection point at which routing round the Cape of Good Hope is cheaper for Asia-Europe vessels than paying Suez Canal dues.

Routing via the Cape entails 10 days additional transit time and more onerous wave conditions, which increases insurance risk. Once again, big data allows underwriters to quantify and price such a previously intuitive factor.

Mr Roppestad pointed out that shipping was already facing significant demands ever before coronavirus, such as trade tensions and environmental legislation.

"Shipping, the marine industries and the marine insurance industry are put under challenges from society at large. That is mostly for good. We should be a positive contributor to society."

However, the coronavirus backdrop is proving expensive for P&I clubs, faced with payouts for business interruption, mass repatriation, the cost of vessel disinfection and likely litigation.

They are also facing an increasing number of illness claims, mainly from seafarers but also from passengers. Coronavirus is also making it more difficult to get salvors and other specialists to the site of casualties.

The energy sector has in any case been sluggish since the precipitous 2014 drop in oil prices, but the market is slightly picking up in certain areas.

Cargo interests launch new safety body

A GROUP of five organisations involved in containerised freight transport are to collaborate on new guidance on packing standards for containers and other cargo transport units in an effort to reduce the incidence of fires on board box ships.

The Container Owners Association, the Global Shippers Forum, the International Cargo Handling Co-ordination Association, the TT Club and the World Shipping Council are co-operating on a range of activities to further the adoption and implementation of crucial safety practices throughout the global supply chain, the group said in a joint release.

The joint body, the Cargo Integrity Group, has published a quick guide to the UN-sponsored Code of Practice for Packing of Cargo Transport Units (the CTU Code), together with a checklist of actions and responsibilities for the guidance of those undertaking the packing of cargoes in freight containers specifically.

"There have been several widely reported container fires aboard ships, where containerised cargoes may have been the cause of, or contributed to, such fires," the CIG said.

"The organisations believe that consistent, widespread and diligent adherence to the CTU Code by all parties within global CTU supply chains would significantly reduce these types of incidents, some of which have resulted in fatalities and serious injuries amongst ships' crews and shore-side staff."

Other casualties, such as container stack failures, vehicle roll-overs and train derailments could also be traced to poor packing practices. The organisations said that a greater awareness of the CTU Code and the packing practices and techniques it contains would help to reduce such incidents.

"A key objective of our mission is promoting awareness of the CTU Code," said ICHCA technical adviser Richard Brough.

"We have a dedicated set of outcomes designed to achieve this aim, which begins with the publication of our CTU Code — a Quick Guide. We want the code to be as accessible to as many operatives as possible and hope this Quick Guide will encourage them to learn how the code can be applied to their own particular needs."

Part of the challenge would be to create the necessary awareness of the CTU Code to the wide number of businesses active in the intermodal supply chain.

"Our organisations cannot do this on their own and we are reaching out to other bodies in the supply chain and in governmental agencies to join with us in promoting high standards of the packing of all cargo transport units and understanding the inter-connectedness of differing objectives," said GSF secretary-general James Hookam.

As well as promoting the CTU Code, the CIG plans to seek regulatory changes to improve the clarity, implementation and enforcement of rules such as the Maritime Dangerous Goods Code, and supporting enhanced cargo screening processes and more effective container inspection regimes.

"We believe it is important to pro-actively review and, where needed, revise existing regulatory provisions to enhance ship, crew and worker safety," said WSC vice-president Lars Kjaer.

"Working closely with other partners, we have been able to ensure the launching of a considered review of the maritime Special Provisions in the IMO's

International Maritime Dangerous Goods (IMDG) Code. Such Special Provisions may today lead to exemptions from the Code's safety and documentary requirements with the result that the carrier may not be able to take necessary precautionary measures."

ANALYSIS

Oil trades stalling as global inventories soar

CRUDE stockpiles breaching multi-year highs have come to compromise oil trade and the associated shipping demand, according to Trafigura's co-head of oil trading Ben Luckrock.

China has added 800m barrels, "effectively doubling" its stockpile over levels seen at the start of last year, he told the APPEC 2020 virtual conference.

Such stockpiling has become a norm in part because low oil prices have incentivised crude importers around the world to stock up ahead of demand.

But importers may have gone too far piling up crude.

Mr Luckrock suggested that China will take at least two years to exhaust the crude held in storage even if its demand more than claws back coronavirus-triggered losses to surpass 11m barrels per day, or 1m barrels above the 2019 level.

Oil traders and shipping players now grapples with one downside risk.

"We may not even need to move crude for some time," he said.

The market has already seen some 15m barrels of West African crude being added to floating storage as they could not find any buyers, the analytics unit of pricing agency S&P Global Platts said recently.

Chris Midgley, head of Platts Analytics, said that to "incentivise buying" prices of cargoes "need to drop, likely to below $40 delivered China".

Conference speakers appeared to share the view that oil price may still creep up in the coming months.

Platts Analytics projected that oil will hit $45 by end of this year, possibly advancing to high $40s another 12 months down the road.

Citibank's global head of commodities Ed Morses shared a more bullish forecast, predicting $48 oil by December and $55 for next year.

The market, however, is not expected to stage an expedient recovery.

Vitol's global head of research, Giovanni Serio flagged the probability of a coronavirus vaccine being developed in time that may lead to further drawdown on 'the big buffer' of crude inventories worldwide from the middle of next year.

But he warned that demand will not recover to pre-pandemic levels until 2022.

IN OTHER NEWS

Dow sells three US Gulf terminals for $620m

DOW, the chemicals maker, is to sell three US Gulf coast terminals to a joint venture owned by BlackRock and Dutch tank terminal operator Vopak for $620m.

The deal covers terminals at Freeport, Texas and at St Charles and Plaquemine, in Louisiana, with a total capacity of 852,000 cu m, the companies said.

Vopak Industrial Infrastructure Americas, a 50-50 joint venture of Amsterdam-listed Royal Vopak and BlackRock's Global Energy & Power Infrastructure Fund, will enter long-term service agreements with Dow for storage and infrastructure services.

Fidelity raises risk to supply chains from crewing crisis

FIDELITY International, the global investment manager, is pushing for a "multilateral approach" to resolve the ongoing crewing crisis, which it says threatens the health and safety of seafarers as well as global supply chains.

The company has called on governments for seafarers to be classified as essential workers.

It is contacting 30 companies, including shipowners, charterers and airlines, over its concerns about the conditions seafarers

are under, according to the Financial Times.

MSC boxship hits gantry crane in Valencia

AN INQUIRY is underway after a Mediterranean Shipping Co containership hit a gantry crane in Valencia, Spain.

The 23,000 teu *MSC Mia*, one of the Geneva-based carrier's largest vessels, was departing MSC Terminal Valencia on September 13 when the incident occurred, according to a Lloyd's List Intelligence casualty report.

The collision caused the near 50-metre structure to collapse onto the quayside. The Port Authority of Valencia said operations at the MSC facility have now returned to normal.

ExxonMobil biofuel trial cuts CO2 emissions by 40%

A MARINE biofuel tested on a Stena Bulk vessel cut the ship's carbon dioxide emissions by 40% compared to conventional heavy fuel oil.

ExxonMobil, the oil major which conducted the trial, said its 0.5% sulphur biofuel could help ship operators reduce their greenhouse gas emissions.

The company said the residual-based fuel was processed with a second-generation, waste-based FAME (fatty acid methyl ester) component. It could be 'dropped in' to engines without the need for modifications.

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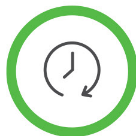

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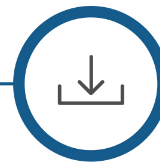

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