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EU votes to include shipping in Emissions Trading System

INTERNATIONAL SHIPPING SHOULD operate under the European Union's Emissions Trading System beginning in 2022, the European Parliament has agreed.

Lawmakers in Brussels voted in favour of a set of legal amendments on emissions reductions obligations that would affect around 11,500 ships calling at ports in the European Economic Area.

The plenary adopted Greens MEP Jutta Paulus' proposal on changes to the Monitoring, Reporting and Verification regulation that covers emissions and data collection in the EU for ships of 5,000 gross tonnes and above.

The European Parliament supported the proposal that as part of these amendment shipping should also be included in the Emissions Trading System, the bloc's current tool to limit emissions from most industries, beginning in 2022.

Shipping should operate under a system of full auctions for emissions allowances, which means there should be no free allowances distributed to the sector. Sectors such as aviation operate with majority free allowances but the European Commission has been reducing them.

Though shipping's inclusion into the bloc's carbon market is a separate issue from changes to the MRV, the vote endorsed efforts for both items to be deliberated concurrently.

Under the adopted proposal large ships calling at ports in Europe will need to cut their carbon intensity by at least 40% by 2030.

Ms Paulus said the commission will set the baseline by using the MRV data for 2018 and 2019 and take into account the International Maritime Organization data of 2008.

The proposal also suggests the creation of an Ocean Fund in which 50% of the emissions allowance auctions revenues would go. The fund would finance low-emission projects in the maritime sector.

The parliament's decision opens up the way for negotiations with the European Commission and the Council of the EU, which represents EU governments.

Ms Paulus has said she is not certain that the Council under the current German presidency will launch this trialogue process during its term.

Industry has long openly opposed the inclusion of shipping in the Emissions Trading System on grounds that it is a regional measure seeking to govern international voyages; it creates administrative burdens, especially for smaller companies; and it will not be effective in curbing emissions.

The commission under its president Ursula von der Leyen has repeatedly expressed its intention to include shipping in the system. But an upcoming document suggests that this "inclusion" and a preference for dealing with the system as an item to the MRV makes the issue less straightforward than appears.

A leaked copy of the European Commission's 2030 climate target plan said that the EU should "include at least intra-EU maritime transport in the EU ETS".

The commission's wording will come as a positive development for industry interests; the World Shipping Council urged EU decision-makers last week to limit the Emissions Trading System to intra-EU voyages.

The commission further said in its plan that international co-operation on maritime and aviation is "desirable".

"In the light of the progress at the global level, the commission will give fresh political consideration to the international aspects of the EU ETS, taxation and fuel policies for aviation and maritime to ensure the gradual decarbonisation of all fuel use from transporting relating to the EU," the commission said.

The commission's plan proposes the EU should cut its economy-wide greenhouse gas emissions by at least 55% by 2030 compared to 1990's levels, upgrading the current target of at least 40%.

This intensified target is aimed at enabling the EU's overarching target of becoming carbon neutral by 2050. The commission said that if the EU carries on with its current 2030 target, it will cut greenhouse gas emissions by just 60% by 2050.

Commissioner for budget and administration Johannes Hahn said on Monday evening that while the European Commission agrees with the parliament that the shipping ssector needs to duly contribute to the to implementation of the Paris Agreement and contribute to the EU target of climate neutrality, it disagrees with the suggested approach

"We do not consider the review of the EU reporting rules as the appropriate vehicle to include shipping in the ETS or to introduce operational component intensity requirements," he said during a speech in Parliament.

He further stressed that there is also no impact assessment for these requirements.

"This is a difference of opinion in instrument but our political goals are shared," he told lawmakers.

WHAT TO WATCH

Lloyd's loses hull market dominance

LLOYD'S is no longer the world's number one marine hull market in terms of premium volume, according to a presentation at the International Union of Marine Insurance conference.

The development — probably for the first time since its inception in 1686 — was revealed by Astrid Seltmann, an actuary with Nordic marine insurance trade association Cefor, in a line graph which showed clearly that Lloyd's fell to third in the rankings last year, behind the Nordic market and Singapore.

Lloyd's marine premiums fell from $982,273m in 2018 to $700,878m in 2019. Singapore was also down, from $916,100m to $862,600m, but held on to second place as the decline was less than that seen at Lloyd's.

The Nordic market took the top slot as it jumped from $701,054m to $887,867m.

The main factor at work appears to be the departure of more than 30 Lloyd's entities from one or more marine lines in the wake of the Decile 10 programme, the corporation's crackdown on perceived underperformers.

London still remains the largest centre of hull insurance if the non-Lloyd's company market is included in calculations.

International Underwriting Association members took in a further $347,973m in hull premiums last year. But that is a drop on the $379,813m seen in 2018.

More broadly, the presentation revealed that global marine underwriting premiums for 2019 were estimated at $28.7bn, which represents a 0.9% reduction from 2018, despite widespread comments from brokers and underwritings that rates are hardening.

Biggest markets by market share were Europe, with 46.3%, and Asia/Pacific, with 31.8%.

Europe's share of global capacity reduced slightly from 46.4% in 2018 to 46.3%, while Asia's share increased modestly from 30.7% to 31.8%.

Cargo continued to represent the largest line, with 57.5% in 2019. Hull was on 24.1%, offshore energy 11.7% and marine liability (excluding International Group P&I providers) 6.8%.

Global premiums for the ocean hull sector were relatively stable, with 2019 premiums of $6.9bn up just 0.2% on the previous year.

Lloyd's has been approached for comment.

Sanctions-evading Iranian VLCC switches off AIS for entire voyage

A CARGO of Iranian condensate is discharging in Venezuela at Puerto Jose port after sailing from Iran without transmitting any Automatic Identification Signals for the entire voyage in breach of international safety shipping regulations, to avoid revealing its location and destination.

The 2m barrel shipment on board the National Iranian Tanker Co-owned very large crude carrier is the latest sanctions-evading tactic used by the Islamic republic to keep up shipments of crude, condensate, fuel oil and liquefied petroleum gas, and further illustrates deepening ties between the two countries.

Iran and Venezuela appear to have embraced the adage that the "enemy of my enemy is my friend" and united against the US, which has imposed unilateral sanctions on both countries' oil and gas and shipping sectors for more than 18 months, crippling their export output.

At least three NITC product tankers with about 1.1m barrels of gasoline are now sailing in the South Atlantic and destined for Venezuela, delivering the transport fuel to alleviate chronic shortfalls, while Iranian engineers work on repairing inoperable refineries in the South American country.

The Iranian-flagged handymax tankers *Faxon, Fortune*, and *Forest* were also part of a group of five tankers which also delivered Iranian gasoline to Venzuela in July.

While the VLCC's identity has not been confirmed it has been widely circulated as the 2008-built VLCC, formerly known as *Amber*, which has been renamed *Honey*.

Its last AIS signal seen more than a year ago in September, 2019 when the vessel was at Khor Fakkan anchorage at Fujairah, a key bunkering destination in the Middle East. It is believed to have been used for floating storage by Iran since then.

The condensate cargo, which arrived on September 13, will be used as diluent for the extra-heavy Orinoco crudes for export. Until the US sanctions were imposed, most of the diluent was supplied from the US Gulf.

AIS is mandatory under an international safety of life at sea convention, to which Iran was a signatory in 1994.

It can only be switched off when the safety and security of the vessel is at risk, and this has typically been done under this circumstances in areas where pirates are known to be prevalent.

Iranian vessels have switched off their AIS frequently for part of sailing to disguise vessel loadings, ship-to-ship transfers and other movements but this is the first time that an entire voyage has been detected without any AIS transmissions. The move adds to the ever-growing arsenal of sanctions-evading tactics deployed by both countries.

Last month the US seized four gasoline cargoes on Greece-owned tankers in international waters that were destined for Venezuela, citing a forfeiture law that was also used on a North Korean-owned tanker last year.

Shipping cannot solve crew crisis alone, says Fidelity

SHIPPING cannot solve its crew-change crisis without co-operation from other industries, according to Fidelity International, which is calling on governments to grant seafarers free movement through the pandemic.

The $566bn asset manager added its voice to the chorus of businesses and organisations calling for action to solve the issue.

Jenn-Hui Tan, global head of stewardship and sustainable investing, said the company spoke out after analysing the mounting risks posed by the crisis to safety, the economy and environment. It aimed to use its leverage to bring mainstream attention to the problem.

He said it was wrong to see the crisis as “a shipping problem that only shipping can fix”.

“The fact that it has been going on so long should tell everyone that this is not within shipping’s gift to solve entirely,” he said in an interview. “The fact is that there are no real bad actors here

“This situation has come about as a result of many different complicated factors and the solution to it requires the co-operation of a lot of different participants.”

Mr Tan said the high numbers of overworked crew increased the risks to safety and cargo.

“We have seen a pickup in reports recently about an increase in maritime accidents,” he said. “I am not yet aware that there is a causal link to overworked seafarers, but of course intuitively that’s not good for any ship’s operations.”

Some companies had paid for special charter flights to bring crew home, but companies could not be expected to bear the high costs alone. Airlines, charterers and governments had to work together to solve the crisis.

He said different groups had approached Fidelity following the article’s publication and some had proposed ideas for technology-based solutions.

Some countries had signed up to the International Maritime Organization’s 12-point plan to allow crew changes, “however we need to see that trickle down more”.

“In our view the most important thing remains the designation of the seafarers as key workers or essential workers to facilitate their safe embarkation and disembarkation from these ships,” he said.

ANALYSIS

Imbalances seen amid crew change crisis

THE need to focus on crew welfare and significantly increasing the awareness of the public about the importance of seafarers and the work they do were the headline takeaways from a panel discussion at the Capital Link China Shipping Forum.

But there was also a distinct subtext warning about the dangers of vested interests during the debate on the human element, shipping and the global supply chain effects of the pandemic.

Columbia Shipmanagement president Mark O’Neil said “there are lots of lessons to be learnt” from the coronavirus outbreak and on balance the industry has gained more than it has lost as the business becomes more fit-for-purpose for the future.

"People-focus is going to be the single most important assessment post-coronavirus," he said.

V.Ships chief executive officer for crew management Allan Falkenberg, while emphasising the importance of drawing the public's attention to the essential role of seafarers, also suggested that they have yet to see the worst-possible scenario outcomes.

"It will be an eye-opener if people can't get their essential goods," he said.

Anglo-Eastern Univan Group chief executive officer Bjorn Hojgaard, sharing his experience as Hong Kong Shipowners Association chairman, said that with the city handling as many as 500 crew changes a day after it became one of the first maritime centres to open up for crew changes, it became clear that unless every country and port also plays a part, it is easy for one port to be overwhelmed, as Hong Kong was.

The city suffered a third wave of coronavirus infections in July that prompted a backlash from the public, who pointed fingers of blame at seafarers doing crew changes as being partially responsible for the resurgence.

Mr Hojgaard especially criticised "piecemeal actions and beggar thy neigbour attitudes, where solving the problem is someone else's job".

Mr Falkenberg also flagged the lack of knock-on financial effects on the general public as another factor in the overall crew-change problem. He acknowledged that the shipping industry needs to take responsibility for ensuring compliance, but also pointed out that this entails costs. "Who pays for this cost needs to be discussed going forward," he said.

For example, Mr Falkenberg said V.Ships is taking precautions such as taking out a whole hotel to quarantine its signing-on crew before they leave the Philippines, at its own cost. Meanwhile, the consumers who make up the general public are not seeing any increase in the cost of getting the products they are used to.

Putting things into perspective, however, BW Fleet Management vice-president and head of global manning Dennis Svane Hansen highlighted issues with the still high number of coronavirus cases in crew source countries India and the Philippines.

With some 3% of joining crew testing positive, he suggested that that crew supply countries have not done enough. "They need to step up and do more to ensure the people they are sending out are safe," Mr Svane Hansen said.

Chinese crew manning agency Singhai Marine Services managing director Terence Zhao noted that demand for Chinese seafarers had gone up since China allowed crew changes for locals and this was especially critical for vessels either being delivered from or getting work done at shipyards there.

However, he said that owners need to be more proactive in planning for their manning requirements, with some still hoping to get seafarers from their preferred crew source countries on board in China even at the last minute.

"It is very unlikely China will relax restrictions for foreign crew change until at least some time next year," Mr Zhao said.

"Crew change is possible to do with the standard operating protocols in place now," concluded Mr Hojgaard. He noted that out of the 18,000 or so crew changes Anglo Eastern has done since April, there has not been a single outbreak on any of its ships.

Forwarders lack capacity for Brexit preparations

UK FREIGHT forwarders still have "significant reservations" about whether they will have the capacity to handle the changes to trading relationships following the end of the Brexit transition period on December 31.

In a survey of its members conducted by the British International Freight Association, nearly two thirds of the 267 respondents said they expected to not have sufficient staff to undertake additional customs-related work required from January 1, 2021.

Additionally, the majority of respondents felt that they lacked sufficient information about how to prepare for the end of the transition period, saying that government announcements, publications and information was insufficient and needed to be more accurate and clearer.

BIFA director-general Robert Keen said the findings demonstrated that much greater clarity was needed on government plans for the border.

"The results indicate that the recent publication of the Border Operating Model and Moving Goods Under the Northern Ireland Protocol have not greatly assisted members' understanding of procedures regarding imports and exports between the EU and UK, and Great Britain and Northern Ireland, respectively," he said.

Questioned about their understanding of the UK government's plans for the border after the end of the transition period, more than half of the respondents said that they either had no knowledge, or what knowledge they do have needs improving.

While 70% of respondents said they understood the customs procedures required to import goods into the UK from the EU at the end of the transition period, less than half said that was the case with safety and security declarations or with the import of animals, animal products and fresh foods.

Moreover, 69% of those surveyed said the pandemic had affected their ability to prepare for the end of the transition period due to reduced staffing levels.

"In a similar survey conducted in May this year, 50% of respondents felt they would not have sufficient staff to undertake the additional customs-related work that will be required from January 1," Mr Keen said.

"In the latest survey, this has increased to 64% of respondents, which makes sense in light of the fact that 69% of respondents in our latest survey said the pandemic had impacted on their ability to prepare for the end of the transition period."

In a separate Brexit-related event, Marc Holland, deputy head of mission at the British Embassy in Copenhagen, told European exporters they too would need to prepare for the realities of trading with the UK following the end of the transition period, regardless of the outcome of talks over a free trade deal.

"Whatever happens, Danish business needs to prepare for trading with the UK outside the customs union and single markets," Mr Holland said in a webinar.

"Danish business will need to prepare to trade with the UK as a third country. We're not seeking to remain part of the single market or customs union. There will be checks and forms to fill in regardless of the outcome of the free trade negotiations."

While EU checks would begin on January 1, the UK was taking a phased approach, he added.

From January 1, shippers exporting standard goods to the UK would be allowed to defer completing customs declarations and paying any tariffs, and there would be no need to complete safety and security declarations.

"If you are bringing in controlled goods or live animals or high-risk plant products, you will be required to pre-notify," Mr Holland said.

"From April, all products of animal origin and regulated plants and plant products will require pre-notification, and from July full declarations will be required and tariffs will have to be paid at the point of import, and full safety and security declarations will be introduced."

MARKETS

Will contango trades shield tankers from coronavirus resurgence?

HOME working and air travel restrictions underpin fresh pessimistic forecasts about oil demand growth for the remainder of 2020.

It leaves floating storage deployment as the biggest driver of fourth-quarter tanker earnings amid stalling consumption of land and air transport fuels that will deepen crude and refined product contango spreads.

The International Energy Agency lowered its second-half oil demand forecast for its second consecutive oil monthly report, saying 2020 demand would be 91.7m barrels per day. That is 400,000 bpd below its prior estimate in August, and 8.4m bpd below 2019 levels.

The crude market outlook was "even more fragile" than a month ago and "the path ahead is treacherous amid surging Covid-19 cases in many parts of the world", the Paris-based agency warned.

"We expect the recovery in oil demand to decelerate markedly in the second half of 2020, with most of the easy gains already achieved," it said.

"The economic slowdown will take months to reverse completely, while certain sectors such as aviation are unlikely to return to their pre-pandemic levels of consumption even next year."

It said a second wave of infections could again cut mobility once again.

Based on preliminary data and projections, it said month-on-month demand growth slowed to 3.5m bpd in July and 1.1m bpd in August. It is expected to average 540,000 bpd every month over September to December.

"In December, demand will remain 4.8m bpd below the same month in 2019," it said.

The report makes grim reading for owners and operators of the global fleet of crude tankers, which last year shipped about 50m bpd of the world's estimated supply of 100m bpd of crude and condensate.

Along with refined products, total international seaborne tanker trading was estimated at nearly 3.2bn tonnes in 2018, out of total 11bn tonnes, according to the United Nations Conference on Trade & Development.

At the height of lockdown restrictions in April and May, demand for refined products slumped by one third, while oil prices plunged to a 21-year low, triggering contango market conditions that saw tankers deployed for floating storage at record levels through to August.

Contango trades arise when the future price is higher than the spot price, typically when immediate demand for a product is very weak.

When the difference in the two prices is wide enough, traders can buy and store oil for later sale at a profit. Tankers can be typically used if land-based storage is not available or the chartering costs make such economics work.

Contango trades helped shield tankers from the worst of the lockdown-induced demand downturns by deploying as much as 10% of the trading fleet of panamax-sized ships through to very large crude carriers for floating storage.

But with these trades unwinding and Chinese port congestion easing, earnings have hovered near operating expenses for nearly six weeks, even as oil exports have rebounded from some of the lowest levels seen in nearly 30 years through June.

Doubt over seasonal rise

The IEA's assessment places doubt over any seasonal rise in oil demand due to the northern hemisphere winter and increased need for gasoil and heating oil that usually accelerates tanker spot earnings at the beginning of October.

The key this quarter will be in the pace of demand for transport fuels, and one of these indicators will be teleworking, according to the IEA.

"Teleworking is now a significant component in assessing the level of oil demand," the report said, estimating public transport worldwide is down around 25% to 50% from January levels.

At least 20% of trips were work-related, the IEA said, citing monthly fuel statistics for Organisation for Economic Development and Co-operation countries, and Google data.

From this home working was extrapolated to account for 600,000 bpd of the 2.2m bpd fall in gasoline consumption and for 600,000 bpd of the 900,000 bpd fall in diesel in OECD countries over June, according to the data.

The IEA lowered its demand forecasts for gasoline by 450,000 bpd and by 260,000 bpd lower for diesel as a result of workers not travelling to the office.

Large product stocks will take another two to three months to absorb excess stocks from April and May, according to the IEA, with bearish fundamentals for refineries and crack spreads, especially for middle distillates which include gasoil, diesel and jet fuel.

Owners and operators of product tankers, already digesting hurricane-related refinery shutdowns at the exporting hub of the US Gulf, are likely to see further falls in regional business, with contango trades for gasoil and diesel to shield them from further collapsing earnings.

"Liquefied petroleum gas, ethane and naphtha demand is forecast to fall little this year on resilient petrochemical feedstock demand and residential use for LPG," the report said.

"Fuel oil demand, which includes marine bunker as well as power generation and industrial uses, is forecast to decline by only 400,000 bpd or 6.3% in 2020.

"In 2021, premium transport fuels recover by only just over half of the 7.4m bpd, or 11.6%, lost in 2020, and stay below 2017 levels.

"Producing to meet this new demand profile means refiners must make further shifts in the yield slate– from gasoline and middle distillates to naphtha, fuel oil and other products.

"At the same time, geography will continue to be a major factor in refiners' ability to survive. In the Atlantic basin, the demand recovery is expected to be slower than in the east of Suez.

"Next year, oil demand in the Atlantic basin will be lower than in 2010, while east of Suez demand is forecast to be above the 2018 level.

"In turn, refining activity is recovering faster east of Suez, almost reaching 2019 levels in 2021, but in the Atlantic Basin runs are expected to remain at the bottom of the range for the past three decades."

The six-month difference, or spread, in ICE Europe low-sulphur gasoil futures was trading at about $31 per tonne, in London on September 15.

Calculations show that such a contango play, based on current VLCC time-charter rates would yield a $2.5m profit over the period, calculations by Lloyd's List show.

Savvy traders who forecast the steepening contango the earliest have already chartered vessels for storage in past weeks, data from shipbrokers show.

IN OTHER NEWS

ONE increases services from north Asia into Vietnam

OCEAN Network Express continues to boost its network from north Asia into Vietnam, with a new service connecting Japan and China to Ho Chi Minh City with the new Japan-China-Vietnam service beginning in mid-October 2020.

ONE said the service has been developed to further enhance its intra-Asia network. It will be the first direct service from Shanghai to Ho Chi Minh, while also increasing the frequency of sailings between Japanese ports and south Vietnam.

The Japanese container line launched new services between south China and Japanese ports and north Vietnam in December 2019. Several other container lines, including feeders as well as mainline operators, have launched similar services in the past few months as well.

Clarksons and Arrow to broker Xihe tanker sales

THE court-appointed supervisors of Hin Leong Trading's shipowning affiliates are said to have appointed Clarksons and Arrow Shipbroking as exclusive brokers to handle the sales of tankers tied to loans from six international banks.

Sources said that Grant Thornton Singapore, which was appointed in August as interim judicial managers of five Xihe Group entities, has identified seven tankers for the planned vessel sales.

The earmarked tankers include three very large crude carriers, namely the 2009-built *Tai San*, the 2010-built *Tai Hung San* and the 2011-built *Pu Tuo San*.

French remote operations demonstrate compliance pathway

A FRENCH energy technology business has successfully demonstrated remote vessel operations using a Bureau Veritas-classed supply ship.

VN Rebel was remotely navigated off the French Mediterranean port of Toulon by a SeaOwl Energy Services master positioned at the Ecole Polytechnique at Palaiseau, to the south of Paris.

The *Rebel* had been retrofitted with ROSS (Remote Operated Services at Sea) technology and had the required authorisations from the French flag compliance with the International Maritime Organization resolution for trial of Maritime Autonomous Surface Ships (MASS). It had a crew on board to take control if necessary.

Salvors complete dive inspection of New Diamond

THE fire-damaged very large crude carrier New Diamond remains stable and safe at a position about 50 nautical miles off the coast of Sri Lanka, the Indian Navy said in a statement.

A joint team from the Sri Lankan Navy, Indian Navy and SMIT salvage team completed an underwater dive inspection to assess the vessel's integrity on Sunday.

The salvors undertook deballasting measures and all the leaks on the hull were sealed, according to the Indian Navy.

Shipowners' club cuts combined ratio at halfway stage

SMALL craft and specialist vessel insurer Shipowners' Club has cut its deficit and combined ratio in the opening six months of this policy year.

CR in the first half came in at 102.2%, compared with 105.9% in the year-earlier period and in line with budget. Accordingly, the underwriting deficit dropped from $5.7m to $2.2m.

Earned premiums grew to $113m from $108.2m last time round. Free reserves rose to $338.2m of net assets from $330.2m on the back of improved investment returns, despite market volatility.

Marinakis buys boxship trio from NSC Group

THE Greece-based Capital Maritime group of Evangelos Marinakis has clinched a deal to buy three panamax containerships from Germany's NSC Group.

It is understood that the owner is paying about $30m for the trio of 12-year-old 5,085 teu vessels.

That would put the price slightly below the aggregate valuation of close to $33m that online valuer VesselsValue.com gives the trio. The vessels — the *Chicago, Las Vegas* and *Memphis* — were built in 2008 by Hanjin Heavy Industries

Classified notices follow