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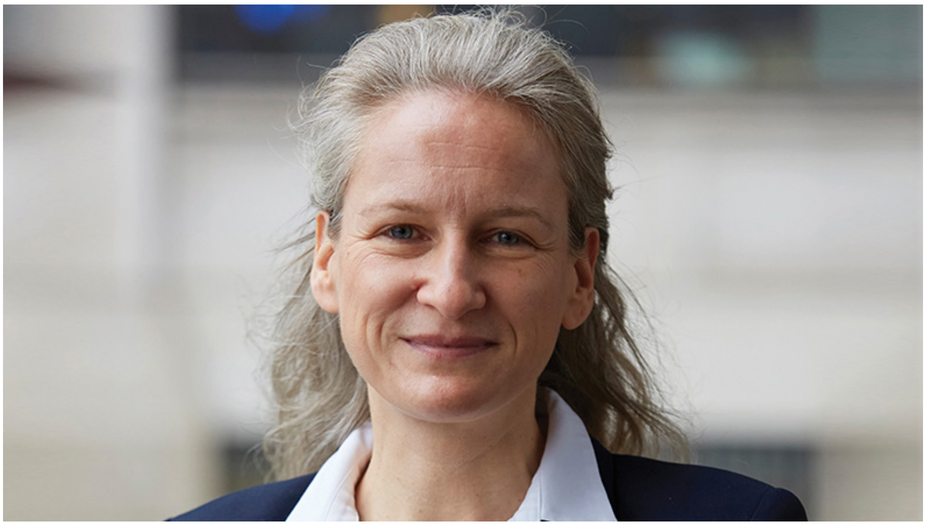
Tanker sector flags 'serious consequences' of EU's emission plan



INTERTANKO, THE INTERNATIONAL tanker owners' association, has joined other industry groups in lambasting a decision by the European Parliament to include international as well as domestic shipping in the EU's Emissions Trading Scheme.

The tanker industry body said that the move would have "serious consequences" for European Union trade and could cost shipping up to €3.5bn ($4.1bn) yearly.

Under the proposal, ships of more than 5,000 gt trading to bloc ports will be required to buy allowances for each tonne of carbon dioxide emitted during the entirety of these voyages, irrespective of any calls made at non-EU ports.

Ships engaged in long voyages would be hit disproportionately hard, Intertanko pointed out.

"This proposal would have serious consequences for the trade with EU countries, since allowances would need to be purchased for all CO2 emissions reported under the current EU MRV regulation," said the association's technical director Dragos Rauta.

He said that the estimated yearly payout of up to €3.5bn was based on total CO2 emissions reported to the EU MRV scheme for 2018 and 2019, and a current price of €25 per unit (for 1 tonne of CO2 emitted).

Intertanko members looked on the move with "great concern", said managing director Katharina Stanzel.

"We have yet to assess the overall consequences of such a measure, but it could seriously undermine the efforts taken by IMO under its strategy to reduce GHG emissions from international shipping," she said.

Intertanko also voiced doubts over the EU's proposed new Ocean Fund to collect money from ships and how this would be divvied up.

While it was proposed to direct 20% of funds to caring for marine ecosystems, what share would be earmarked for developing solutions to assist in decarbonising shipping was unknown.

"If this share is small, the scheme will turn into a carbon tax/offsetting arrangement, which will not really cut emissions from shipping at all," Intertanko noted in a statement.

It also argued that the extra costs would impact on the EU's trading partners "with associated legal and diplomatic concerns about the geographic reach of a unilaterally imposed emissions charge yet to be understood".

Fellow international shipping associations the International Chamber of Shipping and BIMCO have also long warned against inclusion of the industry in a regional ETS scheme and have been among those to have already criticised the parliament's decision.

BIMCO deputy secretary-general Lars Robert Pedersen accused the EU of "a failure to understand the true ramification of what they are doing here".

WHAT TO WATCH

Gabon de-flags more Iran-linked tankers

GABON's flag registry has de-flagged two tankers after satellite imagery showed them loading Iranian oil while their transponders were switched off over the past six weeks.

The 1999-built 105,364 dwt *Ark Rescue* and 106,552 dwt *Balder* are owned by Emirates-based Silver Star Management. They are classed by Lloyd's Register but do not have cover with any of the 13 members of the International Group of P&I Clubs.

Both joined the flag in April after changing ownership for the second time in less than nine and 18 months respectively, Lloyd's List Intelligence data show.

"The evidence provided for the vessels was compelling and the Gabonese flag administration acted in the right direction by de-registering vessels," said Amjan-based Intershipping Services, which manages the registry on behalf of the Gabonese government.

"Found vessels were in direct violation of Gabon flag policy, which is zero tolerance on breach of UN or US Office of Foreign Assets Control sanctions."

Vessel-tracking shows the vessels have been regularly involved in shipping Iranian cargo to the Emirates since at least April and appear to be discharging their cargo, likely fuel oil, at the port of Fujairah. This raises questions about the further distribution and onward shipment of cargoes by tankers or charterers unaware of the origin.

Port authorities at Fujairah, where *Balder* is currently at anchor and laden, have been informed that the tanker is storing Iranian-origin crude, an InterShipping Services spokesman told Lloyd's List.

He said the vessel's owner, who was not from Iran, had directly breached the Gabon flag's administrative policy, which involved signing a letter of undertaking that the ships would not breach US, European Union or United Nations sanctions.

Gabon earlier de-flagged aframax tanker *Zadezhda* (IMO 9254915) in February after owners failed to fully answer questions about the vessel's suspicious movements. The ship is now flagged with Malaysia.

Tankers registered with St Kitts & Nevis and the Cook Islands have also been de-flagged in relation to tankers shipping Iranian fuel, crude or refined products over the past three months. This is in breach of unilateral US sanctions.

The vessels form part of a subterfuge fleet of some 120 Iranian-linked tankers that operate under a complex international logistics chain that is funnelling under-the-radar exports of fuel oil, crude and condensate to its main customers of China and Syria using sanctions-evading, deceptive shipping practices.

Some 60 are Iranian-flagged and mostly owned by National Iranian Tanker Co but others are elderly tankers, recently purchased, with management chains and evasive shipping practices that disguise their ownership, destination, origin and cargo.

Earlier this week, an NITC-owned very large carrier arrived in Venezuela from Iran with a 2m-barrel condensate cargo. The tanker had not used its AIS for the entire voyage, in contravention of international maritime conventions.

The US-based non-government organisation United Against Nuclear Iran wrote to Gabon's transport minister on September 14, saying that *Ark Rescue* had taken numerous loads of Iranian crude from Kharg Island via ship-to-ship transfers from NITC vessels.

The vessel's Automatic Identification System was switched off, while it sailed in the direction of Basrah, Iraq, later diverting without the AIS to give the impression of an Iraqi call. An earlier letter about the practices went unanswered.

OPINION

Communication is key to resolving crew crisis

THE crew change crisis has evolved since March, when it was initially expected to be for two or three months. An inconvenience but — under the circumstances of a global pandemic — hardly catastrophic.

Pressure was brought to bear on international organisations to talk to governments.

Then, when the numbers of seafarers being held onboard beyond their contractual terms began to rise exponentially, frustration turned to anger as talk of a humanitarian crisis grabbed the headlines.

Now, six months on, shipping is starting to see the true position a little more clearly.

What has happened, in effect, is that the industry has stopped waiting for governments to solve our problem. Government ministers have larger issues to contend with — shipping's leaders have understood the need to roll up their sleeves and get to work.

When the pandemic is tamed and we are able to take a dispassionate view of what happened, one of the greatest lessons will be a renewed appreciation of the value of human interaction.

At one level, those of us able to work from home have found it has positives and negatives. The most obvious negative is the lack of social interaction.

For all its many attributes, technology cannot replace the value of sharing news and experiences. Virtual conferences miss a vital ingredient: networking.

And it's the human interaction that will inevitably be the key to resolving the crewing crisis. Everyone has been affected, often radically, by the coronavirus pandemic.

Seafarers are no different in that respect. Their circumstances are different from those of a key worker in a hospital, care home, or school, however for each the solution is the same: to paraphrase Columbia Shipmanagement president Mark O'Neil, "communicate, communicate, communicate".

"We, as employers, have to be conscious of that and educate, communicate, and identify with the crew to say: 'yes, you have been on board 10 months but you are safer on board the vessel than if we dropped you off at a port but you can't get home from there," he told a Capital Link conference this week.

"You have to bear with us. We are doing everything we possibly can."

Seafarers can read reports like anyone else; they know how hard this crisis has been. "Treat the crew intelligently," he advises. "Let them decide what is safest for them."

Mr O'Neil, formerly a lawyer, believes there is no clear legal answer to the crewing conundrum.

If it had been left to lawyers picking through the small print in the Hague-Visby Rules or the Maritime Labour Convention, "the wheels would have come off this juggernaut a long time ago" if it was clear about crews' rights or charterers' or owners' rights.

If shipping, collectively, could do anything alleviate crews' sufferings, it would do so without being contractually obliged, said Mr O'Neil.

He believes the best focus is not on legal rights but on managing expectations. That understanding, which comes from personal experience of bad practice, is the reason why morale among Columbia's seafarers is at an all-time high. "They know we are doing everything we can, if someone knows this they will work with the situation."

Slowly, the scale of the crewing crisis has become known, and avenues for getting seafarers safely home and bringing others from home to ship are opening up. That has been achieved largely through industry leadership, and not just by calling on governments to do more.

The focus on people is the single most important consequence of the pandemic.

"When we come out of this, we will be judged as a company on how we looked after our people. Have the protectors of shipping's 'family' done enough?" he asks. The day of judgement will come at the end.

ANALYSIS

Service differentiation could ease rates pressure

COMPETITION is more likely than regulation to lead to lower freight rates in the months ahead as carriers seek to differentiate their services.

While the current pressure from China on carriers to decrease rates and blanked sailing would be worrying for carriers, the record rates being seen on the transpacific trade were unlikely to be repeated, according to Maritime Strategies International analyst Daniel Richard.

"The rally in transpacific freight rates had drawn the attention of Chinese regulators," he said in a webinar presentation. "The question is: is the market broken and reflecting manipulative behaviour by liner companies?"

The rise in rates mostly reflected a genuine surge in volumes, Mr Richards said.

"Transpacific import volumes by product in the first half of 2020 shows a steep fall in US imports. But for the first three weeks of August, bill of lading data for imports from China shows an incredible surge in year-on-year growth across nearly all product categories."

At first this growth in demand was met with previously announced blank sailings, but the carriers have since moved to reinstate capacity which is now at higher levels than last year.

"Rates have risen because demand was rising faster that supply was, and this was mostly a genuine demand driven rally," said Mr Richards.

But a number of carriers that had planned to apply a general rate increase on the transpacific have now decided to cancel the GRI and reverse blankings.

"In terms of how this will play out I suspect the Chinese authorities wouldn't be intervening if rates were not at record levels so it is unlikely there are going to be repeated instances where regulators try to talk the market down and try to pressure the liner companies to cancel blanked sailings."

In previous demand-side downturns, the mechanism by which rates fell was that a number of different and uncoordinated liner companies would drop rates in an effort to achieve market share.

"That practice does seem to have been largely abandoned and we're reasonably confident it isn't coming back," Mr Richard said. "But one thing to note is that because shippers are not happy about the situation with blank sailings, it is possible that an individual line or alliance could make the decision to differentiate itself by not blanking.

"That will have the effect of not removing as much capacity as you might have seen this year, and that could potentially put some downside pressure on freight rates."

A similar effect would be achieved as carriers returned to the yards, which could happen as early as this year, he added.

"The uncertainty and the assumption that carriers would be loss-making this year led to a pull back from the market in terms of newbuilding ordering," he said.

"While there aren't going to be a lot of new orders in 2020, orders will come again next year. This is going to reflect a mix of continued fleet renewal, and in some cases the yards are going to be in need of orders, given the dearth of orders across other shipping sectors."

Though MSI does not expect to see the "splurge" of orders that occurred in 2011-2013 or in 2015, it does expect to see around 1m teu contracted next year.

"We think that during the remainder of this year you could see one of Hapag-Lloyd or Ocean Network Express hit go on a relatively limited set of newbuilding orders, although there are rumours that OOCL is going to add to its recent order for 23,000 teu containerships," Mr Richards said.

Eastern Pacific's ship revamp shows future of crew welfare

EASTERN Pacific Shipping said newbuildings featuring hotel-standard accommodation, gyms and messes show it is serious about crew welfare.

The shipmanagement arm of Israeli magnate Idan Ofer released a glossy marketing video showing the ship's accommodation and common areas designed with bold colours, art and modern lighting.

The company said better internet and state-of-the-art gyms would also benefit crews' physical and mental wellbeing, with faster connections, more bandwidth and allocated times for free internet access.

It declined to identify the vessel, but says newbuildings like it will set the template for new orders from here on.

Eastern Pacific says with the coronavirus and crew change crisis putting the spotlight on crew welfare, owners and managers must show tangible benefits to those considering life at sea.

"An integrated company culture is what we are after, which will ultimately help with recruiting and retaining top talent," chief executive Cyril Ducau said in an interview. "Seafarers seek the same benefits beyond salary that any onshore employee would seek."

The company started its Life at Sea Programme in 2018 when designing its dual-fuel ships. It said while engines and ship designs had evolved toward maximum efficiency, accommodation had gone untouched for years.

The moves are part of Mr Ofer's growth strategy, which also includes LNG, green finance and technology drives.

The company has also renovated its Singapore headquarters and hoped the spate of upgrades would strengthen ties between staff at sea and those on land.

It said the living space upgrades cost between $150,000 and $500,000 depending on the ship's type and size, the location and scope of the work, and whether it was a newbuild or a refit.

MARKETS

Offshore energy premium volumes still falling but prices set to harden

PREMIUM volumes in the offshore energy insurance sector are still falling, and expected to shrink further as the line feels a twin squeeze from coronavirus and the low oil prices prevailing in recent years.

But there is some consolation to be had from the slowdown in the rate of decline, and early intimations of hardening pricing, the International Union of Marine Insurance conference has been told.

Global offshore energy premiums in 2019 were down just 1.4% year on year, at $3.35bn. That compares with declines of 3% in 2018 and 5% in 2017, on IUMI's calculations.

James McDonald, chair of the association's offshore energy committee and head of the energy team at Sompo International, highlighted current developments in the niche in a workshop held as part of the virtual event this morning.

Almost 8% of Organisation for Economic Co-operation and Development oil consumption is tied to aviation, which has seen a dramatic decline in the pandemic, while lockdown has reduced both private car travel and truck mileage, he argued.

In consequence, offshore oil production is down, and the world's major oil companies have downgraded their asset base values by $87bn — equivalent to 10% of their combined market capitalisation — over the past nine months.

"Policies renewed at the lower oil price or asset valuation will, inevitably, attract lower premiums and that is an issue for our sector," said Mr McDonald.

The impact of coronavirus will not be known until next year, but the smart money is that the floor has yet to be reached.

"The global premium base continues to shrink and is now at a level where one major loss could eclipse the entire annual income earned by the sector," said Mr McDonald.

"This is a precarious and uncomfortable position to be in. As a consequence, we are beginning to see a hardening market."

Environmental regulations will also reduce oil demand, he went on. Within the OECD, around half of oil consumption is attributable to petrol for motor vehicles, which could be overtaken by electric alternatives as early as 2026.

In addition, gas-fired power stations will increasingly replace coal-fuelled facilities, particularly in light of significant gas finds offshore Turkey and east Africa.

"While this will impact part of our sector, I am confident that in the long-term the drive for offshore renewable energy will replace lost business," Mr McDonald stated.

"Offshore renewables such as wind farms are already commonplace in the shallow waters off northern Europe and will soon move to deeper waters and wider geographies such as Japan, China and North America.

"Added to this, floating solar structures are now being produced and once the technology has been improved, we would expect wave and tidal projects to become more available."

Refinery profits for transport fuels at 16-year low

BEARISH July data for refined products demand suggest little immediate improvement for product tanker rates.

Global diesel and gasoil exports fell month on month to reach the lowest in 11 years, and shipments of jet fuel plunged to 2004 levels.

The figures come as crack spreads, or profits, for refineries to produce middle distillates today hit fresh lows in Europe and the US since the pandemic outbreak, a further indicator of moribund demand, as the regions brace for a secondary wave of coronavirus cases.

Preliminary statistics released today by the Joint Organisation of Data Initiatives (JODI) cover the period just before any so-called second wave and show any recovery in middle distillate demand seen since April has stalled.

Some 899,000 barrels per day of jet fuel was exported in July, JODI statistics show, down from 1.2m bpd in June, and 59% below the year-ago period.

Exports were last seen this low in January 2004. Diesel and gasoil exports at 5.2m bpd were the lowest since July 2011, and compared with 7.8m bpd in July 201

Middle distillates cover the so-called middle of the crude barrel, and include jet fuel, diesel and gasoil. They have been the most affected products by the pandemic, with overall July demand figures are a third lower year-on-year.

Total gasoil and diesel demand dipped 11% month-on-month JODI figures show and compare to 23.3m bpd a year ago.

Marginal gains were seen for key consuming regions in the US, as well as Japan, Italy and France. Chinese demand was seen 194,000 bpd lower month-on-month at 2.5m bpd, while Indonesia was nearly 350,000 bpd lower.

Land or air transport fuels account for nearly half of all crude demand with lockdown restrictions and the shift to homeworking decimating the need for cars and planes over the past six months.

Since July, data shows that crack spreads, or the profits refineries make to product middle distillates have fallen further, as refineries in the Middle East, the US and Europe lower output and change yields to maintain profits.

While gasoline cracks in the US Gulf, Europe and China have recovered, profits to produce ultra-low sulphur diesel in Europe and the US were the lowest in 16 years this week.

Data from Argus Media shows European diesel cracks at $1.83/bbl on September 16, down from $3.12 the day prior. Jet fuel cracks in Europe are negative, at minus 1.9 per barrel, meaning that refiners are making a loss when they produce the aviation fuel.

Inventories of middle distillates also remain high, with the pace of drawdowns slower than expected, adding to indicators that suggest that demand for product tankers may be not rebound as fast as owners and operators first thought.

Average rates for medium range tankers, the workhorse of the product tanker fleet averaged just under $6,800 daily in the Atlantic basin and $6,000 in the Pacific, according to the London-based Baltic Exchange, levels that barely coverings operating costs.

IN OTHER NEWS

Diana sells 14-year-old panamax

DIANA Shipping, a US-listed bulk carrier owner, has sold a 14-year-old vessel, thereby continuing a clear-out of middle-aged and older panamaxes.

It said the 74,381 dwt *Coronis* had been sold to an unaffiliated third party for $7.1m.

The bulker is currently on a one-year charter to Koch Industries at a rate of $8,000 per day and is due to be redelivered between end of November at the earliest and early January at latest.

DP World agrees partnership to develop Israeli ports

PORT operator DP World and Dubai Customs have signed a series of agreements with Israel to explore opportunities to develop trade links and joint developments.

These include plans to develop Israeli ports and free zones and the potential establishment of a direct shipping route between the Red Sea port of Eilat and DP World's flagship port hub of Jebel Ali.

The intention is to promote and facilitate trade between the countries through customs best practice and seamless, innovative processes, and shipyard and port joint ventures.

Hutchison Ports names ex-UK transport secretary Grayling as adviser

HUTCHISON Ports has hired former UK transport secretary Chris Grayling as an advisor for its European operations, the Hong Kong-based terminal operator said in a statement.

Mr Grayling, who once awarded a lucrative ferry contract to a firm that had no ferries, will earn £100,000 ($130,000) as a strategic adviser for seven hours per week work, according to the parliamentary Register of Financial Interests.

Hutchison operates the UK's largest container port Felixstowe, as well as fellow UK facilities London Thamesport, and the ferry and cruise port of Harwich.

Dual fuel hydrogen-powered engine revealed

CMB, a Belgian shipping company, has launched a dual-fuel engine that can cut carbon emissions by 85% when running on hydrogen.

The development has been made with engine provider Anglo-Belgian Corp through the BeHydro joint venture.

Alexander Saverys, the chief executive of CMB, said the diesel-hydrogen engine represents the use of an existing technology combined with the adoption of a new fuel in hydrogen and supported by the necessary engineering.

New expert witness group seeks to deepen pool in Singapore

A LACK of accredited expert witnesses and an organisation that groups them together is seen as a drawback to the development of Asian-based arbitration.

The Asia Pacific Institute of Experts, a Singapore-based registered society, is seeking to address that.

It aims to spearhead the development of professional expertise in the field of expert evidence in the Asia Pacific region as well as develop and provide a framework for the accreditation of experts to meet international standards.

Ports spared as Hurricane Sally batters US Gulf coast

HURRICANE Sally missed key oil and petrochemical production facilities and made landfall early Wednesday near Gulf Shores, Alabama, as a Category 2 storm, before being downgraded in the afternoon to a tropical storm as maximum sustained winds dropped to 70 miles per hour (113 kph).

Sally is the 18th named storm in the Atlantic this year and the eighth of tropical storm or hurricane strength to hit the US, with three other named storms currently out to sea, underlining one of the region's most active hurricane seasons on record.

The National Hurricane Centre said that by Wednesday evening, the storm was moving slowly towards the northeast at almost 7 mph. It had missed the crucial swathe of oil refineries and petrochemical plants located further to the west in the state of Louisiana. While a few had shut down as a precaution, most maintained normal operations as they monitored the storm.

Sri Lanka seeks damages from New Diamond owner

SRI LANKA expects to claim at least $1.9m from the owners of the very large crude carrier *New Diamond* for assistance rendered and firefighting efforts tendered to the vessel since it caught fire on September 3.

According to the Attorney General's office, as reported by local media, the amount quoted was the cost for the services provided by various departments including the Sri Lankan navy, air force, ports authority and Marine Environment Protection Authority.

The Attorney General's office told media that it would seek to hold the owners of the vessel accountable for all environmental damage as well as the costs incurred in the firefighting efforts and ongoing recovery.

Classified notices follow