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## Crunch time for shipping's green finance credentials



SINCE THE INCEPTION of its global decarbonisation strategy in April 2018, shipping has been trying to connect the dots: how can vessels get from where they are today to at least halving and even fully eliminating emissions by 2050?

The mobilisation of some of the industry's biggest players, a willingness to collaborate and share, and the birth of several voluntary groups feeding into the network have offered hope that the exercise is not just conceptual.

Arguably no initiative has taken off faster than the Poseidon Principles – the shipping financiers' response to the call to action.

Launched in 2019, the initiative consists of 18 lending institutions with a shipping portfolio of around \$150bn who have committed to align their lending policies with climate considerations.

The initiative will see these signatories assess the alignment of the emissions performance of their existing shipping portfolios with specific decarbonisation trajectories set out for each vessel in terms of type and size, in line with meeting the International Maritime Organization's 2050 target of reducing emissions by at least 50%.

To do that, banks will rely on emissions data submitted to them by shipowners, who will already need to have that information under the IMO's Data Collection System, which has gone through its first reporting year in 2020.

### Poseidon Principles

The Poseidon Principles initiative has received much attention and plaudits for its pioneering approach to sustainable finance, but the

next few months will lay bare the work that needs to be done.

By the end of November, the individual members' alignment trajectories as of 2019 will be announced, giving the first holistic view of where a considerable chunk of the global shipping fleet stands and how some of the most important lenders are performing emissions-wise.

Michael Parker, chair of the Poseidon Principles steering committee and head of Citi's global shipping and logistics division, is confident that reporting levels by shipping companies will be high in the first year.

Shipowners have responded positively to being asked to hand over their data and Mr Parker said he had seen very few cases of resistance thus far.

The Poseidon Principles do not actually impose any new emissions covenants on the companies holding and taking out the loans, but do include a covenant on the submission of the relevant information in accordance with the IMO DCS data.

Mr Parker believes the Poseidon Principles offer lenders another factor by which to assess the quality of shipping, as opposed to what banks have traditionally tended to do, which is to use the vessel's age.

"So, quality of shipping and how it is operated will enable charterers and lenders to extend the life of the quality part of the existing fleet," he said.

That would also prevent this "perfectly good tonnage" from being scrapped and more unnecessary tonnage being built using old technology, Mr Parker added.

As the Poseidon Principles establish a clear avenue for lenders to contribute both to global decarbonisation commitments and to the necessary corporate endeavours, efforts to tap funds from elsewhere are under way.

The pathway there is less certain but could also give greater opportunities to companies to chart their own course.

### **Grass is always greener on shore**

The global green bond market has gone from effectively being non-existent to being worth several hundred billion dollars in the span of less than 15 years.

In 2007, there were \$800m in green bonds issued across the world. By 2019, that volume had soared to \$265.2bn, according to data from the Climate Bond Initiative, an international not-for-profit organisation seeking to help develop the green bond market.

Yet shipping has been overwhelmingly absent from this arena, minus a few notable exceptions.

These include Japanese majors MOL and NYK, who have issued green bonds where the proceeds were earmarked for several activities, such as financing and refinancing LNG-fuelled ships and LNG bunkering vessels, as well as scrubber and ballast water management installations.

In 2019, Teekay Shuttle Tankers sought to raise an initial \$150m, potentially reaching \$200m, through a green bond to help finance four fuel-efficient newbuilding tankers. The company drew in only \$125m, prompting a discussion over whether investors rated its green claims.

CBI shipping analyst Lionel Mok described the green bond market as "nascent but full of opportunities".

"The shipping industry is now recognising the need to transition," he told Lloyd's List.

Watson Farley Williams global co-head of maritime Lindsey Keeble observed there was a vast amount of money looking for a home in order to tick a "green box".

"It is probably a missed opportunity if you aren't looking at those markets and speaking to the people that are providing those products to make sure you are taking a slice of that pie," she said of shipping companies.

Others are less encouraged by the market's prospects and point to chronic shortcomings.

Peter Shaerf, managing director of investment advisory firm AMA Capital, said shipping was simply not an attractive investment vehicle — something that also hampers its potential to grow in the green bond market, where investors would first look at other sectors.

"I am not optimistic about green shipping and financing green shipping in the public markets at this time because I think what you have got is a very fundamentally weak market," he said.

Shipping stocks — particularly in the US market — have suffered since the 2008 financial crisis, largely failing to generate the same confidence from investors that they previously enjoyed.

### **What is green?**

What shipping's minimal green bond activity has highlighted, though, is the significance of the term "green" — what does or does not qualify for the term — and how different marketplaces can deviate from each other in this regard.

Similar to growing environmental, social and governance investor agendas, green bonds have no single definitive parameters. Some believe that demonstrating an advancement on performance is the essential driver.

"If you can evidence that your technology is an improvement on what went before, that is the key. It is all incremental steps to get to the end goal," Ms Keeble said.

The CBI hopes to stimulate this transition in shipping by rolling out a set of criteria later this year dictating whether a financing instrument, mainly a bond, could be certified as green — a label that should secure it better pricing and even new investors.

The criteria, which have been through a consultation period and have been developed with the support of the industry, exclude dedicated fossil fuel-carrying vessels, such as LNG tankers and crude carriers, from securing the green bond labels. However, LNG-fuelled ships are not excluded.

A green bond issuer would need to show that the expected carbon-equivalent intensity of the ship for which it wants financing is aligned with the decarbonisation trajectory — known as the emissions intensity threshold — of the ship's type and size category over the lifetime of the bond and that it will reach net zero emissions by 2050.

Issuers would also need to produce a management plan for how they intend to keep a ship that does not have net zero emissions.

"What our product is aiming to solve is to give investors the confidence that they are investing in a bond that is aligned with the Paris Agreement," Mr Mok explained.

Much like the deployment of autonomous technology or budding decarbonisation technologies, initial adoption of CBI certification may come from

regional projects in Europe or other developed countries for a shortsea-type vessel.

"I think adoption will happen when there is proof of concept," Mr Mok said.

WFW partner George Macheras also expects that the green bond market will evolve in a similar fashion, with one deal following another.

"The shipping market likes to test the waters when it comes to such innovations. It takes one to kickstart the trend," he said.

Mr Parker believes that once the CBI criteria is clearly laid out, demand for these bonds and loans will accelerate.

He expects a lot of the bond issuances over the next decade will be about sustainability, effectively around the transition and the reduction of emissions.

"I think one has to recognise that the hard-to-abate sectors, like shipping, have this transition period. We won't get to zero overnight," he said.

### **Restrictions may impede**

However, on standardisation of the criteria, there is a concern too many restrictions may impede an opportunity for valuable progress.

WFW partner Simon Ovenden said it could be dangerous if regulators made guidelines for bonds too prescriptive.

"To my mind, I would not want anybody to get so tangled up in regulation that it ultimately confuses everybody about what they are trying to achieve," he said.

Criteria standardisation could be a crucial enabler for this market — but how much of a stimulator can it be for a market that is not at the higher end of the investing target?

Such uniformity in the criteria would help and encourage investors, but only to a select few whose capital allocation strategy is specially tied to green projects, according to Mr Shaerf.

"But the broader investor base in the shipping field does not care," he said.

Ultimately, the fundamentals of the shipping market for capital market investors will need to change for it to be successful in this regard.

For others, the burgeoning momentum means activity should pick up, even if that does not translate to a flurry of issuances in the short term.

Mr Macheras expects that over the next three years, people will explore the concept more and try to get in a position where they can issue a green bond successfully.

“Whether we will actually have a significant number of green bonds concluded within the next three years... that is probably a little bit optimistic at the moment,” he said.

### **Transparency, reporting and the long game**

What the attempts to develop the green bond market and the Poseidon Principles signify, however, is perhaps something else, besides access to fresh money and decarbonisation empowerment; it is the escalating significance and expectation of enhanced reporting and transparency.

From mandatory emissions data collection to voluntary disclosures and from vessel management plans to long-term corporate strategies, shipping is becoming acclimatised to a culture that transcends decarbonisation and reflects a wider ESG agenda in the public markets.

The certification criteria on which the CBI is working is one practical manifestation of how more transparency is not only necessary for a company to access the market, with the vessel emissions reduction plan, but will also benefit as the criteria adoption spreads.

“It’s like a chicken and egg. Because we don’t have the certification, there is not yet this need to report it,” Mr Mok said.

A 2020 ranking, by the ESG risk analysis firm Governance Group, of the 100 biggest Oslo Stock Exchange companies, based on their level of reporting around ESG goals, strategies, risks and opportunities, showed shipowners are doing relatively well compared to other industries, but could be doing better.

BW Offshore and Hoegh LNG Holdings secured a B rating, denoting good reporting, while other big names like Frontline, BW LPG and Wallenius

Wilhelmsen were all given a C, marking “solid reporting based on a recognised standard”.

Meanwhile, Ocean Yield and Fjord1 both received a D, which marks “straightforward reporting on some issues but lacks a systematic approach or a verifiable use of recognised reporting standards”.

The Governance Group founder and partner Joachim Nahem believes that shipping actually has a comparative advantage when it comes to ESG reporting.

“Shipping companies are very good and used to technical data, classification, getting management systems for dealing with all these numbers and technical requirements. If they apply that same discipline to ESG, it is going to do really well as an industry,” he said during a Marine Money event earlier in September.

In the broader picture, there is also hope that reporting shipping’s emissions and the subsequent improvements that it will make will underpin what it repeatedly touts, but which often seems to fall on deaf ears: the importance of shipping in powering global trade and its standing as the most environmentally efficient mode of transport.

Political points aside, this should benefit this business in the eyes of environmentally conscious investors that may have avoided it on account of its still unfavourable reputation.

As other companies in the supply chain become more transparent on their emissions footprints with additional reporting requirements of their own, shipping’s facilitating role should further shine.

“It is about the cargo, it is about the emissions created by someone buying something from somewhere and that being manufactured and transported. The shipping company is not responsible for the underlying commercial reason the cargo gets transported,” Mr Parker said.

Whether investors will reward shipping companies on account of their increased openness, it is too early to tell. One should assume though, that being more open is the minimum that shipping companies must do if they want a shot at securing new investment.

## WHAT TO WATCH

# Banks warn against shutting out shipping from green financing

SHIPPING lenders say activities and assets that fall short of new “green” investing criteria should not be overlooked, as they will power the industry’s emissions transition.

The European Union has developed a sustainable finance taxonomy regulation, which establishes a classification system for economic activities that can be considered as green for investment purposes, with the ultimate purpose of aiming capital in that direction.

It also imposes reporting and financial disclosure requirements for items and activities that are aligned with the taxonomy.

Nina Ahlstrand, head of sustainable finance at Norway’s DNB, said the EU taxonomy was among the issues at top of the bank’s agenda.

At present, the taxonomy does not cover shipping. Ms Ahlstrand told a Marine Money virtual panel that she expects rules criteria for the shipping industry to come in in 2021.

Current taxonomy prescriptions for the transport sector exclude transport or storage activities that are dedicated to fossil fuels.

If that were applied to shipping in the same manner it would likely mean that major segments like bulkers and tankers would be excluded.

Ms Ahlstrand said that exclusion from the EU taxonomy should not necessarily mean that an asset or activity is “brown” or does not have a role to play in the green transition.

“I would also expect that there is a fairly limited share of the investable universe that will actually

qualify, in line with the taxonomy, and we cannot see this as a way of only investing in what is already green and taxonomy aligned. It remains very important to invest in the transition,” she said.

Amit Puri, global head for environmental and social risk management at Standard Chartered Bank, said the bank was committed to invest in the transition across the carbon intensity sectors in its portfolio.

Like Ahlstrand, Mr Puri sees a core base in those operations that would fall outside of the EU taxonomy.

“There are a lot of activities that fall outside of the taxonomy that are crying out for capital,” he said.

Standard Chartered Bank has a huge appetite to finance the transition in emerging markets, which also means financing more efficient ships and new fuel adoption, according to Mr Puri.

But it also needs to see a proven track record before it invests.

“That is where you see some tension effectively in the system where we want to do it but the technology is nascent in some ways, it is not proven, we are not sure what the cost and return and capital is likely to look like,” he explained.

Ms Ahlstrand acknowledged that it would be a communication challenge to demonstrate that an activity not meeting the EU taxonomy criteria was still worth investing in.

“It is fairly tricky to view it as a binary topic of either you are green or you are not. There are different shades when it comes to this discussion,” she said.

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## OPINION

# UK can lead shipping's green recovery – with the right support

THE coronavirus outbreak has had a major impact on a range of industries, including shipping, *writes Chamber of Shipping head Bob Sanguinetti.*

We have seen factories in parts of the world slow down and supply chains have been severely impacted.

But today, on the UN's World Maritime Day, which is focused on sustainable shipping, as we look to reset and recover from the pandemic it is vital that the shipping industry does not lose sight of its environmental responsibilities. We must use the opportunity in front of us to lay the foundations for a green recovery, starting right here in the UK.

We know shipping contributes about 2% of global greenhouse gases, and although there has been huge progress in reducing emissions across the sector more needs to be done.

Innovation is going to be at the heart of tackling climate change. There is a global innovation race with countries competing to develop and deliver green tech to the world's shipping fleet.

As a proud maritime nation with expertise across the country, I believe the UK should be leading the way in developing the technologies of tomorrow.

We have centres of excellence with some of the greatest minds in the world. Places like the High Value Manufacturing Catapult in Sheffield and the Energy Systems Catapult in Birmingham, as well as universities like Strathclyde which is co-leading a new national centre for maritime innovation and technology. Maritime Research and Innovation, or MaRI-UK, recently announced the first recipients of funding to develop clean maritime technology.

Although there is a long way to go, this is an important step in the right direction.

As we look to the future, we have an opportunity to make the Covid-19 recovery a green recovery and strategically invest in technologies that can be sold across the world, creating new high-value jobs.

The UK maritime sector is worth £40bn a year, and with the global blue economy set to be worth over £2tn by 2030, if we are to get a lion's share of that business, we need innovation and the right environment set by the government. But we need government support, just like the auto and aero sectors have received.

The UK government has committed to reaching net-zero by 2050 and last year they launched the Clean Maritime Plan. It requires all-new ships trading in UK waters, both international and domestic, to be designed with zero-emission capable technologies.

The targets have been set and they are challenging. But with the right focus, the right strategic plan, and the right funding from the Spending Review in the next few years, I hope to see the UK take advantage of its place in the maritime world and lead the charge to create the technologies needed to decarbonise the global.

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## ANALYSIS

# MISC chief seeks niche targets to gain 'first-mover advantage'

MISC, the Malaysian energy logistics company, is pressing on with pursuit of charters offering recurring returns that justify the required asset investments in new and existing markets.

"Each asset in the segments in which we are active costs a lot of money, so we strive to match the capital investment with the right client and contract," chief executive Yee Yang Chien said in an interview.

He emphasised that the aim is to go for contracts with secured cashflows over long-term charters.

Contracts for ethane shipping and floating production, storage and offloading vessels fit in well with this prerogative.

In July, MISC unveiled its first entry into the ethane shipping market through sale-and-leaseback deals with subsidiaries of Zhejiang Satellite Petrochemical for six very large ethane carriers.

Zhejiang's subsidiaries have committed to firm charters each of 15 years on the VLECs.

This was followed in August with an award from Petrobras to MISC for the supply and charter of a large FPSO, dubbed Mero 3.

MISC's AET unit has also secured a time charter from Total for two newbuilding liquefied natural gas-powered, dual-fuel very large crude carriers.

Mr Yee estimates that MISC has so far secured \$3bn in contracts this year, up from around \$1.4bn it has averaged over the past three years.

The Malaysian shipping line has certainly achieved marked progress on this front, not least considering the drastic slowdown elsewhere in the shipping market attributed to the coronavirus pandemic-led economic disruption.

Mr Yee pointed out that MISC has spent years labouring on the bid for its first large-scale FPSO contract and also its first such project in Brazil.

Prior to Mero-3, the shipping group has built track record in delivering and operating small FPSOs.

Scaling up so quickly to the ultra-large assets calls for a great leap of faith though the current market situation calls on MISC to take calculated risks.

FPSO requirements mainly concentrate in South America and Africa as well as in Brazil – the one focus market for MISC – where ongoing tenders are for large or ultra-large units.

“In 2017, we decided to put a bid for large-scale FPSOs by 2020,” said Mr Yee.

He offered a slightly different take on the ethane shipping market, what he deemed as one of the niche segments offering growth opportunities to MISC.

“We are targeting those niche segments where we can establish our presence away from intense competition and gain first-mover advantage in new markets.”

Established ethane shipping companies numbered less than a handful. For now, Japan’s Mitsui OSK Lines and Denmark’s Evergas are considered to be the main contenders in the game.

MISC is eyeing the “attractive commercial structure” of ethane shipping contracts that are backed by very long-term charter periods.

### **Growth in China**

Beyond this, Mr Yee also viewed the charter-parties with Zhejiang as extending to MISC a window to grow in China.

Notwithstanding the company’s notable successes in the two segments, analysts have flagged pertinent concerns that can weigh on the profitability of these contracts.

One DBS equity research note valued the Mero 3 FPSO contract at \$2bn, while one industry analyst cautioned the market against getting overly excited by such topline potential.

Aleksander Erstad of Rystad Energy applauded MISC’s success in breaking in with Brazil’s FPSO market, which has so far been dominated by two giants, SBM Offshore and Modec.

He warned however, of “fairly low margins” seen in Brazil’s FPSO projects, a reflection of the challenges contractors have faced in project execution.

To MISC’s credit however, it has started preparation sooner than later on Mero 3.

Mr Yee said that the shipping line has recruited on board “talents who can drive the project successfully”.

The promise of the ethane shipping market, on the other hand, remains subject to trade relations between the US and China.

Returns on investments in this niche segment are relatively healthy owing to limited competition, range in the low double-digit band, one MISC executive suggested during the group’s second quarter of the year results briefing.

China however, imposed a 5% import tariff on ethane imports from the US, during the now multi-year trade spat between the two superpowers.

The US is a key exporter of ethane, which is a by-product of shale gas production in that country.

China is one of the largest import market for ethane.

Wood Mackenzie’s principal analyst Kelly Cui noted that the US-China trade friction is likely to persist, bringing more uncertainties to China’s ethane imports.

“If relations between the two countries deteriorates and thus impact the ethane supply and prices, China may reduce ethane import from US and use propane as an alternative feedstock since China’s two ethane cracker plants,” she warned.

One analyst has also queried during the recent results briefing on the potential downside from lower US shale production and exports.

MISC executives have held that the contracts carry guarantees that protect the rights of the shipping firm to the agreed shipping rates.

# NYK to book loss on bulker redeliveries amid uncertainties

NYK Line, the Japanese Shipping giant, expects to post a record ¥18bn (\$17m) extraordinary loss from its dry bulker business as a result of redelivering chartered vessels.

The move is part of the company's structural reform that aims to reduce exposure of the division — consisting of more than 400 ships — in the volatile spot market amid the coronavirus disruptions.

“NYK Line is considering the transaction of chartered vessels that have long-term contract at fixed costs but no long-term cargo contracts, which had been a concern for some time,” it said in a statement.

It added that the losses would be recorded in the financial results of the second quarter of the fiscal year between April 1, 2020 and March 31, 2021.

Dry bulkers chartered in by NYK included 90 capesizes, 57 panamaxs, 99 handysizes and 34 woodchip carriers, making up most of its fleet in the segment, according to the company.

Nevertheless, it still revised up its earnings forecast for the first half, with a better-than-expected performance of its container shipping and air cargo businesses.

Compared to an August prediction, net profits for the period are now expected to rise to ¥18bn from ¥9.5bn.

## Marine insurers must define 'just a glitch', IUMI told

ATtribution of serious shipboard mechanical failure to 'just a glitch' is unsatisfactory from an operational, insurance and legal standpoint and the industry must put more effort into determining root causes, the International Union of Marine Insurance has been told.

Frank Gonynor, a senior claims adviser at P&I club Gard, said much attention had been devoted to the high-tech revolution in shipping, with great advances in vessel design and operations, thanks to widespread use of digitised systems incorporating cloud-based computing.

This is likely to culminate in fully autonomous vessels, which will be vulnerable to hacking, he told

“In the liner trade, spot freight rates are expected to be firmed up by an improvement in supply and demand due to a larger-than-expected cargo volume, and the earnings improvement of Ocean Network Express,” NYK said.

Singapore-based ONE was 38% owned by NYK, with the rest of the stake shared by Kawasaki Kisen Kaisha (K Line) and Mitsui OSK Lines.

The latter two parent groups also noted the benefits brought by the box shipping joint venture.

“Profit attributable to owners of the parent for the first half of FY2020 is to be higher than announced on August 5, 2020 due to the effort in the containership business to optimize network management, vessel operation and recovered demand by mainly the Asia-North America service and Asia-North Europe service,” K Line said.

It has now forecast a net profit of ¥8bn for the six months ended September 30, from a shortfall of ¥3.5bn previously announced.

MOL had not announced its first-half forecast previously, citing uncertainties caused by the coronavirus pandemic. It now expects a net profit of ¥22bn.

The trio, however, all said they would continue to hold off on their forecasts for full-year results until more clarity could be seen in the markets.

the trade association's virtual annual conference. As a result, however, there is a correspondingly reduced focus on precursor shipboard technology — which Mr Gonynor called 'the old high-tech' — and what happens when it fails.

The first generation of central processing unit automated vessels were rolled out from the mid 1980s to the early 2000s, and such technology is still installed.

These older standalone self-contained systems perform such functions as engine and mechanical control, valve control, tank gauging, manifold pressure, integrated bridge systems,



voyage data recorder monitoring and bunker level alarms.

But they are subject to harsh service conditions, and after years of use, are prone to break. Unfortunately, updates are often no longer supported, and with no new parts available, it is necessary to turn to reconditioned parts from the secondary market.

“These are the opposite of ‘the internet of things’ and that might be a strength with them. They cannot be hacked through the internet,” Mr Gonynor said.

But when they do break, they can be hard to fix. Authorised technicians may be far away and the travel costs high. So sometimes the crew attempts a repair, resulting in the voiding of the warranty.

Mr Gonynor cited the example of a breakdown of an automated control unit on the tanker Aframax River in the Houston Ship Channel in September 2016, resulting in elision and subsequent fire.

In this casualty, the engine failed to respond to an order from the bridge, with the fault seeming to lie with the main engine governor actuator.

The manufacturer of the actuator sent factory technicians to test the unit, who were unable to replicate the failure.

When the technicians’ verdict of “momentary abnormality” was deemed not satisfactory, the US authorities sent their own investigators, who decided

the problem was an electrical or mechanical failure of the system, leading to loss of engine control.

“Is this really a causal explanation? Isn’t this really just a description of what happened, without any causal facts or explanation at all?” Mr Gonynor said.

Essentially, blame was placed on what is colloquially known as a glitch, which is after all a defined term, referring to malfunctioning of an unexplained nature, usually in an electronic device.

If the glitch was down to a manufacturing or design defect, the need is for enhancement of internal diagnostic features. If there were elements of negligence or unseaworthiness, that implies legal ramifications regarding damages.

“For marine insurers, when there is no fault attributable to the manufacturer, where are the paths of recourse for why this happened? Does a glitch mean insurers are left without a remedy?”

“It may be beneficial if the maritime industry puts more effort into reporting and finding the root causes, not only behind cyber and software incidents involving newer technologies, but also older precursor devices.”

His best advice was to preserve all available manuals and spare parts for critical function areas, and to extend warranties and service agreements for as long as possible.

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## MARKETS

# Floating storage at five-month low

CRUDE and clean productions held on floating storage have declined to the lowest level in 21 weeks, as port congestion eased further in China.

Some 237.9m barrels on 178 tankers was tracked by September 21, down by 16.9m barrels on the same period a week ago, according to data from Lloyd’s List Intelligence.

The figure is the lowest since early May, shortly after Brent crude futures slipped to a 21-year low amid a steep contango that promoted traders to buy and store oil and refined products for future sale at a profit.

At the beginning of February, floating storage was tracked at 117.6m barrels.

Since peaking at just over 307m barrels on 254 tankers in early July, volumes held in floating storage have eased gradually but have remained higher than anticipated.

That has not been due to traders hiring further ships for floating storage, but rather reflected tankers waiting for 20 days or more to discharge at Chinese ports.

Delays were seen after refiners bought record volumes of cheap crude for delivery in June, July and August.

During the past week, data showed that six very large crude carriers and three suezmax vessels discharged their cargo and sailed from China.

The pace and scale at which floating storage unwinds is one of the biggest drivers of tanker rates for the remainder of 2020 amid a slower-than-expected rebound in crude demand, and economic uncertainty as a second wave of coronavirus weighs on oil markets.

Whether high levels of floating storage will return depends on whether the difference in price between spot and future prices is wide enough for traders to make the economics work.

At least some 13 VLCCs, three suezmax and 11 aframax tankers have been chartered for short-term periods of between three to 12 months, according to brokers' reports seen by Lloyd's List.

The 12-month rate for VLCCs was between \$30,000 to \$34,000 per day, with shorter periods at \$24,000 daily.

## US crude exports to halve by second quarter of 2021

US Gulf crude exports are forecast to drop by half over the next six months and bottom out at 1.4m barrels per day by April 2021 – a scenario which would add even further pressure on the moribund tanker market.

The estimate – equivalent to two, aframax-sized cargoes exported daily – was upgraded from an earlier assessment of a low of around 1m bpd for US Gulf exports by price reporting agency S&P Global Platts.

Future exports for the next year and beyond will not exceed its more positive, pre-pandemic forecasts of 4m bpd seen in January, the estimates show.

Tankers chartered to carry crude to Asia from the US Gulf have been a key source of tonne-mile demand since the pandemic outbreak, especially for very large crude carriers.

Asia-bound exports to countries including South Korea and China accounted for just over half of all volumes shipped from the US Gulf in the second quarter of the year.

Over this period US crude exports fell by nearly 25%. In June exports were 2.8m bpd, nearly 900,000 below the peak of 3.7m bpd in February, according to US Energy Information Administration.

The higher proportion of exports in 2020 sailing to longer-distance destinations, especially China, kept

Aframax period charter deals were concluded at levels between \$19,500 and \$22,000 daily, reports show.

Charterers including Shell, Trafigura and Total, all companies whose trading divisions reported significant profits over the second quarter of the year on the back of oil price volatility and floating storage positions.

If any of these tankers are deployed for floating storage, it is most likely to see jet fuel, diesel or gasoil loaded, because contango economics are more viable for these products than crude futures.

Demand for these middle distillates is dragging down the overall oil complex, reflected in the deeper contango, and thus providing the largest incentives for storage, either seaborne, or land based.

monthly tonne-mile demand numbers nearly at, or above, 2019 levels.

Tonne-mile demand – which tracks volumes carried by distance travelled – is a proxy for tanker demand. Measured from the US Gulf, tonne-mile demand peaked at a record 93bn tonnes in March 2020, according to data from Lloyd's List Intelligence.

The discounted price of West Texas Intermediate crude and similar light, sweet grades typically shipped from the US Gulf has kept buying interest high for refineries in Europe and Asia so far in 2020.

Tonne-mile demand fell below 2019 levels in August, when Lloyd's List Intelligence preliminary data tracked US Gulf exports at 2.7m bpd on 113 tankers.

US crude production and exports are now being closely watched amid faltering demand for land and transport fuels, which has crippled seaborne shipments and led to record inventories of crude, diesel, gasoline and jet fuel.

Exports from the US Gulf rebounded to 3m bpd for the week ending September 18, up from 2.5m bpd over the previous seven-day period, according to EIA data.

Platts estimates that monthly exports will reach 2m bpd by December and bottom out at 1.4m bpd by

April. Monthly volumes of 3m bpd are not expected to return until 2023, based on the forecasts.

### Asia is still key

Asia is expected to remain a key destination for US crude despite the lengthy sailing times, even as arbitrage economics surrounding price, freight and discounts to other oil grades dictate flows.

South Korean refineries, alongside China, are the biggest Asian buyers, with India, Taiwan, Singapore and Thailand also taking cargoes. The Asia-Pacific region overtook Europe as the biggest buyer of US crude exports in the second quarter of the year.

Some 29% of US crude exports went to Europe in the April-through-June period, compared with 38% in the first quarter of the year. Asia-Pacific flows that were measured at 40% the first quarter of 2020 rose to 52% in the second quarter, data from Argus Media show.

Geopolitical relations with China will dictate the continued pace of crude purchases. Under Phase One of a trade agreement, China has to buy \$200bn more in goods and services over two years from 2020, with energy commodities, such as crude and

liquefied natural gases, anticipated to comprise much of this deal.

Platts calculate that even if China imported 3m bpd at a generous price assumption of \$45 per barrel, that would yield \$45bn in sales

Lower freight costs will keep flows strong, alongside WTI's discount over heavier, sour crude grades, which are typically seen from Middle Eastern producers.

At one point delivered freight costs for China-bound US crude accounted for 54% of the price, at around \$73 per tonne. Today, cost per tonne is measured at some \$17.96 according to Baltic Exchange data.

WTI is trading at a discount to medium-sour crudes because supply cuts by Saudi Arabia and others has reduced availability of higher-sulphur and heavier grades.

European refineries have also increased imports because of the cheaper price over other alternatives, at a time when margins to produce refined products, such as diesel, gasoil and gasoline, have been loss making.

## Bicycles and baubles show extent of trade war impact

THE trade dispute between China and the US has slipped down the news agenda in the past six months, but figures released by BIMCO show that tariffs imposed on Chinese imports are still influencing trading patterns.

One of the more obvious impacts has been in the changing Asian manufacturing landscape, where the production of many goods that now face tariffs has moved from China to neighbouring countries.

“As the tariffs have provoked a shift in manufacturing within Asia rather than a return of production to the US, volumes being shipped out of Asia remained quite stable before the pandemic hit,” said BIMCO chief shipping analyst Peter Sand. “The biggest change was in intra-Asian volumes.”

While the shock of the pandemic had caused temporary changes, the changes that have occurred in response to the tariffs would remain more permanently, he added.

Mr Sand pointed to the production of bicycles in China as an example of changing production bases.

In 2017, the last year unaffected by tariffs, China was responsible for 94% of all bicycles imported to the US. But after they were included in tariffs from July 2018, market share had been lost to Taiwan and Cambodia.

US imports of bicycles from China have fallen by 17% in the first seven months of 2020 compared with the same period in 2017, while imports of bikes from the rest of Asia have risen 83%.

The import of Christmas tree lights, another key seasonal indicator that was added to the tariff list in September 2018, had also continued to show a change in sourcing since last year.

In the first seven months of 2017, imports from China accounted for 80% of festive lights. But figures had fallen by 75% since then, while imports from the rest of Asia, and particularly Cambodia, doubled.

The first seven months of the year saw US total imports from Asia, excluding China, exceed imports from China. If the trend continued, it would mark the first full year to see this trend.

But the impact of the pandemic had skewed the figures, BIMCO said.

After falling sharply in March, containerised imports from China have recovered and by July were only just below levels in July 2019. Imports from the rest of Asia did not experience the same sudden drop as imports from China, but were taking longer to return to pre-pandemic levels.

These different timings of lockdown and pace of reopening meant that in the first quarter, the US imported 3m tonnes less from China than from the rest of Asia, but by the second quarter China was ahead by 1m tonnes.

Nevertheless, the trend in moving manufacturing from China to other Asian economies was likely to continue in the longer term, driven by both the trade war and increased production costs in China when compared with many of its neighbours.

The one thing the tariffs were designed to do, however, has not been achieved.

“Importantly for shipping, the US tariffs have not provoked a large-scale return of manufacturing to the US, leaving tonne-mile demand relatively unaffected,” Mr Sand said. “As far as containerised shipping is concerned, whether a good is exported from China or Cambodia makes little difference in terms of distance.”

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## IN OTHER NEWS

### **Peel Ports says Liverpool is solution to Dover's truck queues**

PEEL Ports, the UK port and terminal operator, has called for better utilisation of infrastructure following warnings of post-Brexit supply chain chaos at Channel ports.

“We have long argued the UK is too reliant on a few key pinch points in the south east,” said Stephen Carr, the company's group commercial director.

“All businesses will be impacted by the changes Brexit will bring, but the preparations undertaken by UK's ports industry will relieve pressure on traditional routes, increase capacity and introduce new trade routes.”

### **UN warned crewing crisis could involve 'a million' seafarers**

THE United Nations has been told that the crewing crisis could soon affect 1m seafarers and governments must act to avert a humanitarian crisis that has the shipping industry at breaking point.

The International Chamber of Shipping estimates there are about 400,000 seafarers trapped on ships, while the same number were stuck on land waiting to relieve them, often on little or no pay.

Guy Platten, its secretary-general, said employers were doing all they could, including diverting ships thousands of miles to enable changes, but it was not enough.

### **Zim launches reefer-focused China–Australia service**

ZIM continues to foray into innovative niche segments with the launch of a reefer-focused express service linking China with major ports in Australia.

The Israeli container line's new China Australia Express (CAX) service will offer a fast 11-day transit time from South China to Sydney and is scheduled to commence in mid-October 2020 with six 2,500 teu vessels.

The vessels will feature extra reefer capacity and Zim says a fleet of new, advanced reefer units fitted with its ZIMonitor system, for real-time constant monitoring and damage prevention, will be available to customers on the new service.

### **CMA CGM set to buy 30% stake in Dubreuil Group Aero**

CMA CGM has agreed to buy a 30% stake in the French Groupe Dubreuil Group, expanding its presence into the airline space.

CMA CGM announced on Wednesday that it has signed a Memorandum of Understanding for the acquisition of a share of the private airline group, which is a shareholder of the Air Caraïbes and French Bee airline companies.

The deal will happen through a combination of a subscription to a capital increase for €50m (\$58.4m) and the acquisition of shares by CMA CGM.

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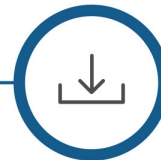
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