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Skuld head predicts clubs consolidation in next five years

CONSOLIDATION IN THE protection and indemnity sector could see the number of International Group affiliates reduced by half within five years, according to one chief executive.

Skuld is open to dialogue on the issue as long as the right operating model is in place, said Ståle Hansen, who backs recent praise for the Scandinavian model of P&I from broker Tyser.

It said that using proceeds from commercial hull, war risk and energy cover to subsidise mutualism represents a viable diversification for IG clubs.

"From Skuld's perspective, and my personal perspective, there doesn't need to be 13 clubs," said Mr Hansen in an interview. "But there needs to be sufficient competition and choice for shipowners. Skuld will always be open to dialogue when it comes to consolidation.

"However, it's important for us to do it on an operating model that supports the strategy we have today. Whether it's 13 clubs or six or seven clubs, for the shipowners, fewer clubs but bigger clubs would be beneficial."

The sector's previous attempts at mergers — including talks between Britannia and UK in 2016 — have fallen through, and the state of the market must be factored in.

While timing is difficult to call, Mr Hansen is expecting consolidation within a five-year horizon.

He also highlighted what he regards as the advantages of the Scandinavian way of doing P&I.

"Where we differ from others, particularly some of the British clubs, is that the three Scandinavian clubs have in-house management," he said. "We have diversified the product offering within the club itself, instead of using a management company to create diversification through services or products."

All profits ultimately benefit the mutual membership who are the owners of the club, instead of management company shareholders.

Where monoline clubs ultimately must rely on pricing to bring in revenue, Skuld, Gard and the Swedish Club can also look to revenue from commercial activities, which reduces volatility.

In addition, Mr Hansen came out strongly in defence of the pool system, even though his club is among those facing increased payouts after the recent spate of major casualties, despite not incurring any pool claims itself.

"The pool system is still fit for purpose, although it has been heavily affected this year. I find it difficult to see an alternative that could be run on an equally cost-efficient basis."

Any club can find itself facing a major claim at any time, and club-by-club recourse to the reinsurance market could only work out as more costly.

While clubs that do not currently face large claims are naturally concerned about increased costs, the pool still functions well to even out spikes.

Mr Hansen said that Skuld has coped well with coronavirus from an operational standpoint, with its IT systems meeting the challenge of having staff working from home.

Service levels and documentation remain unchanged, although there have been delays on handling larger claims as a result of travel restrictions.

Skuld does have some entered cruise tonnage and there have been claims, but its exposures on cruise are not as large as some other clubs. There have also been challenges on account of the crew change crisis, including repatriation issues.

WHAT TO WATCH

China's imports of Malaysian diluted bitumen face IEA probe

IMPORTS of diluted bitumen into China from Malaysia exceed the latter's production and refinery capacity, according to official figures.

The discrepancy has prompted the International Energy Agency to further research its provenance and specifications.

China's customs data showed accelerating imports of diluted bitumen, with 450,000 barrels per day and 380,000 bpd reported in July and August respectively, the Paris-based agency said in its October oil monthly report.

The product is usually made by mixing viscous grades of very heavy sour crude oil with much lighter naphtha or condensate to make it easier to transport.

Chinese imports were "intended potentially as a secondary unit feedstock", the IEA said, which was reflected in higher asphalt refinery yields.

"With the vast majority of 'diluted bitumen' imports coming from Malaysia, the exact nature of the product and its provenance is hard to establish," the report said. "Volumes seen in July and August are well above the capacity of its refineries.

"[Malaysia's] statistics report bitumen exports to China in value terms, from which the implied volumes appear to be a tenth of what Chinese customs report as imports from Malaysia."

Importing very heavy grades of crude with a high asphaltene content and labelling it as diluted bitumen is one way to avoid Chinese crude import quotas.

In addition, Malaysia's "liquid outflows" to China, which include crude, refined products and fuel oils, were lower than volumes China reported for diluted bitumen imports from the country, the IEA added, citing data from analytics firm Vortexa.

"It is indeed possible that some of these volumes could be crude oil, potentially sourced elsewhere," the report said.

Malaysia has emerged as a leading transhipment hub for crude and refined products in Asia, as well as a favoured location for Iran and Venezuela for floating storage of US-sanctioned cargoes.

Venezuelan cargoes of unsold heavy sour crude grades are in storage on 10 tankers off the Malaysian coastline, data from Lloyd's List Intelligence show.

That includes two very large crude carriers, five suezmax tankers and three aframax vessels, with cargo totalling some 9m barrels.

The national oil company has used the Malaysian anchorages to undertake ship-to-ship transfers of Venezuelan crude without using vessel-tracking technology.

That helps disguise the origin and destination of the crude, some of which is also so heavy that it needs diluent to be shipped for export.

Tanker rates at 11-year low as Europe refineries curb imports

THE resumption of crude exports from Libya have failed to revive Mediterranean crude tanker rates which remain below operating expenses with earnings at the lowest in 11 years on some routes.

Suezmax earnings for Black Sea cargoes plunged to the lowest since 2009 this week, while aframax rates for cross-Mediterranean voyages remain a fraction of operating expenses as slowing oil demand growth in Europe curbs demand for cargoes.

Eleven cargoes have been shipped from reopened Libyan ports in the first half of October on six aframax and four suezmax tankers, data from Lloyd's List Intelligence show. That is double volumes seen since January, since when just a handful of tankers were tracked loading from the north African country each month.

Military commander Khalia Haftar lifted an eight-month blockade on eastern ports in late September.

Reopening of larger oilfields saw production resume and reach above 300,000 barrels per day so far in October, and should be at 500,000 bpd in coming weeks, according to the International Energy Agency's latest estimate.

Exports plunged from around 1m bpd at the end of last year to 10% of that by mid-2020.

But although tankers are being fixed for cross-Mediterranean voyages, there has been little uptick in spot rates, data from the Baltic Exchange show.

The average time charter equivalent for the TD19 route was just over $1,400 daily, according to the Baltic Exchange.

That compares with daily operating expenses of $7,400 that accountants BDO estimate for aframax tankers in their annual OpCost survey.

The TD19 route covers 80,000-tonne cargoes.

Suezmax rates for 135,000-tonne cargoes from the Black Sea to Mediterranean, the TD6 route, have been assessed at negative levels since September 27, according to the Baltic Exchange.

Rates are now equivalent to minus $3,732 daily, the least since July 2009.

Aframax cargoes comprise some 60% of tankers shipping crude from Libya, while suezmax tankers account for a further 36%, Lloyd's List Intelligence data show.

The route generally lends support to suezmaxes chartered for Black Sea-Mediterranean trade flows.

However, Black Sea shipments have fallen sharply in the past five months, curbing demand for 1m barrel tankers. That reflects plunging demand for crude by European refineries, especially those in France, Italy and Spain, which are served by Mediterranean ports.

Utilisation rates for French, Spanish and Italian refineries were at 58%, 76% and 70% respectively in August, IEA data showed.

Anecdotal reports suggest these levels remain, as a second wave of coronavirus places renewed lockdown restrictions on these countries' economies.

Black Sea loadings in September were tracked at 8.9m tonnes (64.1m barrels) on 103 tankers, Lloyd's List Intelligence data show. That compares with 12m tonnes on 147 vessels for September in 2019.

Western Australia may turn back infected ships after livestock carrier outbreak

WESTERN Australia is considering turning back ships with coronavirus cases, with the state's leader warning more crew changes increased the risk of outbreaks.

State premier Mark McGowan said all Australians arriving by sea would have to isolate for 14 days at their own expense from October 26.

If the ship arrives in a regional port, companies must pay for charter flights to Perth, a move Mr McGowan said shipping companies "will not be happy with".

The moves come after 25 people tested positive on the livestock carrier *Al Messilah* (IMO: 7924425) at Fremantle Port.

The outbreak is the fourth on a ship calling at a WA port in three weeks.

"We are still looking at and getting as much information as we can on whether or not we can just turn ships around that turn up with infected seafarers, so that we send a message to the shipping companies and to the importers and exporters," Mr McGowan told the Australian Broadcasting Corporation.

"The problem with that of course, is if we launch that policy, is that they then may not tell us… that they have infected seafarers on board."

The WA Government has said 36 of the *Al Messilah*'s 52 crew of mixed nationalities had been quarantined in hotels, with 16 essential crew still on board and loading of the vessel suspended.

Mr McGowan told the WA Parliament the virus risk had grown with more crew changes taking place.

"The shipping companies are not doing as much as they should to check whether the crew members getting on board are Covid-free," Mr McGown said, according to uncorrected Hansard. "We have called on the federal government to take international action on these matters."

Maritime Industry Australia chief executive Teresa Lloyd described the stricter measures as "extraordinary" and "uneconomic in every possible sense".

"This is an essential workforce. We call them essential, we want them to go to work, we want our goods to keep moving, and yet we treat them like this," she told the ABC.

"It's time to respect that these essential workers need to be able to go home to their families and rest, because it's really having an impact on mental health and morale."

Mr McGowan said of the new quarantine rules: "I expect that some of the individuals involved will not be happy with this and I expect that some of the shipping companies will not be happy with this. We will send the bill to the companies.

"The individuals who might have spent months at sea will now have to spend another two weeks in hotel quarantine, which they probably will not be happy with," he said. "However, in the environment in which lots of ships have changed over their crews, we have to ensure that we put in place the appropriate precautions."

It has emerged that a male vet and a female stockworker left the *Al Messilah* before the outbreak was reported. They had been on board for eight months and had tested negative, and were said not to pose a risk.

Two seafarers on another ship entering Fremantle, the bulk carrier *Key Integrity* (IMO: 9442407), also tested positive, but that ship's other 18 crew were negative, the government said on Tuesday.

WA bars shore leave for international vessels. It requires all international arrivals to isolate in hotels for 14 days at their own expense.

Al Messilah's owner, Kuwait's Al Mawashi Livestock Transport & Trading Company, could not be reached for comment.

ANALYSIS

Achieving shipping's green targets requires whole industry

THE huge cost of decarbonisation in shipping cannot be shouldered by vessel operators alone and will require the support of other participants, including banks, classification societies, flag states, and ports, a conference has heard.

"We want to see a shift in end-user attitudes to decarbonisation," said Daniel Gent, head of energy and sustainability at UECC, the car carrier operator.

Mr Gent told a DNV GL conference the industry would need to gain support from banks for projects that meet the International Maritime Organization's decarbonisation levels.

These would include classification societies, flag states, and ports, and from "consumers at a personal level".

"Consumers are willing to talk about it and want to see it happen but don't necessarily want to support it in a meaningful way," he said.

Consumers make decisions about where goods come from and how they are transported.

"Those consumer attitudes ultimately shape decisions made about how we transport cargo," said Mr Gent.

Kostas Vlachos, chief operating officer at Latsco Marine Management, said customers and charterers must show willingness to pay more to carry their goods "so investors have an incentive to invest".

Further, he called on bankers to regain their risk appetite to fund decarbonisation projects.

Harry Robertsson, technical director at Stena Teknik, was more optimistic that the IMO's greenhouse gas targets for 2050 would be met. However, the industry would have to share the investment because operational costs would be high, he said.

"It could be incentives from governments and a willingness from customers to pay a little bit extra for our services. This will enable us to implement the new and, to a certain extent untested, technologies."

Proposals for regional environmental protection standards were regarded as unhelpful by the speakers at the conference.

"In decarbonisation, we have seen unilateral decisions by the European Union and China. These decisions will delay the pathway to decarbonisation," said Mr Vlachos, who described 'localism' as the "maximum harm" that could be done in shipping.

"This doesn't assist ship owners in making investment decisions regarding alternative fuels. A unilateral solution is a big obstacle."

Mr Gent said shipowners would become nervous about making an investment in order to comply with one regulation when another regulation is brought into force unilaterally in another area.

Latsco Marine Management has been exploring improvements to main engine and auxiliary systems, waste heat recovery, air lubrication, hull coating and maintenance systems.

Taken together, these have only reduced CO2 emissions by about 10%, far short of IMO's 2030 and 2050 ambitions.

"We started to look at the use of [liquefied petroleum gas] as a fuel but there are a lot of obstacles: shipbuilders are not yet ready to guarantee safety levels, and class societies do not yet have rules for LPG as a fuel in an LPG carrier," said Mr Vlachos.

His company has been working on running an aframax tanker on liquefied natural gas along with an air lubrication system.

The problem has been capital cost as this vessel would be about $12m more than a conventional ship. Mr Vlachos asked for support as change is needed in commercial operations.

He estimated that 55% of all commercial ships would need to run a dual-fuel engine by 2030, and all ships by 2050, if IMO targets are to be met. However, "expectations are that only 20%-40% would be fitted with a dual fuel engine by 2050.

"This, along with other operational measures, makes me pessimistic that IMO's aspirations will be fulfilled," he said.

Nachipa supports slow steaming to curb emissions

SLOW steaming measures to save the environment are an easy fix in reducing shipping emissions to meet agreed 2030 targets, according to Chile-based dry bulk operator Nachipa.

"I think it is the only way to do it right now," said Nachipa chief executive officer Felipe Simian in an interview with Lloyd's List.

"Shipping is going to have bunkers as we know them for a long time. I would love shipping to be completely green, but the industry has to go through a major shift in order implement what is required. So, for the moment, I think that the only practical solution is slow steaming."

Owners have increasingly adopted lower sailing speeds since the global financial crisis of 2008, seeking to bring down their costs through optimal utilisation of capacity and avoiding idling.

The third-generation owner, who also sits on Nachipa's board of directors, feels that the International Maritime Organization's sulphur cap regulation was very poorly implemented.

He thinks the best way would have been to direct the refineries to start producing low sulphur fuel oil as a marine fuel.

"But instead, what they did is basically tell the vessels that they cannot burn any high sulphur fuel. So, it was up to the companies to see what they could do."

With questions lingering regarding the technology on the market and availability of LSFO, the solutions that came up were strictly correlated to the value of the vessel, Mr Simian conceded.

For a dry bulk company with small handysizes, ultramaxes, or supramaxes investing in scrubbers was very expensive.

Rather, "the only vessels that could actually afford scrubbers were the biggest ships", he said, adding that it was the big players that benefited from it.

"Sadly, it is still mostly up to the big players to decide what is going to be the future of the industry."

Mr Simian said that as "shipping is very competitive and tough, the only way to manage things smoothly is to have a level playing field and regulatory certainty so that everybody knows what is happening".

"If there is no mandatory way, people are going to increase their engine speeds and just go get a cargo."

Nachipa has been family-owned for the past 70 years and operates around 12-14 ships at any given point of time.

The company was formed in 1948 and was involved in the first commercial operation in the Chilean scrap iron market.

"My father and the fertiliser importers started doing the first seaborne imports to Chile," Mr Simian said.

"But about seven years ago, things started to change," he noted. "Basically, the cargo interests started to swap a bit."

That is when the company shifted from being a shipowner to being mainly a time charter operator, he added. This also meant that it could operate different sizes and types of vessels and have a more modern fleet.

"We realised that we needed to evolve. We could not keep doing the same thing over and over, because that time is gone."

MARKETS

US Gulf congestion fuels LNG price surge

A GROUNDED vessel over the weekend is affecting access to Sabine Pass LNG terminal while post-hurricane damage continues to restrict deep-draft vessel access to Cameron LNG terminal, with the constrained access to large-scale liquefied natural gas plants in the US Gulf of Mexico supporting the seasonal winter surge in Asia's spot prices for the commodity.

Semi-submersible accommodation rig *Jasminia* ran aground in the Sabine Bank Channel, restricting traffic along the waterway leading up to Cheniere Energy's multi-train Sabine Pass LNG terminal, the US Coast Guard said.

The USCG said salvage plans were being developed, but gave no time estimate as to when the rig would be removed. The channel will be restricted to vessels with a maximum draft of 32 ft, ruling out many of the larger LNG carriers.

Meanwhile, at the Calcasieu Ship Channel, just over a week after Hurricane Delta hit, the USCG has loosened restrictions amid efforts to salvage a sunken rock barge, among other salvage jobs, to clear up the damage from the storm.

But still, only vessels with drafts under 36 ft are allowed to transit this important waterway leading to Sempra Energy's Cameron LNG project. The US Army Corps of Engineers had previously imposed a 25-ft maximum draft restriction.

LNG tankers with drafts typically ranging around 40 ft, however, will not be able to get to both the Cameron and Sabine Pass LNG terminals.

The 139,759 cu m *Arctic Discoverer*, which was due to arrive at Sabine Pass LNG on Sunday, has stopped at Port Arthur, Lloyd's List Intelligence vessel tracking data showed.

The JKM benchmark price for LNG spot trades in Asia has held on to winter gains and continued trading at $6.613 per million British thermal units since October 16, according to S&P Global Platts assessments.

This is up from a historic low of $1.825 per mmBtu, but down from $6.668 per mmBtu assessed one year ago on October 23, 2019, Platts data showed.

IN OTHER NEWS

Floating storage vessel off Venezuela 'at risk of sinking'

A FLOATING storage and offloading unit holding Venezuelan oil is at risk of sinking after a fishing lobby spotted the vessel listing up to 25 degrees.

The Fishermen and Friends of the Sea group raised the alarm after becoming aware of the list late last week during a visit to check the condition of the Venezuela-flagged *Nabarima* (IMO: 9316567).

The vessel is reported to be holding 1.3m barrels of oil in the Gulf of Paria, which is located between the South American nation and the Caribbean island.

Shipping companies linked to Iran face US sanctions

THE US has targeted more shipping companies with sanctions for alleged dealing with Iran.

The Department of State named six Chinese and Hong Kong entities as having links to the Islamic Republic of Iran Shipping Lines.

Now facing sanctions are Reach Holding Group (Shanghai) Company Ltd, Reach Shipping Lines, Delight Shipping Co, Gracious Shipping Co, Noble Shipping Co, and Supreme Shipping Co, the department said in a statement. Two people associated with Reach Holding Group, chief executive Eric Chen and president Daniel He, have also been targeted by Washington.

Port call standards will benefit terminals and carriers

ONE of the major concepts behind smarter ports has taken a step forward with the release of a new set of standards designed to align definitions between container lines and terminals.

The Digital Container Shipping Association has published standard data definitions for port call processes, the first step in its Just-in-Time Port Call programme which allows ship operators to optimise steaming speeds so vessels arrive at port only when a berth is available. This saves waiting at an anchorage and helps reduce fuel use and CO2 emissions.

Achieving this requires digital collaboration between carriers, terminals and port authorities, which in turn requires all parties to be using the same terms and standard data definitions.

Golden Ocean chief commercial officer steps down

GOLDEN Ocean Group has parted company with chief commercial officer Thomas Semino, the bulk carrier operator said in a statement.

The two parties have "reached an agreement pursuant to which Mr Semino will be stepping down from his current role," the company said.

Mr Semino, who is based in Singapore, has agreed to

assist Golden Ocean with an orderly transition of his responsibilities.

Maran Tankers eyes Xihe's VLCCs

MARAN Tankers is said to have offered to buy three very large crude carriers from the Xihe Holdings fleet at prices coming in at over and above the outstanding vessel loan values.

The bank lenders involved in the vessel loans are likely to agree to a deal still being stitched together, with Maran Tankers as cash from the chartering out of vessels in Xihe Holdings' fleet is fast drying up, sources suggested.

Lloyd's List has learnt that the three VLCCs, *Tai San*, *Tai Hung San* and *Pu Tuo San*, have been pledged to loans from Crédit Agricole, Bank of America, OCBC Bank and DvB Bank.

Total delivers carbon-neutral LNG to CNOOC

FRENCH energy major Total has made its first carbon-neutral shipment of liquefied natural gas through the use of carbon offsetting.

The company said it delivered the cargo to the Chinese National Offshore Oil Corp last month from Ichthys LNG plant in Australia, where Total is a minority owner, to the Dapeng terminal in China.

Total said that it offset the carbon emissions from the production, liquefaction, shipping, regasification, and end-use of the specific cargo, by financing low carbon projects in other regions of the world.

Vale continues to ramp up iron ore output

VALE, Brazil's mining giant, appears on track to meet its full-year iron ore output target, which should support dry bulk shipping.

The miner said production amounted to 88.7m tonnes in the third quarter, a rise of 2.3% versus the same period a year earlier.

It achieved a production record of 58.9m tonnes from its northern system, which comprises its S11D project, while its southern and southeastern operations saw improved performance given the resumption of activities at the Timbopeba mine in June and the Fazendão mine in July.

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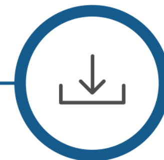

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