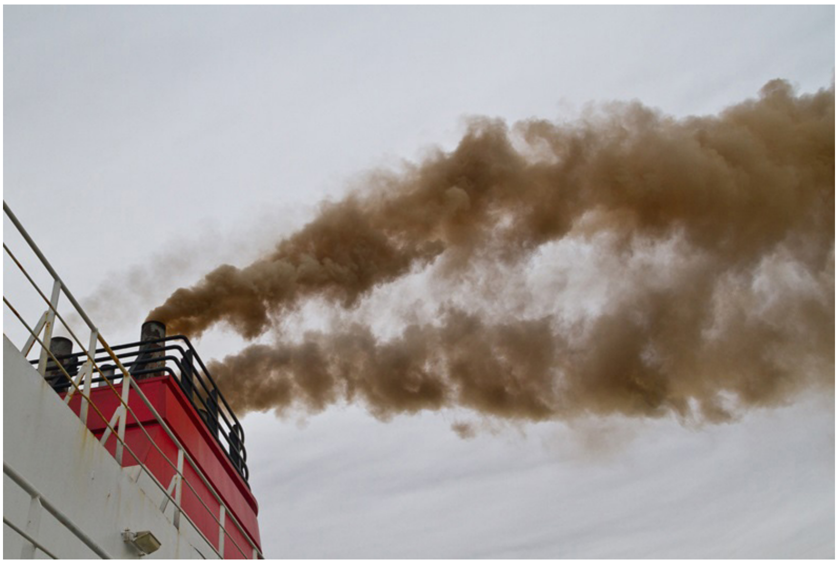
Thursday November 5, 2020

Lloyd's List
Maritime intelligence | informa

Daily Briefing
Leading maritime commerce since 1734

Carriers face expensive transition to zero-carbon future



CONTAINER SHIPPING NEEDS to prepare quickly for increasing demands to decarbonise shipping and find solutions for how it will pay for the move away from fossil fuels.

"For a long time energy has been relatively cheap," said V.Ships managing director Franck Kayser. "We're now going into a world where that is changing completely. Energy is going to be very expensive, either because we're going to use new forms of energy that are costly to produce and store or because the capital expenditure to produce that energy is high."

There was also a risk of greater taxation on existing fossil fuels that would push up prices, he said.

But the low cost of carbon-based fuels and lack of obvious alternatives would make it difficult to change.

"We will have a world where a lot of choices need to be made but it is difficult to see where we are going and which energy to bank on," he told the Global Liner Shipping conference. "The challenge here is that you will probably have to follow all of them. You can't really say at this point in time that one will have an advantage over anything else."

But with trade-related transport being responsible for 8% of global carbon emissions, decarbonisation was key to the industry, said Kuehne + Nagel head of global trade Paolo Montrone.

"Container shipping used to be about cost and time. Then it became about flexibility and reliability. Now we can safely say that sustainability is the fifth pillar in decision making."

He said while most carriers were extremely committed to CO2 reduction and becoming carbon-zero, there was also a new class of consumer that would drive change.

"Customers are making use of sustainable choices. It is a business imperative to make supply chains more sustainable."

These customers would be prepared to pay more for greener shipping he said.

"Freight rates at nearly $4,000 per feu on the transpacific are not affecting the consumer," he said. "And there is a competitive advantage in being sustainable. The future is for sustainable companies."

But this would require the acceptance of higher rates from beneficial cargo owners.

"The cost of decarbonisation should not fall on the liner industry," said Trafigura global head of fuel decarbonisation Rasmus Bach Nielsen.

Trafigura, the world's largest commodities trader, has proposed a carbon levy that could equally be applied to container shipping as well as tramp shipping.

"We envisage a bunker adjustment factor charge that could be calculated and applied to beneficial cargo owners."

The world had changed, he added, and container shipping was an easy sector to regulate.

"But we need regulation from the International Maritime Organization. The question with all renewable options is who is going to sign off on the long-term investment? To achieve this requires clear, transparent and enforceable regulation. Then a price can be applied on a per-container basis."

WHAT TO WATCH

Cargo sector looks back for the future of unaccompanied freight

THE combination of Brexit and a global health crisis has resulted in cargo owners and carriers reverting to a UK-Europe freight model, a Lloyd's Loading List webinar was told.

This is similar to that seen prior to the foundation of the European Union with the Maastricht Treaty in 1992, when there were far higher levels of UK-Europe unaccompanied cargo and less than 50% of UK-Europe trade went through the Dover Strait.

A senior industry source told webinar participants that Brexit and the fear of congestion at ports serving the Dover Strait when border controls are reintroduced at the end of the UK's transition period from EU rules at the end of this year, combined with the pandemic — which has aggravated the risk of a shortage of truck drivers — has led to cargo owners and carriers re-assessing their transport plans and choosing different ports, different shipping methods and switching transport modes in order to preserve supply chains.

The debate turned to whether there was a likelihood of more unaccompanied and containerised freight being shipped between the UK and the EU from January 2021 to offset potential customs clearance issues for accompanied road freight and the threat of long queues forming at ports.

"It's already happening," said Stephen Carr, commercial director for Peel Ports. "Covid's had an impact on the availability of haulage and hauliers on long-distance routes, particularly on the cargo that comes out of Iberia into the UK — not just to our ports on the UK west coast, but equally on the east coast as well — and this has given rise to a number of new services, which are longer-distance sea routes and shorter-distance road routes.

"What we have here is a confluence of events clashing together — challenges posed by Covid and those posed by Brexit — and what we're seeing is people starting to revert to a model that was more akin to that which we saw in the UK prior to the Maastricht Treaty. Pre-Maastricht, less than 50% of the trade the UK had with continental Europe went through the Dover Strait. It's now more than 75%."

He said a reversion back to unitised loads — longer-distance maritime legs, unaccompanied loads — will happen.

"Of course, it's not suitable for all. The great benefit of accompanied haulage is its speed. So, for those supply chains that need rapid transport, that model will continue. But for those supply chains that are more focused on reliability, there's already evidence of a switch to longer distance sea routes to take advantage of the time for customs clearance."

Mr Carr emphasised the continued uncertainty over the number of customs staff available at ports to carry out inspections of cargo.

"If you take the message being delivered by the government agencies at face value, you could be quite reassured that there are training programmes in place and new people being employed. But when it comes down to the practicality about how those resources are going to be used, you hit challenges such as: is it a shared team that sits across a number of different ports?"

Another resources-related issue, raised by Mr Carr — this time away from the application of the border protocols, but nevertheless dependent on the type of trade deal concluded between the UK and the EU — relates to European truck drivers operating in the UK.

"The UK government has said that it will allow European drivers into the UK under their UK licences. But if cabotage isn't allowed within the UK haulage market for these European drivers, we will see a consequential impact on driver availability within UK supply chains," he said.

"And it's not just a concern for the international flow of goods, but also for domestic services. For example, European drivers who drop off [import] loads in Manchester, say, will quite often fulfil domestic loads from Manchester to Birmingham or Manchester to London on the way back.

"If cabotage is not allowed, because there isn't a deal to facilitate it, there will be ripples way beyond just the provision of transport between EU countries and the UK — because the driver pool will just get smaller and smaller."

Singapore aims for 600 crew changes a day

SINGAPORE expects to conduct some 500 to 600 crew changes per day in the coming months in a boost to efforts to tackle a problem created as a result of coronavirus lockdown measures around the world.

The Maritime and Port Authority of Singapore said that since March, crew changes had been facilitated in Singapore for more than 50,000 crew of nationalities signing on or off ship.

The operation involved ships of different flags and more than 2,900 companies and 3,500 ships, said MPA chief executive Quah Ley Hoon.

Speaking on a webinar, she said Singapore had kept its place among the top five ship registries in the world despite the impact of the pandemic, reaching the 96m gross tonnage milestone in 2020.

"While the pandemic has thrown Maritime Singapore many challenges, it also presented us with opportunities to emerge stronger," she said. "To do this, MPA will strengthen partnerships to drive digitalisation and decarbonisation of shipping and ensure that the Singapore Registry of Ships is adaptable and agile in the new normal."

Examples of the way the health crisis has accelerated the adoption of technology include a rapid increase in the number of remote inspections the flag state has carried out since June in order to minimise the risk to crews and surveyors on ships.

To date, MPA's surveyors have conducted 128 remote flag state and port state inspections involving 74 companies.

The current situation has also resulted in the increasing use of remote technologies to conduct class surveys and audits, including inspection of ship equipment via video streaming platforms, and verification of documents sent electronically.

It collaborated with classification societies authorised to perform statutory certification and survey services for Singapore-flagged ships to develop these technologies and continues efforts to broaden their scope.

It also reiterated that Singapore's maritime authority would continue to support seafarers through the pandemic and highlighted the flag's stellar record of having 99% of crew on board Singapore-registered ships within their service contract periods.

MPA meanwhile renewed its commitment to partner the industry in driving decarbonisation efforts by extending its memorandum of understanding with the Global Compact Network Singapore, the local chapter of the United Nations Global Compact, by an additional three years to 2023.

The initiative seeks to promote carbon management and awareness among maritime companies.

ANALYSIS

Economic outlook: China is key driver of trade in Covid-19 economy

CHINA'S appetite for imported commodities has been one of the bright spots for shipping during the pandemic, when demand in other economies has waned due to lockdown and travel restrictions.

The Asian country is not only expected to claim a larger share of the global economy in 2020 but is also actively expanding its global influence in trade and other affairs.

The International Monetary Fund revised its forecasts for gross domestic product in its latest October World Economic Outlook report, predicting the impact of the pandemic will be less severe on the world economy than in the June update as second-quarter GDP outturns were not as negative as previously feared.

China returned to growth and the sizable fiscal, monetary and regulatory responses from governments maintained disposable incomes, protected cash flow for companies and supported credit provision. Chinese GDP grew by 4.9% in the third quarter from a year earlier, according to official statistics.

This is in stark contrast to developments in many other countries, though.

IMF managing director Kristalina Georgieva warned that low- and middle-income countries could send global debt levels above 100% of global GDP next year; a development that could take decades to reverse.

According to the IMF, the period ahead will require balanced domestic policies that manage the trade-off between lifting near-term activity and addressing medium-term challenges. It recommends that policy makers simultaneously aim to mitigate climate change at the same time as bolstering the recovery from the pandemic.

Inflation has also dropped markedly this year in most economies bar China and the IMF expects full-year inflation to remain low compared to previous years.

However, inflation has been on a declining path since 2018 in many countries, again with China as an exception. Most commodity prices took a fall in the first half of this year, but as economies have started to recover, prices have followed suit.

China has initiated a huge stimulus package that focuses on bolstering domestic infrastructure and this has seen purchases of key commodities rise.

After taking advantage of low prices for crude oil earlier in the year, it has not let up and the country imported a record volume from the US in September, reflected in increased tonne-mile demand for tankers from Gulf ports.

It was also revealed recently that Eastern Pacific, the Singapore-based shipmanagement company, will build and operate four 98,000 cu m very large ethane carriers for a Chinese petrochemical company that is about to start shipping regular cargoes of the refrigerated gas from the US Gulf.

The 15-year deal with Zhejiang Satellite Petrochemical underscores China's rising dominance in US ethane export trades.

Analysts are also increasingly confident about prospects for the dry bulk market as China's appetite for raw materials rises.

China is in the process of its multi-facet "rebalancing," from export- and investment-led growth to more consumption-driven growth, and is expected to have "a smooth handover" from publicly generated growth to private demand-driven growth beyond the near term, according to the IMF.

China's growth is having a positive spillover effect on commodity prices, in turn providing encouragement to dry bulk freight rates.

The country's iron ore production has been in decline since 2018 and shipping has benefited from that. In a normal year, more than 70% of iron ore shipments are destined for China but large ore carrier arrivals in China from Australia and Brazil, the main exporters, are up almost 2% for the year to date compared with 2019.

China is also a leading importer of coal, which is used for power generation and steel production. The majority of coal imports are sourced from Indonesia and Australia. Here we see a shift, though, since coal ship arrivals in China from Australia are up compared to last year, but they are down from Indonesia.

The concern here, however, is the rising political tension between China and its Antipodean neighbour, with the souring relations resulting in a ban on coal imports from Australia with the potential for other products to follow suit.

Looking at global steel production, we see that total volumes are still below last year, but China has the highest monthly production on record with 96m tonnes in August and the year-to-date volume is 4% above 2019.

This has led to a plateauing of the country's iron ore imports recently, but that could be short-lived as China has mandated greater use of scrap steel and stricter pollution controls in its next five-year economic plan.

China has been a heavy buyer of soyabeans this year to boost domestic reserves. In the first seven weeks of the US marketing year, soyabean exports to China amounted to 8.2m tonnes, according to BIMCO. That represents 72% of all US soyabean exports over the period.

As for exports, container freight rates on the Shanghai Containerised Freight Index have been at near-record highs due to the strong bounceback in consumer demand from the US and Europe following pandemic-led lockdowns there.

This is likely as a result of those economies prioritising the protection of personal income via furlough schemes and other measures, as opposed to China's infrastructure-led spending.

However, with new lockdowns in Europe and uncertainty in the U.S. over its Covid-19 response in the wake of the election, some analysts have warned that there is no guarantee the current level of demand will be maintained beyond the short term, should consumer behaviour change.

At the time of publication, there was no clear winner in the US presidential election but whoever is eventually elected, it is unlikely that either Donald Trump or Joe Biden will lift the recent high tariffs imposed on certain Chinese goods, or oversee a dramatic cooling of the trade tensions between the two countries.

Meanwhile, China continues to expand its political influence on world affairs and is stepping up its importance in the developing world.

It has joined the World Health Organisation's coronavirus programme, Covax, which aims to help poor and middle-income countries gain access to a coronavirus vaccine when available. This could be seen as a response to the US withdrawing its funding from the WHO.

The long-term Belt and Road Initiative also continues to increase China's connectivity not only with its neighbouring countries, but also all the way to Europe via both land and sea.

MARKETS

Norden raises full-year guidance

NORDEN, a Danish bulker and tanker owner and operator, expects to see volatility continue in the dry bulk market.

"I am sure there will be plenty of bottlenecks and headwinds to come as we live in a world of uncertainty, but it's about the ability to adjust," the company's chief executive Jan Rindbo said in an interview.

"What is important is that we as operators need to be agile and nimble and adapt," he said. "We embrace market volatility."

China was the driving force for imports in the third quarter, thanks to stimulus directed at infrastructure projects and agri-products, while the rest of the world was in a slow recovery mode.

"We expect that to continue," Mr Rindbo said, adding that while grains were a supporting factor, coal trade has been weak.

The tensions between China and Australia do not affect the company as it does not have a "big trade" there. However, should South African coal displace Australian, the market will see a net benefit.

Copenhagen-based Norden has revised up its expectations for full-year profit for the second time in as many months.

It expects an adjusted profit of $90m-$120m, up from its previous estimate in September of $70m-$110m, once again boosted by its dry operator business unit.

The unit reported an adjusted profit of $31m in the third quarter versus $3m in the year-earlier period. Its asset management unit turned a profit of $6m from a loss of $4m, while its tanker operator unit saw losses mount to $10m from a loss of $3m.

In the second quarter, the company's asset management unit shifted its focus from tankers to dry bulk, a trend that should continue, Mr Rindbo said, with investments made over a short time frame.

The tanker markets suffered from earlier strength, with inventory draws from floating storage releasing ships into the spot market at a time of low oil demand because of the coronavirus.

"We expect the market to remain weak with some winter improvement, but it will be smaller and later than usual," he said.

Overall, Norden reported an adjusted result of $27m versus a loss of $4m in the third quarter of 2019.

"I am especially pleased to deliver these excellent results in a modest dry cargo market, where spot rates have been 20% below the average of the same period last year," Mr Rindbo said.

"Norden continues to deliver strong results in volatile and challenging markets suppressed by the Covid-19 pandemic," he said. "The third quarter has shown Dry Operator's significant ability to create value based on its asset light operations, delivering an outstanding result by capitalising on optimal regional positioning of the fleet and generating record high activity."

The company remained committed to returning cash to its shareholders through its dividend policy, paying out a minimum of 50% of the annual adjusted result. In has also initiated a new share buyback programme of up to $20m.

Mr Rindbo also noted some improvements with crew changes.

It has been able to change over Danish and Indian crew, but the Philippines was still a challenge.

Concordia Maritime expects brighter product tanker market next year

CONCORDIA Maritime, a Swedish product tanker owner, expects a "turnaround" in the market next year due to increasing consumption and low fleet growth.

"Things are heading in the right direction" with higher consumption towards 98m to 99m barrels a day and lower inventories, said the company's chief executive Kim Ullman, adding that this came with disclaimers due to the lingering pandemic. As of early November, consumption was at 95m bpd.

"If we have controlled lockdowns over the next couple of months, there could be a decent tanker market, but if we have forceful lockdowns for months and months, that would be bad for the tanker market next year," he said, adding that his view rested with the former scenario.

In addition, vessel developments look "exciting" with the orderbook to fleet ratio at 6%, the lowest in 25 years. In 2021, fleet growth is expected at 2% to 3%.

The company had two vessels in drydock during the third quarter for special surveys and ballast water treatment systems and expects seven more to undergo maintenance through to the second quarter of next year.

It has had a challenging year and recorded a net loss of SKr36m ($4m) in the third quarter, in line with the same period a year earlier.

With a relatively high share of vessels employed in the spot market, the low market trend so far this year was reflected in its financial statements, and the result was also "burdened by a loss of income" due to the scheduled drydockings, the company said.

With the market being quite "ugly" this year, general consolidation talk had quietened down, and the secondhand sales and purchase market was also muted, despite attractive prices for purchases, according to Mr Ullman.

IN OTHER NEWS

ICTSI sees volumes spring back in third quarter

SMALL to mid-size container terminal operator International Container Terminal Services Inc heeded the warnings it made in the previous quarter and did well in the third quarter, even managing to raise throughput 3% to 2.63m teu from 2.55m teu in the same period a year earlier.

ICTSI, after a sharp plunge in volumes during the worst of the coronavirus outbreak in the second quarter, had previously warned that the second half of the year would continue to be challenging and fraught with uncertainties.

Chairman and president Enrique Razon alluded to the company's quick reactions and decisive cost mitigation measures in reporting the better-than-expected result but warned, however, that the Covid-19 situation made the environment unpredictable.

Product tanker attacked off Nigeria

A GREEK-owned product tanker has been attacked by pirates off Nigeria.

The Panama-flagged, 9,999 dwt *Nefeli II* sent a Ship Security Alert Signal about 80 nautical miles southwest of Brass, on Nigeria's southwestern coast, on November 4.

Lloyd's List Intelligence reported the 2003-built tanker was "believed to be under pirate attack" and was drifting and not answering calls.

Singamas to extend debt payment for PIL

SINGAMAS Container Holdings said it had reached a debt payment agreement with its controlling shareholder Pacific International Lines.

PIL will pay all arrears of $149.7m plus interest at the rate of 1.5% per annum to the Hong Kong-listed unit over the next decade until end-2030, according to an exchange filing. More than half of the payment will be made in the final year of the payment schedule.

The debt extension is still pending approval from Singamas' independent shareholders.

US political uncertainty seen as a threat to maritime industry

AS POLLS closed across the United States there was widespread concern over the possibility of a protracted vote count that could delay the outcome of the presidential election by weeks or even months.

That could mean problems for the maritime industry, especially if new political appointments traditionally made after a presidential election are delayed by a prolonged vote count.

Scot Faulkner, an expert in US presidential transitions planning, said an incoming president had the opportunity to directly appoint people to some 8,000 positions in the federal government.

Product tanker blast at Turkish shipyard

FIVE workers at a Turkish shipyard were taken to hospital after an explosion on a product tanker undergoing maintenance.

The explosion was reported on a cargo tank of the Marshall Islands-flagged, 109,637 dwt *Sri Asih* at the Sefine Shipyard, Yalova, according to Lloyd's List Intelligence.

LLI said there was structural damage to the cargo compartment and five shipyard workers were injured. The cause and extent of the damage are unknown.

Classified notices follow

In the Supreme Court of Gibraltar

Admiralty Jurisdiction

AJ No. 2020 ADM/010

Admiralty Action in REM against:

MV "PALMALI DISCOVERY"

CREDIT EUROPE BANK N.V.

Claimant

-and-

THE OWNERS OF THE SHIP MV "PALMALI DISCOVERY"

Defendant

Notice is hereby given as follows:

1. The vessel herein, namely "M/V Palmali Discovery", has been ordered to be sold by Order of the 9th October 2020, of the Honourable Mr Justice Restano, Puisne Judge.

2. Proceeds of sale have been deposited and paid into Court.

3. The order of priority of the claims against the proceeds of sale will not be determined until after the expiration of the period of 60 days from today's date.

4. Any person with a claim against the ship, or the proceeds of sale thereof, on which he intends to proceed to Judgment shall do so before the expiration of the period above described.

Dated the 5th November 2020.