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No hiding place for flags that don't pull their weight

ONE HUNDRED AND one years ago this month, the US took it upon itself to introduce a constitutional prohibition on the production, importation, transportation and sale of alcohol.

As the law of unintended consequences would lead one to expect, the more freewheeling entrepreneurial spirits of the day were quick to seek ways round the restrictions.

The most celebrated examples on this score are Al Capone and Lucky Luciano, but American shipowners also took advantage of the populace's desire to stay blotto, reflagging vessels to Panama to facilitate provision of liquid refreshment.

And so was born the idea of 'flagging out', with vessels registered not in their country of beneficial ownership, but in whichever jurisdictions offer the most favourable legal framework to an operator's commercial purposes.

For long years thereafter the practice was deemed anathema by organised labour, indignant at the subsequent loss of jobs, reduced seafarer salaries and sometimes nugatory regulatory touch that characterised what unions deemed flags of convenience.

But in the 21st century, that fight is largely over as far as sensible people are concerned. No moral disrepute or meaningful stigma attaches to owners who choose high-quality open registers, which often insist on standards tougher than even some first world national counterparts.

Indeed, most pay considerable dollar sums into the International Transport Workers Federation welfare fund, indirectly picking up the tab for the depredations of the less scrupulous.

The bar has risen inexorably in recent decades. That said, not every flag gets a gold star for exemplary conduct.

Allegations of the most flagrant malpractice are sometimes brought to the attention of Lloyd's List journalists, although it is generally the case that these cannot be verified to the degree necessary to enable publication.

It is also a fair surmise that governments that cannot provide meaningful domestic governance of vessels ostensibly homeported in said countries, at least unless such activities are substantially outsourced to reputable entities.

There remain documented cases of scofflaw administrations that wilfully facilitate at best rule-bending and at worst outright illegality, most notably in respect of sanctions evasion.

The International Chamber of Shipping, then, does necessary work in the production of its annual comparative flag state performance study, the 2021 iteration of which is published on Monday.

As the cliché has it, sunlight is the best disinfectant. Once the ICS tabulations are made public, owners need to interrogate themselves as to their flagging choices, if only through the self-interested optics of reputational risk.

Nobody begrudges developing countries an opportunity to raise valuable hard currency revenue, and open registries make a discernible contribution to not a few emerging economies.

But that does not confer on them the right simply to disregard prevailing international norms, and the ICS's initiative provides the industry with objective data that highlights the laggards.

There needs to be material incentives for the worst offenders to raise their game, not least in the form of tough love from port state control. The case for material disincentives against abuses, perhaps linked to their wider human rights records, is also at least arguable.

In short, the idea of 'flag blindness' is not yet tenable. To extend the ophthalmic metaphor, a once a year visit to the opticians is essential, and those that can't quite make out the last letters of the eye chart may periodically need stronger spectacles.

As the 1920s prohibition era revellers chronicled in the novels of F Scott Fitzgerald knew full well, double vision is a frequent consequence of the taking of strong drink.

But today's shipping industry needs cannot allow its focus to be anything less than resolute. There can be no hiding place for flags that do not pull their weight.

WHAT TO WATCH

LNG trade needs greater liquidity to counter volatility

ONE leading liquefied natural gas price benchmark used to hedge cargo and freight positions, has faced renewed heat regarding its efficacy as a reference for pricing term supply deals.

The JKM benchmark for cargo trades in Northeast Asia, a region that is home to the world's top LNG importers, surged past $30 per million British thermal units last week, easily more than doubling previous winter highs.

S&P Global Platts, the agency behind JKM pricing assessments, had flagged three deals reflected in its daily trading window from January 8 to January 13 that were priced above $30 during a press briefing held last Friday.

While its analysts also emphasised that JKM spot prices would not stay at these levels, noting that February cargoes were fixed at below $30, that has not fully appeased buyers.

Importers in China and India have shunned spot cargo buys. Meanwhile in Australia, industrial gas users have pushed for government support towards a reference to the US Henry Hub benchmark in domestic supply agreements.

Save for spikes in 2005 and 2008, US Henry Hub has consistently traded at below $10 per mmBtu for over two decades.

This regional benchmark is more commonly used as a reference for exports from projects in the US, which have also been subject to price volatility this winter season.

Congestion at the Panama Canal since October has forced many tankers carrying US LNG to sail via a much longer route via the Cape of Good Hope in South Africa to get to markets in Asia, increasing tonne-mile and squeezing already tight supply.

Platts estimated as of January 14 that this adds $3.55 per mmBtu to freight costs, driving up the overall prices of US-origin cargoes.

But freight costs have also soared as spot prices climbed in Asia in early January, with BP said to have been behind a tanker charter priced at a record $350,000 per day.

These factors illustrate the intricate correlation between LNG cargo trade and the shipping market, which sets the commodity apart from oil and oil products.

Latching on to the recent volatility in freight rates, one promoter of a US LNG project counter-argued for the case of term supply contracts.

The shipping costs for cargoes tied to such deals would not have jumped so drastically as freight would probably have been negotiated along with the term offtake, he suggested.

Yet what prompted buyers to hold back from committing to term offtake over the past 12 months was precisely the perceived availability of spot cargoes at very low prices following a macro-economic slowdown triggered by the coronavirus pandemic.

Critics may argue that these developments, coinciding with the worst pandemic in recent memory, nonetheless demonstrate the fallacy of pegging term offtake to a spot trade-linked index such as JKM.

Still, this argument precisely holds true because LNG as a commodity is far less liquid than crude and many oil products.

Its demand is predominantly tied to the need for power generation needs, which are inelastic yet heavily dependent on uncontrollable swings in weather conditions across continents.

Liquidity in the LNG market has certainly picked up with spot cargoes seen accounting for more than a third of overall trade volume in 2019.

But until this cleaner burning fossil fuel gains more clout in transport and other sectors, its cargo prices and associated freight rates may well remain subject to the whims of mother nature with the accompanying inherent volatility.

ANALYSIS:

Biden administration challenges global shipping to reduce emissions

THE incoming Biden administration has wasted no time in putting the global shipping industry on notice in navigating towards a zero-emissions future.

Governments "will need to collaborate on emissions-intensive sectors that cross borders — aviation, shipping, heavy industry, power and more — to chart a path to deep decarbonisation in each", said John Kerry, the new US climate envoy.

Working on that future is a global enterprise since "the US is responsible for only 15% of global emissions", he said. "The whole world must come to this table to solve this problem."

Fortunately for the global shipping industry, Mr Kerry is not leaving the solution of zero emissions to governments around the world — an idea that would lead to patchwork confusion long before any remedy may ever be found.

He believes that while governments have an important role to play in galvanising net-zero transitions, "they must partner intimately" with the private sector.

That is because the private sector "brings expertise in every corner of the economy, substantial capacity to invest in new infrastructure, and the ingenuity and drive to bring new innovations to market".

Mr Kerry chose the timing of his announcement — 0730 hrs on his first full day in his new role — advisedly. "The early hour is appropriate because we really don't have a minute to waste," he said.

His words are also timely given recent studies linking higher rates of death from the coronavirus in areas of the world with correspondingly high rates of emissions of particulate matter, specifically PM2.5.

A Harvard University T.H. Chan School of Public Health study last year found that in the US even "a small increase in long-term exposure to PM2.5 leads to a large increase in the Covid-19 death rate".

That theme was developed further by researchers in Germany at the Max Planck Institute and the Johannes Gutenberg University of Mainz who in October said: "Our results suggest the potential for substantial benefits from reducing air pollution exposure even at relatively low PM2.5 levels."

If nothing else, the correlation between PM2.5 and coronavirus represents a wake-up call to the dangers of emissions going unchecked into the future — a sign that something needs to be done now.

The global shipping industry has long been under scrutiny as a major source of PM2.5 emissions, a finding attested to by emissions inventories taken by US ports.

In 2020, the emissions inventory published by the Port of Long Beach showed ocean-going vessels to be the major source of PM2.5 emissions at the facility, contributing 60% of the total 129 tonnes emitted by all sources during 2019.

However, as the Long Beach example also shows, global emissions from shipping can be brought down: ocean-going vessels calling the port accounted for 78 tonnes of PM2.5 in 2019, down 86% from the 577 tonnes emitted in 2005.

Such a reduction is due to the partnership between government and private enterprise.

Controls established by government, along with business ingenuity and the introduction of new technology, have resulted in larger containerships making fewer calls at Long Beach while delivering more cargo.

Compared with 2005 levels, containerised cargo throughput at Long Beach was up 14% in 2019, while overall containership arrivals were down 22%, with vessels averaging 57% more teu per call.

Lower emissions and more cargo: an example of government and private industry working together to achieve remarkable results — an example that could be replicated elsewhere around the world.

Mr Kerry has issued a clarion call for action and one which invites the shipping industry to help with a solution — one of its own making and not one imposed by government writ.

"There really are no more important and no more empowered audiences than the private sector as we all map the road ahead," he said.

MARKETS:

High box spot rates show little sign of weakening

CONTAINER shipping freight rates on the east-west majors remain sky-high with slot space on services still at a premium.

The imbalance between supply and demand that has led to historical highs on both the Asia-Europe and transpacific trades shows little sign of easing, with port congestion still a common feature at key global hubs and carriers still struggling to get grip on the poor circulation of empties.

The latest Shanghai Containerised Freight Index showed rates largely unmoved. Spot rates on the China-Northern Europe rate dipped slightly by 0.4% to $4,394 per teu, while China-Mediterranean prices for a laden 20 ft box remained at $4,296.

On the transpacific route, the SCFI showed rates to the US west coast from China at $3,995 per feu and at $4,750 per feu to the US east coast, down 1.5% and 1% on the respective trades.

Despite only minimal movement this week, comparing spot rates to this time last year only exemplifies the extraordinary times faced by the container shipping industry.

On the China-Northern Europe trade rates are more than three times their year-ago level, while shippers are paying more than double on the China-Mediterranean route, according to the SCFI.

Last week, Xeneta reported shippers paying upwards of $5,000 per teu to guarantee cargo space once surcharges were added to the bill.

Compare transpacific rates to this time last year and the mark-up too is striking. Spot rates on China-US west coast are more than 150% higher than in the corresponding week of 2020, while shippers are being asked to fork out on prices more than 60% higher on services from China to the US east coast, according to the SCFI.

With shippers and cargo owners addressing inventories ahead of the Chinese New Year, which falls on February 12, when factories close and manufacturing grinds to a halt in the country, demand for containerised goods remains strong.

This is putting increasing pressure on a global supply chain still playing catch up from last year, when unprecedented volumes were moved into the fourth quarter from earlier in the year as business picked up after the initial coronavirus outbreak.

Relief could eventually come in the post-Chinese New Year period, when carriers have taken the unusual step to maintain significant capacity and limit blanked sailings during the industry's traditional slack season to get cargo moving once more.

This was a view shared with Lloyd's List by prominent industry commentator and SeaIntelligence Consulting chief executive Lars Jensen, who said this is the most optimistic timeframe for carriers to remove the current bottlenecks in the supply chain.

"This [Chinese New Year] should give you plenty of capacity to get stuff moved," he said. "Hopefully then with a drop in demand, that will give enough breathing space in the ports and terminals to get their backlogs cleared. That is the most optimistic case in getting this cleaned out."

IN OTHER NEWS:

OOIL raises $120m to fund newbuilds and containers

ORIENT Overseas International Ltd, now part of state conglomerate China Cosco Shipping Corp, is raising HK$923.7m ($119.2m) via a share offering.

The proceeds will be used to fund vessels under construction, purchase containers or for other possible investments in the future, said the Hong Kong-listed company in an exchange filing.

OOIL has a dozen 23,000 teu containerships on its orderbook.

VGroup names OSM's Sprotte to replace Kayser at shipmanagement unit

V.GROUP has strengthened its leadership team with the appointment of Bjoern Sprotte as head of shipmanagement.

Mr Sprotte joins from OSM Maritime Group, where he spent four years as chief operating officer, president and, most recently, chief executive.

He will be based in Hamburg, reporting directly to the V.Group chief executive René Kofod-Olsen. Mr Sprotte replaces Franck Kayser, who remains with the group to lead the Denmark operation.

Shell, Mitsubishi and Vattenfall to produce green hydrogen

A GREEN hydrogen production project in Hamburg that could be used by ships is being proposed by a group of leading multinationals.

Shell, Mitsubishi Heavy Industries, Swedish energy company Vattenfall and the Hamburg municipal heating company have signed a letter of intent for the construction of a wind and solar-based hydrogen production at the Hamburg-Moorburg power plant.

Vattenfall currently owns the plant, which operated on coal power until last month when it was phased out as part of a German government initiative.

Vale says no impact to monthly shipments after Ponta da Madeira fire

VALE, Brazil's largest miner, said it does not expect any impact to shipping volumes from Ponta da Madeira following a fire on a shiploader.

Vale said Ponta da Madeira, which has a nominal shipping capacity of 230m tonnes per year, has three piers, five berths and eight shiploaders.

The fire broke out on January 14 in the southern berth of pier 4 on shiploader CN6. There were no reports of casualties or environmental damage.

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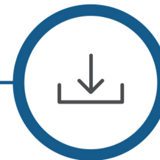

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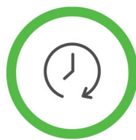

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