Friday April 23, 2021

Lloyd's List
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Tankers, gas and others to be excluded from EU green finance access

TANKER, GAS CARRIER and even dry bulk owners could lose access to European green financing under a new proposal by the European Commission.

The EU's executive arm published its criteria under which economic activities and assets can be considered environmentally sustainable.

These specific vessel segments would not meet the criteria under the current proposal and could not receive financing which is designated as sustainable even if the ships were completely emissions-free.

The proposal, known as the Taxonomy, is effectively a labelling system for green investment, aiming to guide investors on what sectors and businesses meet the criteria and therefore can qualify for sustainable-based financing. The broader aim is to help the EU meet its target of becoming climate neutral by 2050.

The Taxonomy will effectively create a uniform set of mandatory classification rules for a field that lacks them and where individual companies, banks, investors and other relevant stakeholders have until now been establishing their own criteria for what can count as green.

The commission expects to formally adopt the Taxonomy in May and it would apply from January 2022. It also said that it would be subject to regular reviews.

The Taxonomy recognises shipping as a transitional activity, meaning that even though the industry does not have the necessary low-carbon technology, it can help transition the EU to a climate neutral world and therefore is eligible as a sector for green financing, subject to specific rules.

The European Community Shipowners' Associations welcomed this "transitionary" designation as it means that the industry is not automatically excluded from green finance access.

Types of ships

The Taxonomy lists the type of ships that would be eligible for sustainable financing based on many alternative requirements, ranging from being zero emissions to being slightly more efficient than today's regulatory requirements.

However, it only includes vessels that "are not dedicated to transporting fossil fuels".

Exclusion from the Taxonomy does not mean companies with these vessels in their fleet would not have access to European financiers and markets generally. But they cannot be considered as green investments.

It does mean, however, that EU lenders will not be able to designate loans for the construction or operation of vessels like tankers and gas carriers regardless of their emissions performance.

It would also similarly affect bulk carriers who carry coal. However, the rules do not clarify what "dedication" to transporting fossil fuels means and how that would be determined.

It would also mean that shipping companies involved in these sectors would not be able to tap EU public markets to issue sustainable-labelled bonds for related activities, like financing ship acquisitions and operations, and would have to instead issue regular bonds.

Ecsa warned that designating ships based on cargo they carry is unfair and counterproductive.

"Shipping is a very diversified sector; this is also true for vessels that transport fossil fuels. The same vessels can also transport for example biofuels," said its secretary-general Martin Dorsman.

While access to non-green bank finance, debt markets and other sources would continue, the new rules along with the increasing focus of these relevant stakeholders on having environmentally friendly portfolios and demonstrating to their own investors and shareholders that they are trying to promote sustainability means that the capacity and willingness to finance non-green activities and assets in the EU could likely decrease during the next few years.

Mr Dorsman warned that this means EU shipping may have to look outside the region for financing.

"If EU shipowners will not have access to finance in Europe or more expensive access compared with finance available outside the EU, the role of ship finance by non-EU countries will grow in even an accelerated pace than already is the case," he said, adding that would endanger the current position of EU shipping as a strategic asset to as well as the strategic autonomy of the EU.

WHAT TO WATCH:

Euronav's LNG-ready tanker order underscores decarbonisation dilemma for shipping

EURONAV has placed an order for two very large crude carriers with dual-fuel engines that can be powered by liquefied natural gas, as pressure intensifies on the shipping industry to decarbonise faster and think beyond the transitional marine fuel.

The order, which includes an option for a third VLCC, brings the global orderbook to at least 165 newbuildings — excluding LNG carriers — over 10,000 dwt which will be fuelled by LNG, according to Lloyd's List research.

The LNG-ready ships will include engine configurations to switch to ammonia as and when technology and regulation allows, as the shipowner strives to ensure the tankers have as many options as possible amid rising uncertainty about LNG's longevity.

LNG has long been touted as a transitional fuel as the shipping industry strives to meet decarbonisation goals, including a 40% reduction in emissions by 2030.

But as newbuilding orders for LNG-fuelled ships at Asian shipyards begin to outpace those of conventionally fuelled vessels for the first time, climate change goals this week highlighted by Europe and the US underscore the fossil fuel's long-term unsuitability.

Some of the most powerful voices in shipping are among the most heavily invested in LNG as a marine fuel including Shell, Idan Ofer's Eastern Pacific, container line CMA CGM, and Chinese leasing bank BoComm Financial Leasing.

Grahaeme Henderson, who runs the shipping subsidiary of Royal Dutch Shell, says LNG is the lowest-emission marine fuel available at scale and that over time, zero-carbon hydrogen is likely to be the dominant future fuel.

Shell is the most exposed to LNG, with at least 36 newbuilding tankers worth around $2.3bn on order to which the oil giant has agreed long-term charters with their shipowners, Lloyd's List research shows.

"The fastest pathway to net-zero, with the lowest total emissions, is the accelerated adoption of LNG, combined with widespread use of energy efficient technologies, while developing fuel cells ready to transition directly to zero emission fuels in the future," Mr Henderson told the Singapore Maritime Technology Conference this week.

Shell aims to have more than half of its chartered fleet running on LNG by 2023.

The Euronav orders and Mr Henderson's supportive LNG speech came as separate reports on decarbonising shipping released this week questioned the role of LNG and examined the absence of any defined pathway for shipping to reach climate change goals.

Carbon-free fuels such as hydrogen and ammonia are touted as the most likely, viable future fuels but are yet to be commercially available and cannot be produced at scale. As a result, battery-powered options for shortsea shipping are also gaining momentum.

Trillions of dollars of investment to build ships, provide renewable power generation to produce green hydrogen or ammonia and supply bunkering infrastructure, is needed to make the switch.

Class society ABS released a report showing climate change threatened some 43% of the 10bn tonnes of volumes shipped annually.

The View of the Value Chain report said LNG could reduce so-called tank-to-wake emissions (from the ship's fuel tank to exhaust) by 20%, but its related methane emissions "make LNG fuel a transition fuel but not a long-term solution".

Another report, by engine manufacturer MAN Energy Solutions, said a 2035 ban on using fossil fuels in shipping would achieve current decarbonisation and climate change targets.

The provider of ship engines for ammonia and LNG said that LNG was "not a blind alley investment" as engines can be retrofitted to run on carbon-free fuels.

Earlier this week, a World Bank report challenged the role of LNG even as a transition fuel, urging against public funding of needed bunkering infrastructure. It said LNG allowed for a theoretical cut in greenhouse gas emission but it was unclear whether it performed better than conventional fuel oils over the longer term.

Euronav, like most other shipowners, has recently entered the LNG-fuelled sector, and only because the financial risk can be managed by securing the backing of long-term charters from oil majors.

Earlier this year, the tanker owner bought two LNG or ammonia-ready suezmax tankers now under construction at Daehan shipyard for January 2022 delivery, at $54m each.

At least 44 containerships, 25 bulk carriers, 60 crude tankers and 31 product tankers that will have LNG fuel capability are on order, according to class society DNV's Alternative Fuel Insight report.

Carriers warned to avoid 'ego-driven mass ordering'

CONTAINER shipping carriers should be careful not to ruin hard-earned healthy fundamentals amid surging newbuilding orders, a leading industry analyst has warned.

After a lengthy downcycle and painful restructuring, carriers have been basking in a robust and rosy freight market since mid-2020, helped by a pandemic-led boost in cargo demand.

But they could “mess it up if they go back to ego-driven massive ordering and alpha-male type of fights for market share”, Drewry managing director Tim Power told a Sea Asia session during Singapore Maritime Week.

The concern is not groundless. More than 2m teu of capacity was ordered between October 2020 and March 2021, Alphaliner’s data showed. Accordingly, the sector’s orderbook-to-fleet ratio has ramped up to nearly 17% as of April 1 compared to less than 9% six months ago.

While the proportion remains well below previous peaks, which later led to severe market slumps, more deals are reportedly bubbling under the surface.

The largest of them is from Cosco Shipping. Sources close to the company said the ordering plan comprises up to 26 ships, including 10 15,000 teu units plus an option for 10 more, and six 13,000 teu vessels.

These orders, if finalised, will help the state giant to defend its position as the third largest liner shipping carrier, which is being threatened by CMA CGM’s swelling orderbook.

Cosco Shipping chairman Xu Lirong suggested in a recent investor meeting that the company would continue to expand its scale.

Mr Power, however, also noted the competition between the top two carriers, with the reported massive newbuilding spree from the runner-up Mediterranean Shipping Co.

Broker and analyst reports have linked MSC with orders for 35 ships, or 600,000 teu, over the past a few months, although the Geneva-based company has not responded to the claims.

The fresh tonnage, once delivered, will help it surpass the current top dog Maersk in terms of fleet size.

Maersk has not fought back as it would have done in the past when MSC launched such an ordering race, possibly owing to the Danish’ giant’s shift of focus on becoming an integrated logistics player, according to Mr Power, who added, “let’s see how long that lasts”.

The short-term prospects remain upbeat, he said. Carriers are expected to collectively profit by $35bn this year, while 2022 will be a “relatively strong” year.

But the picture becomes less clear from 2023 onwards, when most of the current orderbook will be delivered.

Mr Power said that after the latest consolidation, the three alliances have been adept at managing capacity through the crisis, and the market fundamentals have finally come back.

“There is an opportunity for this industry to be sustainably profitable for evermore,” he said. “But it can still be blown… if another million teu is stuck on the orderbook.”

ANALYSIS:

Capesize surge lifts BDI beyond decade highs

A SPURT in the capesize segment helped push the Baltic Dry Index to the highest level in more than a decade.

While the other segments such as panamaxes and supramaxes were hitting decade highs, capesizes trailed, but a recent pull in the iron ore market with strong flows particularly from Brazil has aided the largest-sized bulk carrier.

The average weighted capesize time charter on the Baltic Exchange closed on April 22 at $33,808 per day, a 21% rise from a week ago, and a 70% surge from the start of the month. That is the highest level since September 2019.

“Persistently strong raw material import demand in China is being accompanied by an emerging post-Covid demand recovery elsewhere,” said Maritime Strategies International.

Chinese stimulus aimed at the construction sector has remained “remarkably strong” this year, and the capesize rally is gaining momentum on improved steel margins for Chinese producers, the London-based consultancy’s senior analyst Alex Stuart-Grumbar said.

In addition, fleet inefficiencies related to loading delays and congestion amid trade disputes continue to underpin the “robust market conditions across vessel segments", he said, noting how there has been a strong re-emergence of Indian iron ore exports and rising steel imports into the US and Europe on the smaller-sized bulkers.

Moreover, strong grain and soyabeans demand from China is absorbing a substantial amount of panamax tonnage, he added.

The Baltic Dry Index closed at 2,750 points on April 22, the highest level since October 27, 2010, driven by the gains in the capesize segment, which holds a greater weighting in the calculation of the benchmark.

The average weighted supramax time charter settled at $22,411 per day on Thursday, up 3% on the previous day, and 11% higher than April 1, while the panamax average was at $24,176 per day, a slight tapering off from the $24,206 assessment on Wednesday, but is still 42% higher than on April 13.

Both segments also contribute to the BDI assessment.

BIMCO's chief shipping analyst Peter Sand said that everything in the dry bulk market was working in tandem right now to lead to the overall strength.

"This is still the strength in China, flexing its stimulus muscles, which is benefiting the market," he said, warning that the market was getting over-excited, though it should bear in mind the "lost decade" where earnings barely covered operating costs.

EastGate Shipping of Athens said that iron ore prices had hit a 10-year high, reaching $180 per tonne, which indicated how strong demand was as China's steel inventories were sliding, falling 20% to 17.9m tonnes in mid-April versus a month earlier.

The shipbroker added that sentiment remained positive in the short-to-medium term based on robust demand, the need for stock building, and a decade-low vessel supply, which was reflected in the forward curve.

"Environmental challenges, energy efficiency standards and their technological requirements, as well as forecasts for improved fleet utilisation rate over the next couple of years, all paint a positive picture for dry bulk shipping players to finally capitalise on a long-awaited market turnaround," it said.

MARKETS:

Tanker market fundamentals remain weak

THE underlying fundamentals in tanker market remain weak as high stocks and a sluggish recovery in oil demand reduces seaborne oil import requirements, according to Maritime Strategies International.

Earnings for the segment are near to the lowest levels seen in a decade because of a surplus of tankers as the global pandemic stifled oil demand and cut exports amid high levels of refinery maintenance.

Although tanker owners and operators will be keeping a close eye on demand during the next few quarters as vaccination programmes bring some hope, the pace of any trade recovery is likely to remain slow amid new waves of coronavirus infections, said MSI's Asia director David Jordan.

The recovery from the coronavirus pandemic remains disparate by region, he told a recent Baltic freight and commodity forum.

"Infection and vaccination rates vary and while we see positive news in areas such as the US in terms of high vaccination rates, elsewhere, recently in India for example, the virus has been spreading rapidly," Mr Jordan said.

Recovery in the near term will also be hampered by the reduction in extraordinary factors influencing fleet availability, such as floating storage demand seen last year, he added.

He expects trade volume to grow modestly by 2.5% to 3% this year.

"It's not going to be in 2022 that the recovery starts to materialise. Beyond this, fleet dynamics become positively constructive for the market as scrapping activity continues at high levels and new deliveries remain limited."

Mr Jordan is forecasting global crude demand to rise by 5.3% in 2021, following a contraction of 9% last year. "This is a year of recovery for oil demand," he said.

Spot earnings benefit from the increased demand, with MSI projecting quarterly benchmark very large crude carrier spot time charter earnings rising sharply over the remainder of the year and exceeding $40,000 a day by the fourth quarter of this year.

For suezmaxes, one-year time charter rates are forecast to average $17,300 a day across the next three quarters while spot earnings will rise, albeit from low levels.

IN OTHER NEWS:

Vale ordered to suspend operations at its Guaiba terminal in Brazil

VALE, Brazil's largest miner, has been ordered by local government to temporarily stop shipping services from its Guaiba iron ore terminal near Rio de Janeiro in Brazil.

The terminal was forced to shut on potential environmental and permitting issues, according to media reports citing local authorities.

Vale has "the required licenses for the regular operation of the terminal, issued by the competent authorities," it said in a statement.

Shipowners' Club stays in red despite improved performance

SHIPOWNERS' Club, the small craft P&I insurer, remains in the red despite reducing its underwriting deficit and its combined ratio for 2020, according to its annual report.

Describing last year as "very challenging", chairman Philip Orme argued that the marine mutual had risen to the challenge and delivered on promises of both support and financial stability.

The International Group affiliate's deficit fell from $10.3m in 2019 to $2m, while the CR came down from 105% to 101% in the same period. There were more entered members, at 8,182 as opposed to 7,886.

DP World reports strong volume recovery

TERMINAL operator DP World has begun to claw back the volumes lost last year during the pandemic and expects the trading environment to remain strong in the near term.

The company handled 18.9m teu across its portfolio during the first quarter of this year up 10.2% on a reported basis and 9.6% on a like for like basis from the corresponding quarter last year.

"We are delighted with the strong start to 2021 with our portfolio delivering 10.2% volume growth in first quarter of 2021, which is once-again ahead of industry estimated growth of 8.9%," said chief executive Sultan Ahmed bin Sulayem. "This performance is ahead of expectations and illustrates the resilience of the global container industry."

UK lawmakers question trade benefits of freeports plan

BRITISH lawmakers are seeking a government review of plans for eight new freeports in England, with freight forwarders saying they will add little benefit.

Parliament's International Trade Committee published a report this week in which it called on the Treasury to properly evaluate the new freeports' economic impact, and for the government to conduct an independent evaluation within five years of their establishment.

The freeports, announced in March, would be given tax breaks, a simpler planning process and better transport links to spur business and create jobs. They are treated as effectively outside the UK for customs purposes, with no duty payable until goods enter the domestic market.

Dynagas agrees new two-year Norwegian deal for LNG carrier

DYNAGAS LNG Partners, the Greece-based liquefied natural gas carrier owner, has plugged the sole fleet employment gap on its horizon by entering a new two-year charter for the 155,000 cu m *Arctic Aurora*.

The ice-class vessel will continue with Norway-based Equinor, which has chartered the vessel since its delivery in 2013.

The new charter is expected to start in September in direct continuation of the existing three-year employment that was agreed in late 2017 just before Statoil's name was changed to Equinor.

Brave Maritime triples LPG order at Hyundai Mipo

BRAVE Maritime, the diversified shipping company headed by Nicholas Vafias, has exercised options for two 40,000 cu m liquefied petroleum gas carriers to be built by Hyundai Mipo Dockyard.

The move triples the Greek owner's orderbook at the South Korean yard and boosts the investment in the sector to about $140m.

Brave's three LPG carriers are all scheduled for delivery in 2023 and are costing about $47m apiece, it was confirmed.

Wärtsilä looks to green R&D as pandemic hits sales

FINNISH technology group Wärtsilä is pursuing a spate of decarbonisation research and development projects with shipowners are still divided on the right way forward.

The scrubber maker's projects include carbon capture, hydrogen and ammonia power, LNG and methanol, as well as digital training, saying it expects the green transition to help its business in the longer term despite the pandemic hitting sales in the first quarter of the year.

While a clear pathway to decarbonisation was yet to emerge, shipowners were increasingly firm in whichever technology they believed in.

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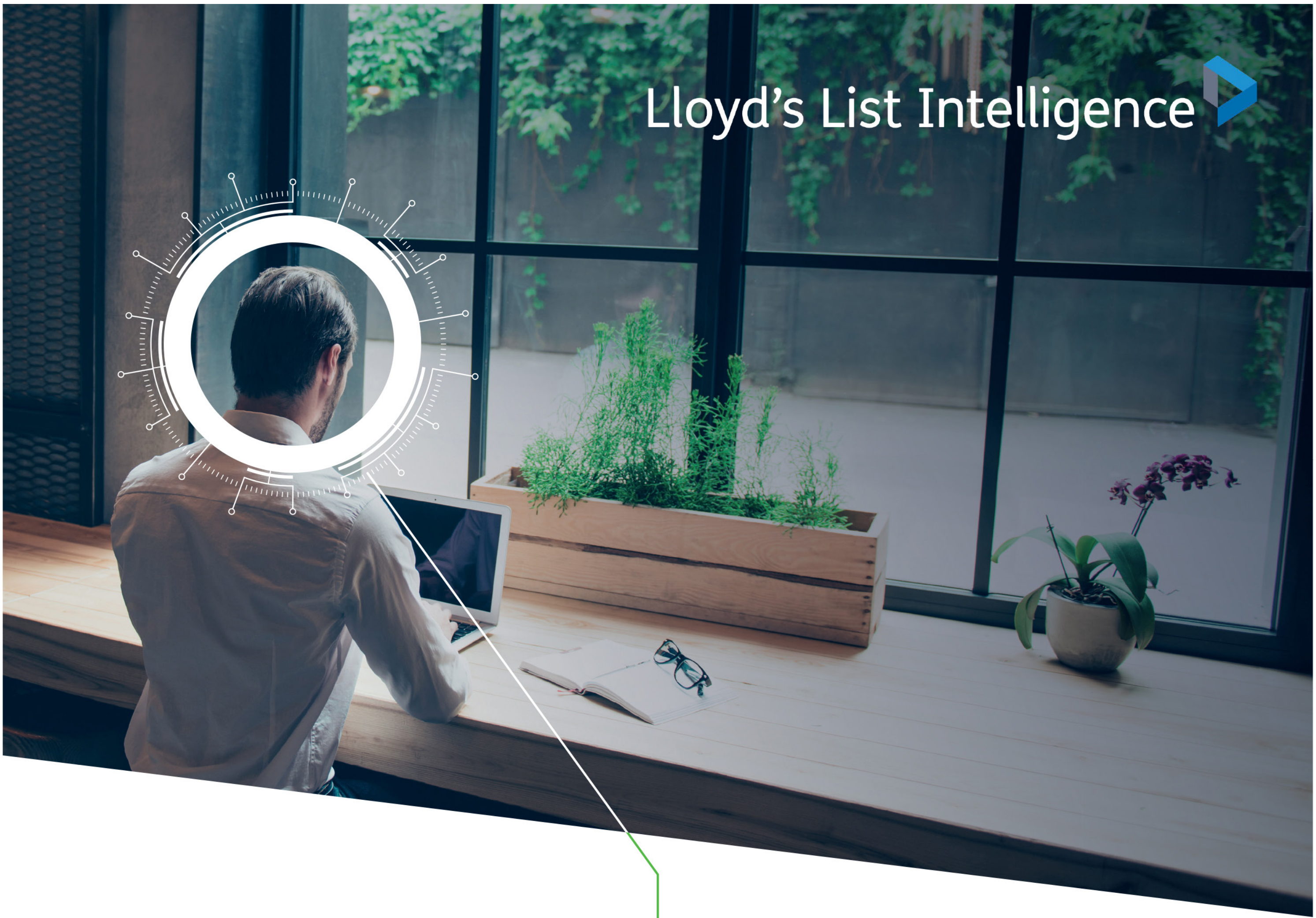

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