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## Over 200 tankers could flood tanker market if Iran sanctions lifted



ANY LIFTING OF US sanctions on Iran's oil and shipping sector would release as many as 218 tankers totalling 37.8m dwt into regular trading over a three-month period, analysis by Lloyd's List shows.

These volumes amount to around 7.5% of the global fleet of tankers now trading above 40,000 dwt, data show, and include not only Iranian government-owned ships, but those currently deployed in subterfuge trading.

The numbers, which include 81 very large crude carriers, weigh on any nascent recovery in spot rates for tankers, already averaging the lowest in a decade this year on stalling oil demand.

Removal of the sanctions, fully reimposed in early 2019, would allow Iranian crude exports to officially resume and remains one of the largest wildcards facing tanker owners.

European-led talks to restore a 2015 nuclear accord and lift US international restrictions on Iran have been underway in Vienna for a fortnight.

US State Department officials signalled last week that negotiators have shared with officials which sanctions they are prepared to lift if Iran curtails its nuclear programme, with the removal of shipping and oil restrictions on the table.

Iran's National Iranian Tanker Co fleet of 53 ships of 11.7m dwt includes 38 VLCCs which are now mostly used for floating storage off Iran's coast or vessels are at anchor off Malaysia engaged in ship-to-ship transfers.

An additional 164 tankers are currently deployed in sanctions-skirting subterfuge trading, shipping crude and products without penalty to China, Syria and Venezuela, according to data compiled by Lloyd's List, using Lloyd's List Intelligence data.

April crude shipments to China from Iran are estimated at between 1.1m bpd and 1.3m bpd, the highest monthly figure in more than two years, vessel-tracking data show.

The exports appear to be buoyed by the Biden administration's more pacific overtures.

These shipments are taking place on a largely unregulated, elderly fleet of tankers purchased by anonymous buyers over the past 12 to 18 months for the sole purpose of deployment in sanctions-busting trades.

Before sanctions were reimposed, crude exports from Iran regularly exceeded 2.7m bpd in 2017, Lloyd's List Intelligence data show.

Tankers currently used for subterfuge trading account for 9.5 percent of the live VLCC fleet, 4.6% of all suezmaxes, 5.5% of aframax or long range two tonnage and 3.5% of panamax and medium range-sized tankers, data compiled by Lloyd's List show.

They are involved in a complex logistics chain established and fine-tuned over the last two years that rely on a shuttle service of tankers that sail to and from anchorages off Fujairah, Oman, Malaysia, and Indonesia for ship-to-ship transfers and onward voyage to China.

Vessel-tracking transponders are switched off, and false bills of lading, flag-hopping, and frequent name changes and ownership structures are also used to disguise origin and destination.

Fake or false flag registration and fraudulent P&I club representations are also hallmarks of the fleet.

Some 41% are flagged in Iran, and 20% in Panama, the world's largest registry, but at least another 19 countries are registering ships, including little

known entities for Djibouti, Samoa, Togo, Gabon, Cameroon and Cook Islands.

The prospect that Trump-era sanctions could be lifted by the Biden administration would potentially release all this Iranian-owned and subterfuge tonnage into an already oversupplied market.

Crude and product tanker spot rates remain below daily operating costs for the major of clean and dirty routes, according to assessments by the London-based Baltic Exchange.

Fragile oil demand growth, refinery maintenance, inventory drawdowns and oil production curbs in the Middle East Gulf alongside a third wave of coronavirus outbreaks in Brazil, Europe and India has cut shipments.

First quarter crude and product exports from the Middle East Gulf were down 9 percent year-on-year, according to Lloyd's List Intelligence data.

Owners are hoping for a second-half rally as vaccine rollouts in the US, alongside strong economic growth in China – the two biggest oil consumers – lift immigration and quarantine restrictions and restore demand for transport fuels that account for 60% of demand.

If and when US sanctions are lifted on Iran's crude and shipping sector, it will take several months for crude held in floating storage to be sold and shipped, before exports fully resume.

Whether the elderly tonnage continues trading will determine whether the supply of tankers will overwhelm any demand lift. The average age of the tankers is 1999, typically scrapping age.

High demand for older tankers for subterfuge trading has helped limit scrapping last year, which was at a 26-year low in 2020, as buyers snapped up cheap tonnage for these trades.

As well as the NITC ships, there are a further 16 Iranian-flagged tankers including the infamous VLCC *Grace I*, now the *Arman 114* (IMO 9116412) briefly seized by Gibraltar in late 2019.

## WHAT TO WATCH:

# Yard Talk | Should a green ship be produced by a green yard?

IF EMISSIONS of a clean fuel need to be assessed on a well-to-wheel basis, perhaps it is also important to tell whether a carbon-free vessel is built by a grey, blue or green shipyard, *writes Cichen Shen*.

Wearing a more environmentally friendly colour may well become one of the core competences for builders, while some players seem to have already seen that trend coming.

South Korean majors Hyundai Heavy Industries and Samsung Heavy Industries, alongside four smaller domestic rivals, recently joined a committee that aims to reach carbon neutrality by 2050. They said the plans included the use of more renewable fuels and tailor-made energy monitoring systems to reduce shipbuilding emissions.

There are greenhouse gases released directly from yard operations.

Steel cutting, for example, involves the use of natural gas and propane among other combustible gases. Testing ship engines and certain equipment would also consume fossil fuels at the berth.

These might be a drop in the bucket compared with what the power plants or steel mills emit. However, it is a different story when the consumption of electricity is taken into the equation.

The South Korean yards said the country's shipbuilding sector discharged about 2.1m tonnes of greenhouse gases into the atmosphere in 2017, of which 60% were contributed by the consumption of electrical power.

Their carbon-neutral pledge is probably posing an inevitable challenge to Chinese builders, their biggest competitors.

After all, China is home to the world's largest coal-fired power plants. Last year, nearly 57% of the

energy consumed by the country came from burning coals, according to government statistics.

A major domestic shipyard needs about 200m KWh of electricity to operate every year, estimated by an industry expert. That is equivalent to more than 100 large shopping malls.

Such type of "indirect emissions" needs to be factored in when measuring factories' environmental impact should China want to hit its target to peak greenhouse gas emissions by 2030 and reach carbon neutral by 2060, a transport ministry researcher Peng Chuansheng recently told local media.

That means Chinese manufacturing, including the shipyards, will be burdened with higher technical requirements and financial costs.

But they will have no choice in a bid to stay competitive in a future of green shipping

Some of them, including Jiangnan Shipyard and Cosco Heavy Industries, have already been included on a list of companies subject to carbon emission quotas issued by the Shanghai municipal government. Those exceeding the limits should pay.

The system is designed to serve the city's carbon exchange and pave the way for a nationwide carbon trading scheme to be established this year.

A recent survey by China Carbon Forum, a Beijing-based non-governmental organisation, estimated that carbon price per tonne in the country will rise from Yuan49 (\$7.6) last year to Yuan71 in 2025 and to Yuan93 in 2030. It will ramp up to Yuan167 in 2050.

The hope is that the Chinese shipyards will not have to foot such expensive bills in the coming decades. It would be best if they could even earn some rewards from that market.

## ANALYSIS:

# Demand boom drives box spot rates to new highs

CONTAINER spot freight rates continued their northerly ascent over the past week, with sustained strong demand and capacity constraints pushing prices up to more index highs.

The Shanghai Containerised Freight Index, weighted on 13 deepsea routes originating from the world's largest port, Shanghai, nudged up by a further 5.2% to 2,980 points. This represents the SCFI's highest level since its weekly calculations began in 2009, while more than double its year-ago value.

In short, the return to so-called 'trade normalisation' is taking much longer than anticipated.

Supply chain bottlenecks, equipment shortages and limited ship capacity, a constant feature since the backend of last year, have only intensified in recent weeks due to the Suez Canal blockage, particularly in Europe and the Mediterranean.

Indeed, the projections of disruption once *Ever Given* was cleared from the Egyptian waterway proved to be correct, further tightening the relationship between supply and demand.

With slot space on Far East-Europe services at a premium and ships sailing at full capacity, spot rates climbed to yet new record highs on the SCFI's China-Mediterranean route, rising 4.9% to \$4,446 per teu. Similarly, the China-North Europe SCFI spot rate jumped 3.5% to \$4,325, approaching its own historic high set earlier in 2021. In both instances, spot rates are up more than fourfold on the comparative week of 2020.

However, the highest rates on the market can currently be seen on the West African and South America trades, where prices have soared as carriers have prioritised equipment repositioning on the major east-west routes.

With capacity extremely tight, spot rates on these so-called 'thinner trade routes' have gone through the roof.

The SCFI has latest spot booking prices as high as \$6,412 per teu on services from China to South America, and an eye-watering \$7,304 per 20 ft unit for China-West Africa shipments.

Meanwhile in the US, where the demand surge began and spread wider market chaos, the strength of cargo business across quays reflects "the greatest re-stocking cycle on US record", said New York investment bank Jefferies, noting the 68% increase in container imports in March.

While US volume increases can be attributed largely to the initial cargo slump at the hands of the initial coronavirus outbreak and the traditional post-Chinese New Year slump, stacked up against 2019 figures the level of growth is telling.

In an analysis, Danish-based consultants SeaIntelligence highlighted how laden imports in the first quarter of 2021 to the North America west coast were up 20.4% on the corresponding three-month period in 2019.

"Should the demand boom continue, we will see a similar development in the second quarter of 2021 as well, as demand only really picked up in the second quarter of 2020," it said.

The SCFI's movement in recent weeks suggest demand is still showing no let-up.

Spot rates from China to the US west coast climbed to another historic high this week to \$4,967 per loaded 40 ft box, up 12.1% on its week ago price. China-US east coast rates climbed to their own high of \$5,687 per feu on the SCFI off the back of a 4.3% rise.

There could be further highs in the coming weeks if analyst forecasts come good.

London-based Maritime Strategies International is one of a host anticipating transpacific rates to show continued resilience in the months ahead.

"Cargo demand will remain elevated as US consumers draw on federal stimulus payment and retailers continue to replenish depleted inventories," it said.

"While there is little clarity on when the supply-side tightness will unwind, our expectations remain that rate relief will not come any time before the third quarter".

That said, MSI, and others, are equally optimistic for other trades, as coronavirus vaccination programmes gather pace and businesses reopen, alongside the inventory restocks.

“We expect performances across most if not all trade lanes to continue improving,” said MSI, which

forecasts 2021 demand to grow nearly 7% over last year.

The caveat, however, is how well durable goods consumption will fair once services sector spending improves when economies come out of Covid lockdowns.

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## MARKETS:

# Suez disruption to last through to end of May

SHIPPERS are braced for disruption from last month’s Suez Canal blockage as ships held up by the closure fight for berth space at destination ports in both Europe and Asia.

In Europe, Rotterdam is expected to come under the most pressure, according to a report by logistics risk analysts Everstream.

“Ocean carriers are considering a strategy that involves offloading cargo at major hub ports, skipping subsequent port calls, and turning ships around early to return to Asian ports,” Everstream said.

“This allows the container lines to move faster to reposition empty containers which have been held at European ports for longer than usual due to the Ever Given’s grounding and are therefore unavailable in Asia, thus benefitting from spot rates which are almost four times higher on the fronthaul from China to Europe than on the backhaul.”

Should this congestion get worse, carriers could opt to unload at nearby ports such as Antwerp, Felixstowe or Le Havre, but this would cause knock-on congestion due to ad-hoc vessel arrivals and would leave cargo at the wrong ports, leading to further delays.

“Although contingency measures, such as emptying yards to make space for new containers, have helped terminal operators to keep operations running, berth line-ups of vessels have started to become congested and are expected to remain so until the end of April as more vessels continue to call at the port.”

In Asia, Singapore is expected to receive the largest number of vessels on backhaul calls. Ships are already waiting an average of 51 hours before discharging.

“Should congestion issues worsen in Singapore, carriers could opt to discharge cargo at alternative hubs nearby, increasing the risk of congestion at Port Klang or Tanjung Pelepas,” said Everstream.

But Tanjung Pelepas was already been facing average berthing delays of more than two days, it added.

Besides the increased risk of delays for import cargo into Europe and Asia, the Suez Canal closure is also having an impact on the availability of container equipment at export hubs in China and Korea, which will likely decline from mid-April into May.

This in turn could lead to another spot rate increase on trans-Pacific and Asia-North Europe lanes.

But by avoiding the worst hit terminals, container lines had been able to turn ships around faster than anticipated, and schedule recovery would likely be sooner than expected.

“Capacity and equipment issues on the Asia-Europe trade route caused by the Suez Canal blockage should decrease by the end of May,” the analyst said.

Separately, a group of maritime academics and analysts has called for greater visibility at maritime chokepoints such as the Suez Canal in order to better manage future events of this nature.

“The day after the canal re-opened, actors in the maritime supply chains could not estimate when a particular ship waiting in line would be able to pass through,” the report said. “The same concern was raised with respect to ships heading towards the canal.

“This uncertainty highlighted the need for better tools for stakeholders to be aware of the actual situation and forecast the flow of ships through capacity-constrained chokepoints. Such visibility

and forecasting tools would provide a much higher level of certainty as the basis for better planning.”

Being able to estimate the transit capacity of the canal and the likely number of vessels waiting would enable the calculation of an optimal arrival time at an entrance and hence the optimal speed for a ship heading towards the canal, it added.

“Combined with data on normal ship arrival patterns at the canal this could provide the basis

## Costamare buys out York Capital's 60% stake in five boxships

COSTAMARE has taken over full ownership of five 11,010 teu vessels previously co-owned with joint venture partner York Capital Management.

They were initially ordered in 2013 and 2015 under the flexible framework of the joint venture, with the New York-based alternative investment firm holding the majority stake.

The containership owner said that its acquisition of York Capital's 60% equity interest in the vessels has been funded with cash at hand and debt from “leading European and US financial institutions”.

The new loans are of lengthy duration with tenors of up to 10 years, a relative rarity for bank financing of secondhand deals in today's market.

Four of the vessels are employed with Zim Integrated Shipping Services on charters expiring this year and then will begin charters with Mediterranean Shipping Company lasting until 2031.

Those vessels are the 2016-built *Cape Akritas* (IMO: 9706190) and the 2017-built trio *Cape Tainaro* (IMO: 9706205), *Cape Kortia* (IMO: 9727613) and *Cape Sounio* (IMO: 9727625).

for predicting when an approaching ship will be able to make a transit. This information and action upon it could lead to fewer queues and congestion and possibly to significant savings in fuel and emissions.”

The report also suggests creating a “virtual arrival and transit ticket” that would be given to a ship while still en route that would allow the development of a slot-based model for transits or port arrivals, rather than a first come, first served queuing model.

The fifth vessel, the 2017-built *Cape Artemisio* (IMO: 9777175) is on charter to Hapag-Lloyd until 2025.

New York Stock Exchange-listed Costamare said that the transaction added about \$335m to its contracted revenues and underlined its “excellent relationship” with York Capital.

“The deal provides a successful exit path in this investment for our partner,” said chief financial officer Gregory Zikos.

“At the same time, the joint venture continues to own another five vessels and our relationship is ongoing,” he said.

The move closely resembles a deal in late 2018 that saw Costamare buy out York Capital's 60% stake in five 14,424 teu vessels.

Those vessels remain 100% owned by Costamare and are on charter to Evergreen until 2026.

The Greece-based owner also disclosed that it has increased its fleet to 78 containerships, including one remaining newbuilding from a series of five 12,690 teu vessels ordered at Jiangsu Yangzijiang Shipbuilding for charter to Yang Ming Marine Transport.

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### IN OTHER NEWS:

#### **Class societies join flag states to plot shipping's green path**

A NEW group of class societies and flag states has been launched to help the shipping industry to decarbonise.

The Maritime Technologies Forum includes authorities from the UK, Japan and Norway and class societies Lloyd's Register, ABS, DNV and ClassNK.

It will work on technical and regulatory guidance and publish findings to keep the industry up to date on progress in energy efficiency, alternative fuels and autonomous shipping.

### **Green group says Europe's financing rules for shipping should go further**

THE European Union definition of what constitutes a green ship has disappointed one of the bloc's most influential environmental groups.

Transport & Environment, a Brussels-based non-governmental organisation, has criticised the technical requirements in the European Commission's so-called Taxonomy for sustainable finance.

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.

### **Seafarer happiness survey shows coronavirus impact lingers**

WHILE overall happiness rose slightly among seafarers, concerns about the impact of coronavirus on crew changes remain, according to the quarterly index published by the Mission to Seafarers.

The Seafarer Happiness Index rose to 6.46/10 in the first quarter of the year from 6.37 in the previous three months, the welfare charity said in its latest report, which was co-sponsored by maritime solutions company Wallem Group and marine insurer the Standard Club.

As a comparison, the index fell to below 6.2 in the second quarter of 2020.

### **OOCL extends robust performance in first quarter**

ORIENT Overseas Container Line, a unit of state conglomerate Cosco Shipping, saw revenue and cargo volume remain bullish in the first quarter of the year.

The results come after an extremely strong fourth quarter of last year amid a pandemic-led boom in freight markets.

Revenue soared 96% year on year to more than \$3bn in the three months to March 31, while liftings jumped 23.8% to nearly 2m teu, according to a stock filing.

### **Philippines clears LNG project on Luzon island**

THE Philippines has approved another liquefied natural gas project for the country's most populated island, Luzon.

The Department of Energy said it has given Vires Energy a notice to proceed with a leased floating storage regasification unit, which will further bolster the Philippines' ambition to develop into an LNG hub for the Southeast Asian region.

Vires Energy, a unit of gold mining and real estate group A Brown Company, has proposed to deploy a leased floating regasification storage unit from BW Group in the Batangas Bay.

### **K+N reports strong start to unpredictable year**

KUEHNE + Nagel expects another "challenging and unpredictable" year ahead, despite announcing a strong start to the year.

"The emergence of the pandemic last year triggered a high degree of uncertainty which persists to this day," chief executive Detlef Trefzger said in a call following the release of its first quarter of the year results.

"This is another year that is impacted by the pandemic and uncertainty will persist. We see signs economic activity and trade volumes rebounding. There are signs of macro-economic recovery, especially in Asia, North America and Europe and there is a clear link between the share of vaccinations and the economic rebound."

### **Fire and explosion on tanker carrying Iranian oil**

A FIRE and explosion reported on a tanker carrying Iranian oil to Syria is believed to have been the cause of an accident.

The incident on the Lebanese-owned, Panama-flagged, 1999-built, 45,908 dwt *Wisdom* (IMO: 9182069) took place off the Syrian port of Baniyas, in the eastern Mediterranean, on April 24. The fire was put out the next day.

Syria's state news agency initially reported the incident as a drone strike coming from Lebanese waters. But Syrian, Iranian and Russian reports later called it an accident; unsafe welding or an electrical short-circuit were floated as possible causes.

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## **Classified notices follow**



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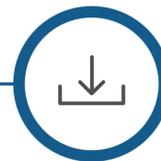
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