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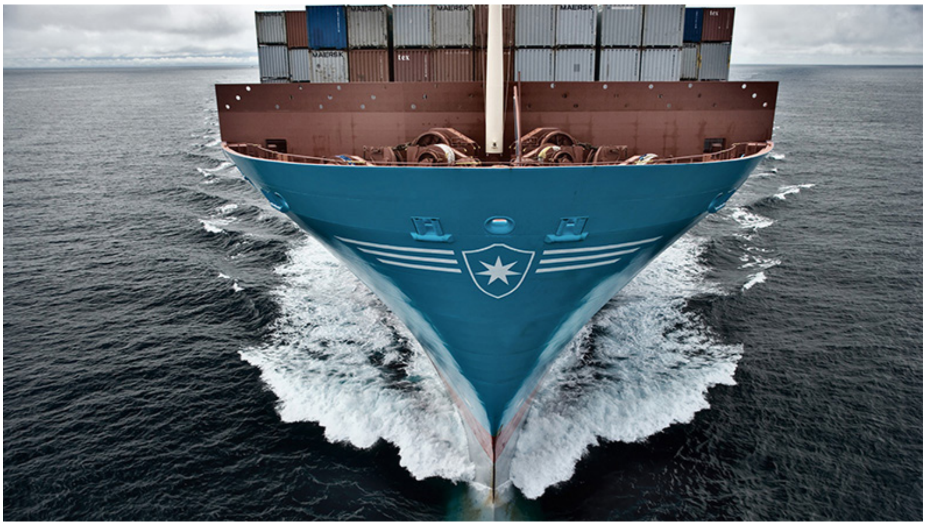
Maersk seeks a sustainable box shipping model



MAERSK IS GOING through a "significant transformation" in its Ocean business, even as it puts its main focus on its fast-growing logistics and services division.

"The core of it is trying to shift from being centred around the ship to around the customers," said Johan Sigsgaard, the company's global head of ocean product.

"This has implications throughout the business. We need to have a more resilient Ocean business to support the integrator strategy ambitions we have."

That will continue to form the basis on which Maersk can build its "growth engine" in Logistics, according to chief financial officer Patrick Jany.

"We don't just sell the shipment of a box from A to B, but integrate this into the supply chain of our customers," he said. "It is an easy proposition for our customers at a time when the supply chain is unreliable and expensive.

"It is a unique value proposition and you do not have many companies in the industry able to do that."

But Maersk is keen to move away from the cyclical nature of container shipping that has historically swung through booms and busts as optimism leads to overcapacity, battles for market share and poor returns.

With its emphasis now on the Logistics products it can cross sell to its Ocean customers, Maersk is no longer focusing on growing its share of the Ocean market.

It forecasts its Ocean growth at just 1%-2% per year, compared with the 3%-4% expected in the wider market.

"The one part we need to grow is logistics and we only need to maintain our size in Ocean," said Mr Jany. "The real value add is the integration of both. So, capex will focus more on the logistics side, but ultimately we see the value add and the stability of earnings coming from the integration.

"Our investment will go into combining both together."

While there would be investment in fleet renewal and decarbonisation on the Ocean side, Maersk already had what it needed in terms of capacity.

"We are good at shipping and will remain good at shipping, but it doesn't matter how many ships and what capacity you have," Mr Jany said. "What is important is how you use them and how you use your network.

"We can be more efficient and more reliable through improving our network, and on that build the logistics market. It means we focus on what is important to us and do not just move along with the market."

The priority is now to link Ocean and Logistics.

"We want to grow with the customers we have and have more on contract and less on the spot side," he said. "That gives us more regular earnings through more intimate relationships with those customers. That means we do not need to grow with the market."

Effectively, Maersk hopes that by focusing on its customers' logistics needs, there will be a benefit to the Ocean business from securing those volumes in a more stable, reliable fashion.

Through introducing more products that offer two-way commitments on volumes, such as Maersk Spot for lower volume customers, through to its 4PL style services for its largest customers, the company hopes to get the visibility on demand that is required to offer more reliable services.

"In the past, we had one product, and therefore only a price conversation with customers," said Mr Sigsgaard. "We have found that our customers have two key needs: Access to space and time sensitivity.

"This has implications throughout the business. We need to have a more resilient Ocean business to support the integrator strategy ambitions we have."

From the financial perspective, shifting Ocean from a cyclical, commoditised business to one with 6% margins was "fantastic," according to Mr Jany. The challenge will be to continue that under what Maersk refers to as "normalised conditions."

"The level of performance we are getting today is from the exceptional circumstances in the market," he said. "We expect those to abate in the second half of 2021 and tail off into 2022. We expect a normalisation to occur with volumes and congestion at terminals, and on the freight rates."

But rates will remain at a level higher than those evident before the current situation emerged, he added.

"Circumstances have changed. We expect a more stable price than in the past. The tight situation now is not as it should be, but we believe we can settle at a level higher than where we were before when we had huge volatility."

WHAT TO WATCH:

Capesize market slips as charterers take a breath

THE volatile capesize market has fallen 12% this week as miners and charterers paused for breath following a rally to more than $44,000 per day.

The average weighted time charter slid to $37,724 per day at Thursday's close on the Baltic Exchange from $42,370 at the start of the week.

The rally up to almost $45,000 on May 5, the highest for the assessment that began in 2014 encompassing five key trading routes on a 180,000 dwt vessel, had been interrupted by concerns that souring relations between China and Australia after trade talks failed could impact iron ore supplies. Following a rates retreat, the market edged up, before the latest fall.

"The market has been extremely volatile, with big movements," Fearnleys shipbroking said in a note. "On the whole, we see a change in sentiment from the super-positive to a (maybe) expected correction and breather for the miners and charterers."

Arrow Shipbroking's head of research Burak Cetinok said a rising number of Atlantic ballasters and slightly lower volumes from Western Australia over the past week may have contributed to the softening in rates.

"I believe the heavy sell off in the forward freight agreements market over the past few days caused sentiment to turn rather skittish," he said, adding that a bit of a pause was inevitable after such a strong run. "Fundamentally, the picture still looks strong."

The World Steel Association recently published its short-term outlook, forecasting demand growth of 5.8% this year and 2.7% in 2022.

China is expected to see growth of 3% this year and 1% in 2022, while advanced economies should see steel production rising by 8.2% and 4.2%, respectively. For the rest of the world, gains in the region of 10.2% and 5.2% over the next years could be on the cards, bar any further waves of coronavirus.

It remains uncertain whether growth of almost 20% in India can be achieved given the surge in coronavirus cases there.

Simpson Spence Young head of research Derek Langston said some of the negatives creeping into the capesize market include a reduction in spot activity on some long-haul trades such as US East Coast to India, a quickening of vessel speeds, and an absence of major weather-related disruptions in China.

"Another important point to note is that the retreat has been from extremely elevated levels."

Meanwhile, Port Hedland in Western Australia maintained monthly throughput of 45.8m tonnes in April, of which 45.1m tonnes comprised iron ore exports. This was the same monthly throughput as in March 2020, Pilbara Ports Authority said in a statement.

US east coast Colonial pipeline resumes operations after cyber attack

COLONIAL Pipeline, the largest refined products pipeline in the US, has restarted operations on the east coast five days after voluntarily shutting down when its computers were subjected to a ransomware attack.

Closure of the 5,500-mile (8,850-km) line sent transatlantic tanker rates briefly spiralling, while Washington granted a limited waiver of the Jones Act on May 12 as anxious motorists quickly depleted the reduced supplies of gasoline through panic buying.

The waiver announced last night by Homeland Security was given to one company and will allow foreign tankers to carry petroleum products up the eastern seaboard from the Gulf coast. The 101-year-old Jones Act only allows US-flagged, crewed and built vessels to operate in its waters, limiting shipping's response to the crisis.

The company to whom the "temporary and targeted waiver" was granted was not named. Waivers were previously granted in 2017 and 2012 to allow for maritime transport after storms in the US Gulf and across the east coast.

Colonial Pipeline transports more than 100m gallons of fuel a day, or about 2.5m barrels per day, to meet the energy needs of consumers from Houston, Texas to the New York Harbour, supplying about 45% of gasoline and middle distillates.

Rates for medium range tankers plying transatlantic routes have steadied on the news and charters agreed for the so-called TC2 route shipping gasoline from Rotterdam to New York had not gone ahead, "barring a small number of replacements fixtures", said shipbroker Braemar ACM in a note.

Long range two fixtures that has been agreed to ship gasoil to the US east coast from Europe had also failed, according to the shipbroker.

Average spot rates on this triangulated trade route equated to a daily rate of $17, 867, according to the London-based Baltic Exchange. Rates had previously doubled overnight on news of the pipeline shutdown and peaked at $20,382 daily on May 11, data shows.

But with product prices failing to make arbitrage trades profitable, rates are expected to quickly deflate and return to the sub-$10,000 daily level in the coming days.

"US Gulf refineries with limited access to land-based domestic storage have been more active in chartering vessels to relocate inventory to the UK Continent, Mexico and Caribbean storage facilities," said the Braemar ACM report.

"Vessels were also chartered for, or with, floating storage options."

Colonial said it would move as much gasoline, diesel, and jet fuel as was safely possible and would continue to do so until markets return to normal.

As part of this startup process, Colonial said it would conduct "a comprehensive series of pipeline safety assessments" in compliance with all Federal pipeline safety requirements.

Colonial Pipeline had no plan to pay the hackers a ransom to decrypt data files, the Washington Post reported, citing two people familiar with the matter.

Rather, Colonial worked with the cyber security firm Mandiant to restore the data from backup systems where possible and rebuild systems where backups are unavailable, said the people, who spoke on the condition of anonymity because the matter is still under investigation.

Colonial had no comment. A spokeswoman for Mandiant, which is a division of the cyber firm FireEye, also declined to comment.

The hackers, a criminal group thought to operate mostly out of Russia, also appeared to be readying to extort Colonial by stealing data that they could later threaten to release unless a fee were paid, the Post report said.

But Mandiant quickly traced the stolen data to a server owned by a New York hosting firm, which over the weekend shut the server down, preventing any data to flow to the hackers, according to several people familiar with the matter.

With that extortion avenue sealed off and with Mandiant helping to restore data and rebuild systems, "there was no reason to make the payment," one of the people said.

President Biden said the attack demonstrated the need for US investments in education to improve the nation's cyber defences. He has proposed some $4trn in spending on infrastructure, social welfare and education programmes.

"We need a significantly larger number of experts in the area of cyber security working for private companies, as well as private companies being willing to share data as to how they're protecting themselves," he said. "I think that's part of the long-term answer, not just in terms of energy but across the board."

OPINION:

Shipping's digitalisation requires trust and collaboration to succeed

THERE has been a dramatic transformation in the way shipping views digitalisation, *writes Martin Wallgren, chief information officer at shipping, logistics and marine services group GAC.*

In just a few years, the sector has gone from seeing it as an intangible futuristic concept to perceiving it as a strong C-suite priority.

Many now believe digital transformation presents boundless opportunities for shipping. However, barriers remain.

These barriers were flagged up in a recent survey of port authorities and port operators worldwide conducted by the International Association of Ports and Harbors (IAPH).

The survey's findings revealed that the biggest challenges to digitalisation and electronic data exchange were co-ordinating multiple stakeholders in port communities and the establishment of legal frameworks.

The conversation around digitalisation in shipping has continued through changing trends and has evolved considerably

Five years ago, the main topic of discussion across the industry, especially at shipping digital forums, was 'big data'.

Then came broader conversations incorporating other technological developments with the potential to significantly impact digitalisation. These included artificial intelligence and drones, which are now among the leading topics trending in shipping circles

The perception of the role of data in the transformation of the sector has also progressed. It is now seen as critical.

Accordingly, digitalisation has moved up the priority lists of industry stakeholders and leadership teams.

In 2017, a survey by PwC, the management consultancy, showed that less than 10% of maritime industry respondents believed digital technology had changed their business significantly in the previous five years — far behind other sectors, including hi-tech, for which the figure was about 25%.

Today, the industry is far more closely aligned with digital transformation. Shipping is more willing to explore its possibilities. This new collective intelligence will place the sector in a more favourable position to realise the tremendous potential it offers.

The pandemic served as a catalyst and an accelerator for digital transformation in shipping. As social distancing was imposed, it was digitalisation that met the urgent need to make the supply chain more resilient while minimising physical human interaction.

Crucially, it demonstrated that the shipping sector can and will change easily if it has to and understands the reasons to do so.

Ship agents have always provided a conduit between ship and port. Now, in an increasingly complex digital age where trust and relationships are key factors, there could be a new role for agents to play in lowering the barrier to entry and supporting overarching efforts to make digital transformation accessible for everyone in the shipping community.

Covid-19 put the urgency into the spotlight and shed new light on the stark differences between the relatively few ‘smart’ digital-ready ports, and the majority still mainly relying on paper-based interactions.

Every port has different capabilities and, consequently, adoption is highly uneven. Digitalising the sector is made even more challenging by the fact that many digital experts, especially start-ups, lack experience of working ‘on the ground’ in ports and at sea

As a result, many digital systems need considerable further development when adopted before they generate significant value to users.

Digitalisation goes beyond systems and technology. The human element is crucial. New solutions are only useful if all those who use them understand how they can directly benefit and optimise their work.

Digitalisation can only take you so far, true transformation requires the full participation real people.

Shipping companies must therefore enthusiastically and proactively support their people through upskilling, training, and changing the corporate mindset about the role and implications of digitalisation.

Without an early and sustained commitment to train solution providers and encourage the next generation of digital experts to get involved by working among pioneers, digital transformation is a non-starter.

To realise the full transformative potential of digitalisation in the maritime industry, large numbers of stakeholders must come together and co-ordinate. Collaboration and trust will play a crucial role highlighting the industry’s emphasis on partnering with established businesses and global industry players with long track records.

Only companies that can offer an overarching view and expertise on digitalisation, coupled with hands-on local insight, can drive the industry forward through digital transformation. They are best placed to play a key role in the industry and its future.

ANALYSIS:

UK's freeports offer more than just tax relief, lawyer says

THE UK government has said it hopes its proposed new freeports programme will boost investment in struggling areas of the country by offering tax breaks and simpler planning rules.

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

But some British lawmakers have already called for a government review on the economic impact of freeports, while freight forwarders have said they will add little benefit.

Now it has been reported that exporters in the freeports would not get the full tax benefits if they exported to 23 countries, including Canada, Norway, Switzerland and Singapore, because of clauses in recent post-Brexit trade agreements.

In response, Ince's head of tax is optimistic about the UK's plans despite the questions over the benefits to trade.

Huw Witty told Lloyd's List the benefits of freeports went beyond exemptions of value-added tax, which he called a "small element" of the bigger plan. He said the clauses in question would not affect companies operating in freeports that were not exporters.

Companies could also defer tax by bringing goods into the free zone without the standard VAT and paperwork, working on them, then taking the goods out of the free zone before export to a country such as Singapore.

Businesses looking to set up in the UK might choose a freeport because of other tax breaks on offer before considering exports, Mr Witty added.

Importers, meanwhile, could use a freeport as a staging post to complete their goods and pay the VAT only when sure of a sale.

Critics of freeports argue they divert investment instead of creating it and heighten the risks of smuggling and money laundering. Lawmakers have called for more scrutiny of the plans.

Mr Witty said opinion was split down party lines, with Brexiteers and Conservative Party supporters in favour, and the opposition Labour Party and Remainers against.

He said the question of whether freeports created new business or simply moved it from elsewhere was harder to determine. Some tax reliefs were available only until 2026, creating uncertainty about future rules.

"In a sense it's something like an old Soviet five-year plan," he said. "You could have a change of government and a complete change of attitude."

Exemptions from EU emissions rules could give the UK a tax advantage, but future local green laws could nullify it.

The freeports would also create opportunities law and advisory firms like Ince.

"We've got overseas clients who are interested in investing in freeports," said Mr Witty. "But I think they're waiting to see exactly what the rules are before they come and do it."

MARKETS:

Teekay sees positive indicators for tanker market

TEEKAY Tankers, the US-listed shipowner, says it sees "early positive indicators" for a recovery in the tanker market, which faces near-term uncertainty due to the continuing pandemic.

"The tanker market continues to face challenges in the near-term due to the impact of the coronavirus pandemic," it said. "However, the outlook for the second half of 2021 looks more positive as global oil demand is expected to recover in tandem with the rollout of vaccination" programmes.

It said producers returning oil supply to the market should lead to improved fleet utilisation.

In addition, a decline in global oil inventories will generate tanker demand, the company said, adding that a more sustained recovery is expected in 2022 and 2023, supported by positive long-term fleet supply fundamentals.

"We are already seeing a positive shift in crude tanker sentiment as evidenced by the recent strengthening of asset values," said chief executive Kevin Mackay. There were also pockets of strength in the mid-size crude tanker segment due to weather-related disruptions towards the end of the first quarter and the short-lived Suez Canal blockage.

Teekay Tankers, a division of Teekay Corp, posted a first-quarter loss of $21.4m compared with a profit of $106m in the year-earlier period.

As part of reducing its cost of capital, the company declared options to repurchase six aframaxes that are currently on long-term sale-leasebacks for $129m. The deal is expected to close this September.

The agreement follows purchase options on two suezmaxes that are currently on long-term sale-leaseback financings for about $57m.

The company said it is negotiating term sheets to refinance a portion of the vessels with lower-cost sale-leasebacks, with the remainder expected to be funded with existing liquidity.

It has also closed a previously announced sale of two unencumbered aframax tankers for a total of some $32m.

Separately, Teekay Corp's chief executive Kenneth Hvid said its liquefied natural gas unit was experiencing strong counter-seasonal demand since late-March, with increases in both spot and time charters.

It has taken advantage of this improvement to secure three new time-charters, including one spot-linked contract, he said, adding that the company had made "significant progress" towards winding down its floating production storage and offloading segment.

Following BP's decision to suspend production from the Foinaven field, its *Foinaven* (IMO: 8887595) FPSO will be redelivered in first half of 2022 and will be green recycled, while while phase one of the *Banff* (IMO: 9184330) FPSO decommissioning was completed last month.

Phase two of the decommissioning will be carried out by the customer, Teekay said.

Europe's leading ports see slow volume recovery

NORTHERN Europe's major container hubs are only recovery slowly from the volume downturns that hit them in the first half of last year.

Rotterdam, the largest European port by volumes, reported the best volume growth in the quarter lifting throughput 4.5% to 3.7m teu in the three months to the end of March.

But even this failed to recover the 4.7% decline in the corresponding quarter of 2020 as the pandemic began to affect imports.

And despite the increase in container numbers, the tonnage of goods handled actually fell 0.7%, reflecting an increasing volume of empties being handled.

"Generally speaking, the increased throughput volume in the first quarter paints a positive picture," said Allard Castelein, chief executive of the Dutch port. "Nevertheless, these remain turbulent times for companies working in trade and logistics.

"At this point, the main challenge we are set before is handling the aftermath of the Suez blockage in terms of logistics."

At Antwerp, container throughput grew in terms of both tonnage and teu, rising 2.3% to 3.1m teu

"January 2021 saw a continuation of the strong performance seen in autumn 2020, although a number of operational challenges hampered the operation of the container terminals," the Belgian port said.

These included long delays in containership arrivals as a result of the coronavirus crisis. The Suez Canal incident is expected to cause further delays to container ship calls throughout the second quarter.

"We have faced several disruptions in the global supply chain over the last year: the pandemic, Brexit, the Suez incident," said Antwerp chief executive Jacques Vandermeiren.

In Hamburg, however, there was no recovery in volumes, with Hamburg Hafen und Logistik reporting a 6.6% fall to 1.7m teu, following the loss last May of a service from Asia at Container Terminal Burchardkai.

Cargo volumes for Far East services subsequently decreased slightly, while volumes for Middle East services fell sharply.

There were also significant decreases in the UK shipping region and in feeder traffic in the Baltic.

"HHLA remains commercially successful even in the face of the ongoing challenges associated with the pandemic," said chief executive Angela Titzrath. "Based on the course of business in the first three months of the year, we are optimistic that we will achieve our targets for the 2021 financial year.

"We are focusing on measures to carry out the restructuring programme in the container segment."

IN OTHER NEWS:

Costamare looks to raise $120m in landmark Greek bond issue

COSTAMARE, the US-listed containership owner, has said it will offer up to €100m ($120.8m) of unsecured bonds in a landmark fundraiser for the capital market in Greece.

The bond will be issued by a new wholly-owned subsidiary, Costamare Participations, and marks the first time a shipping company will have issued a Greek bond.

The Hellenic securities regulator has given the green light for the bonds to be admitted to trading in the fixed income securities category of the regulated market of the Athens Exchange.

Pandemic curbs drive seaborne drugs smuggling

REPORTS of drug seizures from cargo ships travelling from South America are increasing as coronavirus restrictions boost the seaborne drugs trade.

Ambrey senior analyst Jake Longworth said incidents of drugs stashed in vessel hulls were "really prevalent at the moment".

Tighter border controls and the massive reduction of flights meant "maritime has become the go-to route," he said, adding: "It's just exploded in terms of the amount of drugs they're recovering."

Bill of Lading case looks set for Supreme Court hearing

THE defendants in the *Tai Prize* case, which centres on whether shipper statements on draft Bills of Lading amount to a warranty of the cargo's condition, are seeking to appeal to the Supreme Court, its solicitors have confirmed.

While a decision is not expected until next week, according to an email from law firm Birketts, legal experts believe the go-ahead is likely given the real issues raised by the apparent disparity between the legal position and standard practices in the 'real world' shipping industry.

"I think this one will go to the Supreme Court, because it is the epitome of the Devil and the deep blue sea," said Julian Clark, global senior partner at Ince & Co. "English law says a master can only sign a bill of lading that accurately reflects the condition of the cargo. But 90% of the time they are presented with a clean bill of lading and told, 'You've got to sign that or the letter of credit isn't going to trigger'."

Maersk sees customer support for decarbonisation plans

DECARBONISATION of container shipping is not just a necessity, but a strategic opportunity for competitive advantage that can be funded by customers, according to the world's largest container line.

"We see an increasing group of customers willing to pay a premium to have the goods shipped carbon neutral," Maersk head of decarbonisation innovation Jacob Sterling said during a Lloyd's List webinar.

"We're talking about big brands that ship goods around the world and have a lot of focus on sustainability." Customers were willing to pay a premium for greener shipping already, he added.

Why Alfa Laval paid over the odds for StormGeo

ALFA Laval paid a premium for StormGeo, a weather routeing software business, because it needed to accelerate the digitalisation of the group but was unable to do it fast enough using its own resources.

Tom Erixon, the Swedish mechanical engineering group's chief executive, explained why the NKr3,630m ($442m) deal, announced this week, had been agreed with private equity firm EQT.

He said Alfa Laval was progressing slowly towards digital capabilities, "but we found the step towards full-blown digital services, and our ability to build competencies, skills, and capabilities on an adequate level and on a platform that is strong enough, to be a challenge to our company, our culture, and background."

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