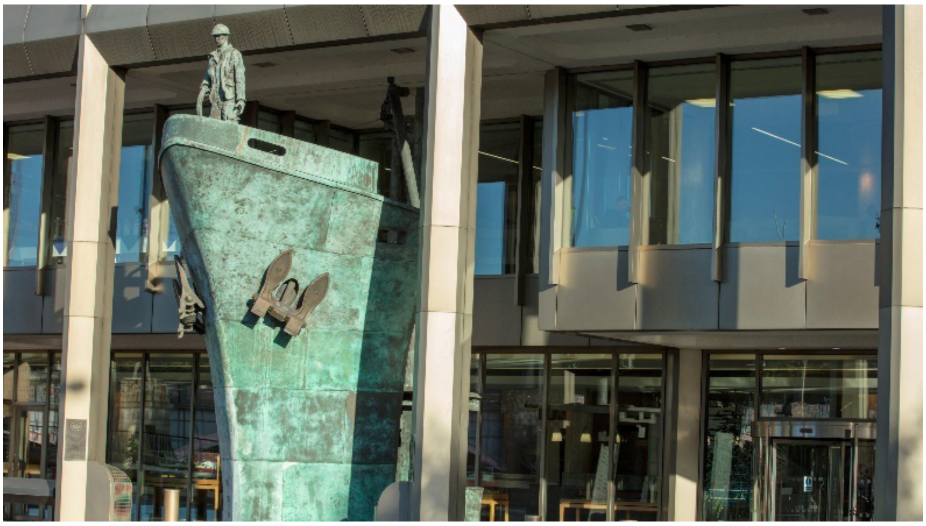
Lloyd's List
Maritime intelligence | informa

Daily Briefing
Leading maritime commerce since 1734

OECD calls for 'significantly stringent carbon pricing' for shipping



THE INTERNATIONAL MARITIME Organization has been told it should introduce "stringent" carbon pricing and fuel standards to make zero carbon shipping commercially viable.

The Netherlands and the Organisation for Economic Co-operation and Development have told the IMO's Marine Environment Protection Committee that "market failures" — especially a lack of commercial viability of zero carbon shipping — are hindering shipping's decarbonisation.

They identify several market failures, including difficulties with access to zero carbon technologies and the challenge for private firms to develop onshore infrastructure.

But they warned that the negative side effects, known as externalities, of high carbon shipping, such as greenhouse gas emissions and air pollution, are the main culprits behind this commercial viability problem.

"Significantly stringent carbon pricing and/or a fuel standard will resolve this market failure and make zero-carbon shipping commercially viable," they said in a submission to the committee ahead of its next meeting, in June.

These two policy options could also help solve some of the other identified market failures, like deployment of zero-carbon technologies and development of required onshore infrastructure.

"Fuel standards and carbon pricing could also be integrated with each other, e.g. via a trading scheme that covers ships that over-comply and under-comply with the fuel standards. In case of a low carbon price, complementary measures — like a fuel standard — are necessary in order to achieve an effective transition towards zero-carbon shipping," they added.

Governments had agreed in 2018 to begin talking about market-based measures, which could take the form of carbon pricing, and other mid-term measures from 2023 onwards and finalising them by 2030. But they had also recognised that some measures would need to be effective before 2023.

The IMO has not started negotiations on a market-based measure, but the principle of such a policy has gained significant pace among various governments and across the industry as stakeholders accept that it will be a necessary move for the uptake of zero carbon fuels and technologies.

The Marshall Islands and the Solomon Islands have proposed a $100 per tonne of CO2 levy on international shipping starting in 2025 and the proposal will be discussed at June's MEPC.

Despite the increasing momentum, market-based measures face opposition as they would increase fuel costs and therefore transport costs, making several countries that are heavily dependent on trade concerned about the financial implications and their potentially disproportionate impact on their economies.

During the last MEPC in November 2020, countries including China, Russia, India, Brazil and Argentina opposed starting negotiations on market-based measures.

The OECD and the Netherlands also warned against the use of liquefied natural gas as a transition fuel as it could lock shipping into a prolonged higher carbon pathway.

"Transition pathways can also become locked in because of certain choices early on in the process that make the transition to zero-carbon shipping more difficult," they said.

WHAT TO WATCH:

Grounding seen as biggest cause of bulk carrier losses

GROUNDING was the single biggest cause of bulk carrier losses over the past 10 years.

Of the 34 bulker incidents that took place between 2011 and 2020, 17 were related to grounding, according to the latest report compiled by dry cargo shipowners' association Intercargo, using data from the International Maritime Organization.

Of those, 13 full investigation reports are available, and an initial review of the reports revealed that "human error, both operationally and in navigation, contributed to nine of the casualties."

According to the report, among the four casualties without investigation reports, evidence showed two of them, including the *Wakashio* (IMO: 9337119) "seem to have been caused by operational and navigational human error."

"This leads us to believe that at least 11 of the 17 grounding incidents recorded were due to human error by the crew on board," it added.

Last year, two incidents drew attention, namely the grounding of the 2016-built very large ore carrier *Stellar Banner* (IMO: 9726803) off the coast of Brazil, which resulted in a total constructive loss, and *Wakashio*, which hit a coral reef off Mauritius, spilling about 1,000 tonnes of fuel into pristine waters.

Investigation reports for both are pending.

In total, 20 of the 34 bulk carrier losses in the analysis have had investigation reports submitted to the IMO, Intercargo said. That represents 58.8%, while the average time taken from an incident to a report becoming available has been about 16 months.

Intercargo said lessons learnt and sharing of experience had "proven to be effective approaches to raise safety awareness and to deepen the understanding and knowledge of the existing rules, regulations and skills".

"Focused training will prepare the crew with adequate knowledge and skills to handle a specific cargo and voyage type and enhance effective teamwork on board," it said.

"Continued focus on safety awareness and understanding of safety measures helps to close gaps in understanding and reduces the potential for similar very serious marine casualties involving bulk and ore carriers.

"The industry should not shy away from making bold changes to ship design in order to further improve the safety and survivability of dry bulk vessels."

The group said flag state casualty reports "must question and strive to alter existing" regulations and other conventions such as the Safety of Life at Sea Convention, the International Convention for the Prevention of Pollution from Ships, and the IMO's International Convention on Load Lines, if crew lives are to be saved.

Of the 34 bulk carriers over 10,000 dwt that have been identified as lost, 128 crew members have lost their lives. That is, on average, 13 lives per year, with cargo failure, or liquefaction, accounting for the highest proportion, at 61, while loss of lives from four ships with unknown causes totalled 35.

That compares with 173 deaths in the preceding analysis period which ran from 2010-2019.

Vessels amounting to 2.33m dwt, with an average age of 20.9 years, have been lost, which equates to an average of 233,000 dwt per year.

Losses due to flooding on four ships were also seen as significant.

Around 90 people missing after barge sinks in Arabian sea

SEARCH and rescue operations are continuing for 89 people reported missing from the barge AWB Papaa 305 (IMO: 8784327), which has sunk in the Arabian Sea.

The Oil and Natural Gas Corporation-deployed barge sunk with 273 people on board after being caught in Cyclone Tauktae approximately 70 km southwest of Mumbai, India.

At least 184 people have since been rescued but the extremely rough sea, with waves 6 m-8 m high, is making the recovery task difficult.

According to a Lloyd's List casualty report, the crew issued a distress call on May 17 while the barge was adrift in the severe cyclonic storm off the Heera oil fields in the Bombay High oil field area.

Three of Indian energy company ONGC's barges and one of its drillships were hit by the cyclone, causing them to lose their anchors and come adrift.

The Indian Navy deployed the *INS Kochi* and *INS Kolkata*, while a tug, one ONGC offshore supply vessel and coast guard vessel *ICG Samarth* have also been pressed into service for assistance.

"Due to the severe cyclonic storm, unfortunate incidences have occurred involving three construction barges of [local infrastructure company] Afcons working on a project of ONGC in Western Offshore fields in the Arabian Sea and one drilling rig of ONGC deployed for exploration purpose," the state-owned refinery said in a statement.

ONGC said it was taking all possible measures in co-ordination with the Offshore Defence Advisory Group and Maritime Rescue Co-ordination Centre to ensure the safety of personnel and vessels.

Cyclone Tauktae hit India's Gujarat coast on May 17 and has weakened into a very severe category storm even as it rages through southern Gujarat.

More than 12 hours after making landfall, Tauktae continues to maintain a wind speed of 110-120 km per hour with gusts up to 130 km an hour.

Though the eye of the cyclone was slowly disintegrating, the storm had not significantly weakened yet, shipping agents GAC noted.

The system was expected to weaken into a 'cyclonic storm' by May 19 and further weaken into a depression by the end of that day, it said.

OPINION:

Like people, ships respond better when treated individually

SOMETHING changed a decade ago when it was decided that ships were no longer to be feminine but neuter — no longer 'she' but 'it', *writes Richard Clayton*.

We have grown used to describing ships as machines or systems, a collection of mechanical and non-mechanical items which act in unison to enable the carriage of a cargo.

As a consequence of the ungendering of shipping, technologists and fuel specialists often talk about finding a single digital or decarbonisation solution for the 40,000 or 50,000 ships in the global fleet.

But if you ask any pilot climbing the ladder to board an in-bound dry bulker or stepping off a departing car carrier how the ship handles, he or she will reply that each ship handles differently.

The bridge team's knowledge of each vessel is a critical item in the pilot's navigational toolbox. Likewise, the engine team's knowledge of the ship's propulsion system is almost personal.

Add to these the vessel's trading pattern, the individual designs and modifications, the laden or ballast condition, ice, current, wind, and other external factors and it's hard to see how a simple alteration of fuel or a single technology can be the answer to shipping's decarbonisation obligation.

There is no silver bullet if we think of shipping as generic, non-specific, devoid of individual character.

What if we were to look at decarbonisation from another perspective — if each ship were considered as unique?

Then the design characteristics, the operating profile, the geographical trading pattern, and the owning company's business strategy could all be factored in.

The right decarbonisation solution could then be selected, for newbuilding or retrofitting.

In other words, what if we treated ships individually again?

Such a focus on individualism would require a significant degree of collaboration, suggested Roger Holm, president of Wärtsilä's marine power division, on a webinar this week.

Tech companies are being flooded by questions from customers asking whether their asset will be compliant with requirements in 10 years' or 20 years' time. The answer is: there's no guarantee.

The industry must embrace a transition to complete decarbonisation "gradually through a series of upgrades and conversions," Mr Holm advises.

"Sometimes the market combines technology and fuel in its rationale but that's not necessarily the right way to approach the decarbonisation challenge," he says, although he acknowledges that integrated efficiency upgrades and digital solutions represent "the fastest and most commercially viable way to achieve reduced fuel consumption and emission reductions quickly."

The key, he believes, is "upgradability" with investment solutions designed to provide fuel flexibility which grants customers "the assurance that their assets will be future proof through 2050."

And the key to successful upgradability comes in the very first conversation between shipowner, class society, and tech specialist.

Understanding the owners' operating model is vital for the right sustainable solution to be identified and grasping the characteristics of each vessel is vital to getting that upgradable solution fitted.

No one is advocating a return to "when will she be alongside the berth?" or "we'd better get her repainted."

But asking "which specific fuel will be right for this particular vessel for the next five years" is a legitimate question.

ANALYSIS:

Gard chief executive defends small deficit

GARD has reported a combined ratio of 104% on an estimated total call basis for the 2020-21 policy year, with an underwriting loss of $23m.

The performance, revealed in annual results published on May 19, marks a deterioration on last year, which saw a combined ratio of 102% and a $10m deficit, although chief executive Rolf Thore Roppestad described both results as acceptable.

The club, which is the world's largest, has extensive commercial operations in hull and energy, and actively plans to use the profits to subsidise the mutual membership.

It has the option of dipping just into the red on mutual insurance every year, in contrast to the majority of clubs, which have to stay the right side of the line at least by way of long-term average.

In Gard's case, the key result is the non-technical bottom line, which in the year at hand showed a profit of $113m.

"First of all, 104% is one of the best combined ratios you will find in the industry, very close to the target. We are able to compensate for a small technical loss with other sources of income," said Mr Roppestad in an interview ahead of the publication of the results.

Post-tax profit was $68m on an estimated total call basis, on a gross written premium of $922m. Equity reserves stood at $1.3bn.

An interim statement last November reported a technical loss of $54m at the halfway stage, generating a combined ratio of 116%, which suggests that the second half was less punishing that the first.

Mr Roppestad said Gard's combined ratio for the second half was in the low 90s. "The summer and the past six months have actually been very good," he added.

The club's marine and energy business — operated on a for-profit commercial basis rather than on mutual lines — delivered strong profit.

However, P&I activity was impacted by a major claim on the club's own account and also by way of Gard's contribution to the International Group pool scheme, by which 13 major P&I providers share the pain of the big hits.

Thanks to an earlier results statement by Gard's Luxembourg-based rival Britannia, it is already in the public domain that pool claims reached a record $478.1m last year, almost but not quite as bad as earlier projections that suggested it would top half a billion dollars.

The worst Gard casualty — and its only pool claim — was *Höegh Xiamen* (IMO: 9431848), a car carrier declared a constructive total loss after a blaze in the US port of Jacksonville in June 2020.

However, given that it covers almost 19% of total IG entered tonnage, Gard will be on the hook for the biggest pool payout, under the scheme's weighted formula.

Another issue was an increase in personal illness claims caused by the pandemic, resulting in "a big number of small claims", sometimes covered by the deductible and sometimes not.

Mr Roppestad said the total number of coronavirus-linked seafarer claims on Gard was probably in the 900-1,000 bracket.

There was also a return to members, via a 10% reduction in the deferred call, equivalent to $38m. Returns to members have totalled $94m in the past three years.

World boxship fleet update: A fine balance

IT IS a truth universally acknowledged, that a container line in possession of a good fortune, must be in want of a shipyard.

In times of surging demand and record freight rates, container lines are almost universally in possession of good fortunes.

The first-quarter results that have been released to date have been staggering, with some lines earning more in the first three months of this year than in the whole of 2020.

Moreover, there seems to be no end in sight to the riches bestowed on box lines by the world's consumers. Most outlooks see the good times rolling for at least the remainder of this year, and even into 2022.

This poses a welcome but significant problem for carriers: what to do with the cash.

The traditional response has been to extrapolate the future from the present and order tonnage for delivery just in time for the next downturn.

So there is some trepidation among industry observers over the recent spate of ordering that has seen the volume of capacity on order grow to around 17% of the current orderbook. To put that in context, in the fourth quarter of last year it was below 10%.

The past month has seen more movement with the confirmation of CMA CGM's 22-ship order at China State Shipbuilding Corp yards.

The deals consist of a sextet of dual-fuel 15,000 teu boxships to be built by Jiangnan Shipyard and another six dual-fuel 13,000 teu vessels to be constructed by Hudong-Zhonghua Shipbuilding, according to a builder's release.

The fresh tonnage will be able run on liquefied natural gas, which is preferred by many in shipping as a bridging fuel to decarbonise the industry.

The French carrier is also ordering 10 smaller ships of 5,500 teu, placed at Qingdao Beihai Shipbuilding Heavy Industry, which will be equipped with conventional propulsion systems and a scrubber-ready design.

Mediterranean Shipping Co, which has been rapidly growing its fleet through new and secondhand tonnage, has been linked to an order for two more LNG-ready 16,000 teu vessels ordered by Mingsheng Financial Leasing. A further four are understood to be under discussion.

It was reportedly also behind the March orders — consisting of a total of 13 16,000 teu ships, including seven at DSIC and six at its sister firm Guangzhou Shipyard International — although the shipowner has not confirmed or denied the claim.

Brokers say Minsheng Leasing may have picked up the optional vessels held by MSC in the previous deal.

MSC has been slower to the party than some of its peers when it comes to LNG, but it has finally made the move with the charter of 11 dual-fuelled 15,300 teu ships that Eastern Pacific had ordered on a speculative basis, following on from an earlier deal for similar tonnage with CMA CGM.

It is not just the largest carriers that are looking to raise their fleet size. Wan Hai Lines has signed a contract with Samsung Heavy Industries to build four 13,100 teu containerships as part of the company's nine-ship ordering plan.

Nor is it only at the larger end of the market that activity is happening, with the "long-neglected" middle of the market now attracting attention too, according to Alphaliner.

As well as the smaller ships in the latest CMA CGM order, Sea Consortium and Asiatic Lloyd are understood to have ordered four 7,000 teu units each, and Seaspan is also said to be in the market for a series in the same size range.

Intra-Asia specialist TS Lines was also reportedly looking for up to four 7,000 teu vessels, Alphaliner said.

But will these orders destabilise the market when they begin to be delivered over the next two years?

"The orderbook has risen to 15% of the fleet on the back of new orders coming in during the fourth quarter of 2020 and the first quarter of 2021," said Danish Ship Finance head of research Christopher Rex.

"Overall supply growth is therefore expected to be manageable in relation to annual demand growth of somewhere between 3% and 6%, but the massive fleet expansion among the largest vessels may create periods of surplus vessel capacity."

According to figures from Clarksons, nearly one third of the tonnage on order at the end of April was over 20,000 teu.

"The underlying fundamental outlook appears relatively positive, although some normalisation of demand side conditions appears likely later this year," Clarksons said.

While a low number of deliveries this year and next would keep supply "manageable", the 2.6m teu ordered since the start of the fourth quarter of 2020 would begin to emerge in 2023.

"If the disruption gradually unwinds, and with potential drag from a shift back towards services spending as demand 'normalises', a softening in markets from today's highs is likely at some point," it said. "Newly contracted capacity may lead to pressure in 2023."

MARKETS:

Southern Californian ports' supply chain metrics improve

THE ports of Los Angeles and Long Beach are showing improvements in key supply chain metrics as the effects of the pandemic begin to recede, especially in dwell time.

"Despite the challenges, the marine terminal operators and dockworkers have adjusted seamlessly and continue to move cargo efficiently through our ports daily," said Jessica Alvarenga, manager of government affairs for the Pacific Merchant Shipping Association.

The National Retail Federation forecasts the ports' import volume in the first half of 2021 to increase 39.8% compared with the equivalent period of 2020, with 5.05m teu. The forecast volume for 2021 is 10.08m teu, which would be a 14.2% increase over 2020.

The Port of Los Angeles expects throughput for the week ending May 22 to be 154,637 teu, a rise of 142.36% on the previous year.

For the week ending May 29, LA expects a rise of 108.75% over the previous year, reaching 141,547 teu. The week after, it expects to hit 179,630 teu — a rise of 177.66%.

The Port of Long Beach is forecasting similarly high numbers through its weekly WAVE report, with 304,264 teu expected in the next three weeks, 230,000 teu or so in imports alone.

Container dwell time for local cargo moving out of the two ports by truck dropped 3.1% from an average of 3.77 days in March to 3.65 in April, according to the association, which represents shipping lines and marine terminals along the US west coast.

The number of containers that remained on the ports' terminals for more than five days also decreased in April, with an average of 13.1% of containers exceeding five days, down from 14.4% the month before.

Ms Alvarenga noted that containers left on terminals added to congestion and created unproductive labour as unnecessary moves were needed to reach older containers underneath stacks of newer ones.

The Marine Exchange of Southern California, which monitors vessel traffic through the two ports, said there were 29 containerships at berth and 15 at anchor on May 18. It said 20 containerships were scheduled to arrive over the next three days.

The 15 container ships at anchor awaiting a berth include seven mega-container ships: two over 10,000 teu, two over 11,000 teu, two over 13,000 teu and one at more than 16,000 teu: the 2013-built, 16,020 teu *CMA CGM Jules Verne* (IMO: 9454450).

Los Angeles said it had eight ships waiting at anchor for a berth and estimated a wait time of 6.1 days.

IN OTHER NEWS:

Frontline buys six eco VLCC newbuilds for $566m

FRONTLINE, the tanker company owned by John Fredriksen, said it had agreed to purchase six eco very large crude carrier newbuilds.

The New York and Oslo-listed owner said that it would buy the vessels for an aggregate of $565.8m including an estimated $25.7m in additions and upgrades to the standard specifications.

It did not identify the ships but said that the sextet was currently under construction at the Hyundai Heavy Industries shipyard in South Korea. They are due for delivery between the first quarter of 2022 and the first quarter of 2023.

Zim lifts guidance after record-breaking first quarter

ZIM is to pay a special dividend in its first year as a listed company as shareholders reap the rewards of the carrier's growing profitability.

The Israeli line posted a record quarterly profit of $590m in the first quarter of 2021 and has increased its guidance for its earnings before interest, tax, depreciation and amortisation to $2.5bn-$2.8bn for the full year.

But with first quarter ebitda already at $820.5m, Zim could have to upgrade that guidance if the strength of the first quarter continues throughout the year. Net profit in the quarter has already exceeded the full year profit for 2020.

Arctic oil fields keep loss-making Sovcomflot afloat

THE depressed tanker market stripped profits from Sovcomflot over the first quarter as the Russian shipowner's offshore and gas divisions failed to offset massive losses for the crude and product tanker fleet.

Sovcomflot reported a $1.7m loss on revenues of $362.9m for the three-month period ending March 31. That compared with a profit of $116.7m on revenue of $493.3m for the year-ago period.

Leading the 26% year-on-year revenue slump were unprofitable crude and refined tanker divisions.

Capital group reaps the benefit of timely boxship buys

CAPITAL Maritime has been verified as the provider of four 13,100 teu newbuilding contracts to Wan Hai Lines as part of the Taiwanese shipping line's recent new containership spree.

While Wan Hai a few days ago was reported to have lifted its tally of orders to nine new boxships at Korean yards, a quartet of vessels that were originally to be built by Samsung Heavy Industries for Capital appear to have been included in that number.

Four vessels of that size on order at SHI have been acquired as resales from the Greece-based owner. Wan Hai said that the SHI vessels are being acquired for a price of just over $445m.

Capital Gas charters two LNG newbuildings to Cheniere

CAPITAL Gas, the liquefied natural gas shipping arm of Evangelos Marinakis' Capital Maritime Group, has chartered two more of its debut series of seven 174,000 cu m newbuildings under construction at Hyundai Heavy Industries.

Aristarchos (IMO: 9862918), the third ship in the series, and *Aklipios*, scheduled for delivery in September, have both been fixed to US operator Cheniere Energy for up to six years, including optional contract periods. No rate has been given for the charters.

Cheniere has been in the market for additional shipping capacity in recent months and the Capital Gas contracts emerge hard on the heels of news last month that the US energy company has secured at least four vessels from Flex LNG on multi-year charters.

Stena's LNG unit wins Vietnam power project contract

STENA AB Group, the Swedish shipping conglomerate, is pioneering the use of jetty-less marine infrastructure in Vietnam to fast-track a liquefied natural gas-to-power project in the fast-growing Southeast Asian country.

The Stena LNG & Power unit said it had won a contract from Delta Offshore Energy to conduct front-end engineering and design studies for the deployment of a jetty-less floating terminal and a self-installing regasification platform to supply gas to a power plant proposed for Vietnam's Bac Lieu province.

The facilities will be sited about 40 kms (25 miles) off Bac Lieu's coastline, allowing the project to minimise its footprint on shrimp farms, mangroves and salt beds now thriving in the area.

Classified notices follow