Lloyd's List
Maritime intelligence | informa

Daily Briefing
Leading maritime commerce since 1734

LEAD STORY:
Enjoy the markets fizz but beware the hangover

WHAT TO WATCH:
K+N's Otto Schacht predicts new era of sustained profitability for container lines

Shipping exempt from global minimum corporate tax rate

Decarbonisation regulations come to a head

OPINION:
Hot markets rarely translate into decarbonisation efforts

Efficiency has role to play in fuel transition

ANALYSIS:
Tankers: The only way is up

Finding new ways to stay afloat

MARKETS:
Seaborne trade growth back to pre-pandemic levels

Congestion at Southern California ports caused by supply chain 'collapse'

IN OTHER NEWS:
Costamare deal for 12 vessels boosts bulker fleet ahead of possible spin-off

Cargo owners back ammonia-focused start-up

Pioneer Marine looks to expand following buyout

SIPG earnings surge on container shipping boom

Star Bulk launches two share offerings worth $150m

CMA CGM delivers Little Lady Liberty to New York

Enjoy the markets fizz but beware the hangover

A YEAR AGO, a handful of senior executives from a major container line, a shipowner and a panel of research analysts were meeting to discuss market prospects and planning.

One of the bolder analysts offered a view that in 12 months' time, the market would not just be strong; it would be booming. He was practically laughed off the Zoom call.

He was right, they were wrong, but the shipowners made the money and are still laughing.

It's a tough gig making predictions, especially about the future, and nobody was seriously anticipating today's markets during the abyss of the global pandemic. Yet here we are.

China has delivered for dry bulk and the US consumer has delivered for the box trades.

Tankers may be in the doldrums right now, but squint hard enough and the optimism is there, despite the dismal earnings — and let's not forget the substantial buffer they built up at the beginning of last year before the market turned so severely.

More than three billion vaccine doses have been administered worldwide as we write this mid-year outlook and the analyst telling tanker owners that they will be reading about improved rates in the next edition of the outlook will no longer be laughed off the call.

Without wishing to jinx it, this half-year health check on the state of the market finds shipping in a good place — albeit with all the usual fears of tipping points that could yet snatch defeat from the jaws of victory.

Star performer

The container sector, of course, is the star of the show right now in terms of earnings and anyone looking for an indicator of how long is left to go on the current supply chain crunch-induced bull run could do worse than look to the reigning grandmaster of bold box calls: Gianluigi Aponte.

Mediterranean Shipping Co's current strategy of hoovering-up container tonnage on the secondhand market (while also having the largest orderbook of any carrier) speaks volumes about Mr Aponte's view on earnings potential into 2022.

Buying up ageing 8,000 teu ships on an industrial scale, safe in the knowledge that they were paid for in a matter of a few voyages, is just the sort of flamboyant big betting that is going out of fashion. Yet it paid off — and then some.

This month, the shopping spree hit new heights when the 19-year-old 4,939 teu containership *Mexico* (IMO: 9231779) was snapped up for a reported $50m.

So why did an ageing panamax that would have been lucky to get offers in excess of $6m for scrap just 12 months ago warrant such a premium? Because it was sold based on a forward delivery early first quarter next year.

The view from Mr Aponte's desk suggests 2022 is shaping up well and it doesn't have to be even half as good as this year. The current ordering strategy will still see them laugh at the more cautious analysts.

Speed is key. The current supply chain disruption will benefit box shipping earnings for the next 12 months at least and any unwinding of the current container crunch will be slow.

It is telling that the current highest demand is for panamaxes, driven by the lines now trading smaller tonnage on the transpacific routes in a bid to slot in some smaller ships faster than the usual 15,000 teu vessels, which are increasingly logjammed due to port hold-ups.

That's assuming, of course, that you can find a ship. Availability of vessels into next year is scarce because owners raced to fix vessels on period time charters as soon as they saw the rates rising.

Those owners congratulating themselves last year for fixing a baby panamax at the then record rate of $18,000 a day for a year will no doubt be somewhat frustrated by the rumoured three-year deal at $50,000 a day that is about to be signed.

The numbers are staggering. Yet the entirely predictable rush to the yards is well under way and those looking for the tipping point in the market need not look much further than the orderbook right now.

First it was a flurry of bets on 15,000 teu vessels, but the best date you can get for delivery now from South Korea is around the second half of 2024 and all the tier 1 Chinese yards are fully booked.

Now the flavour of the month is 7,000 teu ships but that story seems to be going the same way.

Boom and bust

Given the longer-term planning for a fleet expected to rapidly transition to zero carbon and the Cassandras of the industry warning of stranded assets, we are obliged to point out the age-old warning: the bigger the party, the bigger the hangover.

On the dry side of the markets, the party may be less exuberant, but it is still the biggest blast the sector has seen for several years — and it is not slowing down any time soon.

With commodity prices regaining pandemic-related losses, and some reaching highs last seen a decade ago, the inevitable speculation of a new commodity super-cycle has been keeping financial journalists busy.

They are wrong, of course. The recent price spikes were due to reduced supply plus a quick recovery in industrial production and robust global monetary and fiscal stimulus measures have increased demand. However, the super-cycle is over-egging the situation.

That said, this commodity market has some way to go yet. We have seen Beijing trying to take the heat out of the market earlier in the year, with attempts to cool prices of steel, iron ore and other commodities.

Yet even if China starts to take its foot off the domestic accelerator, demand from the rest of the world is not going to peak until later this year, or more likely not until 2022.

And if previous seasonal patterns are any guide, the bull run has some way to go yet for dry demand.

Meanwhile, the bulk carrier fleet is unlikely to grow very much this or next year. The orderbook-to-fleet ratio has followed a downward trajectory since the end of 2018.

While owners in other segments are investing in vessels propelled by transition fuels, dry bulk owners seem to be more hesitant.

This is one factor keeping the orderbook low for the moment, but the situation will change as the push for greener shipping increases, contracting activity.

Herein lies the somewhat cheerless final thought to an otherwise positive half-year outlook (if you side-step the current tanker rates and focus on the vaccine-led recovery).

If the past 12 months has taught us anything, it is that demand is predictably unpredictable.

The fact that the current upturn has hit after a period of low orders in most sectors is more luck than judgment on the part of an industry with a pathological tendency toward self-harm.

The question of how the industry invests this current windfall is going to determine the direction of the next editions of Lloyd's List outlooks.

WHAT TO WATCH

K+N's Otto Schacht predicts new era of sustained profitability for container lines

CONTAINER lines are in an unparalleled position to permanently end the boom and bust cycles that have destroyed so much shareholder value over the years, and create an industry able to make decent money in bad times as well as good.

That is the view of Otto Schacht, executive vice-president sea logistics at Kuehne+Nagel, who does not expect the box trades to ever return to the way they were prior to the pandemic when shippers and forwarders often enjoyed very cheap transport costs.

"Freight rates will not go down to these crazy low levels that we have seen in pre-coronavirus times when there were 20 to 25 carriers fighting for market share," Mr Schacht says in this week's Lloyd's List podcast.

With cargo demand heavily outstripping ship supply right now as consumer spending patterns shift, both freight and charter rates have soared to record highs in recent weeks.

Box lines have been criticised by cargo interests for charging so much, particularly at a time when service reliability has declined, and supply chains are suffering severe disruption. That has led to calls from some quarters for competition regulators to intervene.

But Mr Schacht, one of the most seasoned executives in the industry, defends the lines that are struggling to cope with such a huge surge in volumes.

"I have been in this business for over 40 years, and no-one, whether a forwarder, carrier, or shipper, has ever before experienced what we are now going through," he says.

The impact on shipping of the pandemic has been exacerbated by events such as the blockage of the Suez Canal by the 20,000 teu *Ever Given*, and closure of Yantian port to contain a local coronavirus outbreak.

Although the current squeeze on ship capacity will not continue forever, there will be no going back to how things were, warns Mr Schacht.

New normal

While some semblance of normality will eventually return once the aftershocks of the one-off disruptions have disappeared, and port congestion eases, Mr Schacht does not think the container trades will be the same as in pre-coronavirus times.

How long it will take to reach a new normal is difficult to forecast, but what is clear is that "the future will be different", with a fundamental shift in the market taking place, underpinned by industry consolidation over the past two decades that has reduced the number of global carriers from about 20 to six or seven, mostly operating within three major global alliances.

Cargo interests have complained that this rationalisation has had a negative impact by reducing customer choice, but Mr Schacht disagrees.

He believes consolidation will be good for the industry, as lines will finally be able earn decent returns on investment, and then plough money back into the business.

Typically, container lines have only been profitable when ships have been at least 95% full, in sharp contrast to other sectors such as the hotels or aviation industries that can make money even if utilisation levels are 60%-70%.

That is where container shipping is now heading, Mr Schacht predicts, with the industry approaching the point where it can finally be in good financial shape even when ships are not fully booked.

He cites the business model of global parcel carriers such as DHL, FedEx and UPS as the one for container lines to emulate.

"There are just three major players that always make money, and never appear to be short of capacity," he notes. Even when their planes are not full, they do not let their rates fall. Neither do their customers seem to complain.

"Hopefully, the liner industry will also get to that point," he says.

Once the industry is through the current unprecedented period, "we will see a more balanced situation" with enough capacity to cope with peak demand but with more disciplined behaviour that will see rate levels sustained even during slack periods.

That in turn will make supply chains more resilient.

He sees nothing wrong with the lines enjoying bumper profits right now because of the supply-and-demand disequilibrium, and points out that freight rates have been forced up by customers scrambling for ship space, and not by lines trying to profiteer from the crisis.

Container lines should not be blamed for the prices that shippers and forwarders are prepared to pay, says Mr Schacht.

"The carriers are doing whatever they can to provide enough capacity," he contends. "They have chartered what is available, and bought container equipment, but there is still more demand than supply, and so prices go up."

Over the past 12 months, he reckons lines have done whatever they could.

"I don't think anyone could accuse the carriers of antitrust behaviour. This is a pure supply and demand situation."

Prices are soaring in other industries as well, and yet there is no talk about collusion elsewhere.

"It is the shippers and forwarders that are driving up rates," says Mr Schacht. "The carriers are profiting but at the same time, customers should be happy, as without this capacity, global trade would not be possible."

Today's stratospheric freight rates will eventually come down, Mr Schacht predicts, but not to some of the rock bottom levels seen in the past. Cargo interests should be prepared to pay perhaps more than double the average rates of recent years.

"The low freight rates of the last 20 years most probably will not be seen again."

Although the containership orderbook is now picking up and currently approaching 20% of existing fleet capacity, Mr Schacht does not expect any serious over-capacity to return, or another slump in freight rates that at one time famously touched zero for the ocean leg of an Asia-Europe move.

Carrier-forwarder relationship

He also plays down industry talk of growing friction between freight forwarders such as K+N, and leading container lines that are moving into logistics activities. That makes the carriers both customers and rivals of forwarders.

Some lines have always offered door-to-door solutions, Mr Schacht notes, "so in some respects this is nothing new".

Now Maersk and CMA CGM, in particular, are expanding fully into logistics, "so we just have to be better and come up with better solutions," he says. "Sometimes we are partners, and sometimes we are competitors, and then the better one wins."

Around 4.5m teu was handled by K+N's seafreight division in 2020, making it the largest customer of most lines. So whether as a partner or competitor, "we have always survived next to each other."

K+N has a very good relationship with all carriers, "as we need them and they need us," says Mr Schacht.

He insists that he is not afraid of competition from container line heavyweights, with the market "so big" that there is room for all.

Shipping exempt from global minimum corporate tax rate

SHIPPING has been left out of the Organisation for Economic Co-operation and Development proposals for a global minimum corporation tax rate of no less than 15%.

The exemption — which applies to everyone from Maersk to the smallest shipping companies — will be welcomed by the industry, which had feared the possibility that at least the biggest companies by turnover may fall within the ambit of the rules.

Tax experts told Lloyd's List the statement published on July 1 is by way of an outline of intentions, and the actual rules are yet to be hammered out. However, the chances of shipping being caught up now appear small.

The new arrangements will come into place in 2023 and will likely mean big corporates pay $100bn a year more in tax than now.

The initial threshold will be turnover in excess of €750m ($889m) a year, falling to €10bn by the end of the decade.

Tax will be levied on profits above a 10% margin, based on where companies make their sales rather than their legal domicile.

Some 130 countries representing 90% of world GDP, including all G20 economies, are on board with the plan. But nine, led by Ireland, Hungary and Estonia, have refused to sign up.

Moreover, some of the backers — including the US — will face domestic political battles before they can officially sign up.

Even at this stage, critics insist there are loopholes aplenty, in the shape of special rules for sectors such as regulated financial services, mining, and oil and gas.

The idea of a global minimum tax is to prevent competition between states purely based on ultra-low taxation.

Such calls have been heard in policy circles for some years now and received new impetus after winning the backing of the Biden administration.

Inclusion in the scheme would have ended decades of de facto soft treatment for owners in many jurisdictions, and entirely scupper the business model of lower-end open registries competing in large part based on effectively zero tax.

To the consternation of tax justice campaigners, many flags — including both national and open registers — levy "tonnage tax", which is based on deemed daily profit per gross tonne rather than actual income and expenditure.

This makes it possible to calculate tax with reasonable accuracy over the lifetime of a vessel, which is vital in a cyclical industry.

Defenders point out that no tax relief is available on ships, fuel, offices and staffing costs, and no tax deductions are given for interest on financing shipping businesses.

Moreover, the tax remains in place even in years when shipping companies record losses. In the round, any advantage over companies paying standard corporate tax is smaller than it looks.

Industry representative organisations are strongly opposed to a minimum tax rate for shipping.

Last year the World Shipping Council, International Chamber of Shipping, European Community Shipowners' Associations and the Cruise Lines International Association outlined their concerns in a joint submission to the OECD.

The four trade associations cited the longstanding consensus that shipping profits should only be taxed in jurisdiction of residence, and that tax regimes should be assessed in the light of national policies to support national shipping.

A spokesperson for the ICS said: "We welcome the recognition of the unique status of the shipping industry in this conversation."

Olaf Merk, the OECD's expert on shipping taxation, and a high-profile public advocate of making shipping pay more than it does now, highlighted some of the apparent anomalies of the agreement.

"The decision to exclude shipping income raises the question what exactly is 'shipping'," he said. "If it is in essence all that a shipping company does, excluding shipping from a global minimum tax

could make terminal operators and freight forwarders wonder why they pay taxes for the same activities that for shipping companies are tax-exempt or partially tax-exempt.

Shipping-specialist tax lawyer Richard Stephens of Watson Farley & Williams said that the various exemptions had been an inevitable factor in finding agreement between so many countries.

"Most of the documents that come out are 500 pages long, this document is five pages long, so the level of detail is just not there. For shipping, there is just one line to say there is an exemption for international shipping.

"This is clearly not a final agreement, there is a long way to go between this announcement and the final rules. So, we can't be absolutely sure that shipping will be outside of the rules, but it certainly looks very positive."

While most shipping companies would be beneath the proposed turnover threshold anyway, inflation would erode that level, and political pressure may see it retrospectively reduced.

Decarbonisation regulations come to a head

THE next six months of shipping's decarbonisation regulations are set to be among the most consequential ones for the long-term trajectory of the industry.

A mix of radical European regulatory proposals, the start of global market-based measure negotiations and the most important UN climate conference since the 2015 Paris Agreement portend major developments that will push the industry into the next much more aggressive phase of its decarbonisation policy.

After the International Maritime Organization adopted new short-term measures targeting CO_2 intensity earlier in June — which many believe are too weak to meaningfully contribute to emissions reductions — the focus turns to those policies that will fundamentally change behaviours and help the development and adoption of low- and zero-emissions fuels.

Despite their evident disagreements, governments have agreed to start discussing mid- and long-term measures, including MBMs, as soon as October 2021.

With countries such as Japan, Greece, the UK, Canada, Germany and others supporting MBMs, the IMO's environmental meetings in October and November should see relevant proposals on the table paving the way for new negotiations.

And if not entirely new ones, there should certainly be proposals building on the $100 CO_2 levy proposed by the Marshall Islands and the Solomon Islands. Still the only concrete MBM tabled at the IMO, the proposal did garner promising words of encouragement during the recent environmental meeting.

In this climate of ever-increasing commitment to the reductions of emissions, it may seem inevitable that an effective global MBM will come for shipping.

Yet the explicit opposition of other key governments against MBMs also suggests that any negotiations will once again be protracted, tedious and their success not guaranteed.

The IMO's negotiations will be largely defined by the potential impacts of MBMs on developing states and finding a way to rectify them.

There will be no escaping this dimension to the negotiations and its prevalence will only grow as the stringency and effects of the new measures do too.

For all the challenges it faces, the IMO may receive a much-needed direction on the geopolitical and international climate diplomacy complexities, which may at times feel insurmountable for the global maritime regulator.

The UN's COP26 climate conference, taking place in Glasgow this November, could enhance international climate ambitions, raise expectations for the shipping sector and therefore provide a new impetus — and pressure — for delegations at the IMO, much like the Paris Agreement did, resulting in the 2018 initial greenhouse gas strategy.

Also lingering in the background is the industry's proposal for a $5bn research and development fund.

The proposal got another shot at life and the IMO will consider it again in November for a third time.

However, the proposal's identity is at stake; its supporters have repeatedly pointed out that this is not intended to be an MBM, only an R&D funding effort.

With MBM talks now on, the fund's proponents will have to convince doubters why it is still worth pursuing and should not be abandoned in favour of more pressing and time-consuming negotiations.

Whether they do or do not — and regardless of how the IMO progresses on MBMs — in July, the European Commission will unveil new proposals to include shipping in its carbon market and separately introduce new fuel standards for all ships calling European Economic Area ports.

These are only proposals, and they will have to undergo negotiations with EU governments and the European Parliament before taking a final shape that could differ vastly from original plans.

However, their arrival signifies the beginning of a new regional and unilateral approach to shipping emissions.

These may be replicated elsewhere as faith in the global solutions approach dwindles in the face of a growing desire to act faster and control the rules, while also reaping the financial benefits exclusively.

OPINION

Hot markets rarely translate into decarbonisation efforts

DRY bulk operators have made significant steps in meeting low-carbon shipping demands through embracing slow steaming.

But a strong dry bulk market has created a glass ceiling which rarely translates into efforts to decarbonise shipping.

Instead, vessels typically increase speed, upping emissions and leverage less efficient, older ships to meet demand, according to Chile-based dry bulk operator Nachipa.

"We are in a hot market, and while that has its advantages, it also means that ships chase berths and cargoes with greater intensity than usual," said chief executive Felipe Simian.

This translates into higher vessel speeds, reduced scrapping of older and less efficient ships, and other practices that increase carbon dioxide and other emissions.

"The frustration that many are feeling across the shipping industry is a discord between the emission reduction targets, and the timeline we have to achieve them," he told Lloyd's List.

Mr Simian says decarbonising the operations requires urgency and immediate action, and without government-backed stimulus, the industry will struggle to effectively achieve the regulatory targets — or stay above water.

"Realistically, there are two pathways for the sector to take here," he said.

The first is mandatory slow steaming as ships travelling at a low speed have produced better environmental results.

Mr Simian said a 25% reduction in ship speed can lead to more than 50% reduction in main engine fuel use, "so mandating this — over some more speculative regulations I see appearing — feels like a natural course of action".

"We cannot wait for a silver bullet, and I do not understand why we are not grabbing this low-hanging fruit."

The second option is to eliminate the "rush to wait" with readily available technologies and mediate the number of vessels arriving at terminals where they spend days or even weeks waiting to load or unload, he added.

Citing the example of Abidjan, on the Ivory Coast, or São Luís, in Brazil, he noted that there have been times this year when the ships have been waiting for about three weeks for a berth, yet ships are steaming at full speed to those ports only to join a queue.

Mr Simian believes that although the industry needs government stimulus and greater regulations, taking control as individuals is equally as important.

"The is our general policy at Nachipa," he conceded. "We have lowered the median age of our vessels, which is a huge contributing factor to emissions and are also big fans of slow steaming which significantly improves the impact we can have as individuals."

He added: "Regulations are largely devised for the collective, regardless of external factors, which can make it challenging for smaller operators like us."

Market forces mean that ships will accelerate when rates are good, and slow down when rates are bad — that's how it has always been, he agreed.

"But given how instrumental dry bulk cargoes are going to be — and in many ways, already are — for the green recovery and infrastructure needed in the coming decades, we could be waiting a long time until rates are weak again. We cannot afford to only act when the market is slower."

"Slow steaming creates a level playing field; a level playing field creates real, environmental change. Everybody wins."

Efficiency has role to play in fuel transition

SHIPPING will need to continue to look for fuel efficiency gains even as it moves to net-zero carbon fuels because of the low energy density of the fuels that will likely be used.

Speaking in a webinar, Mediterranean Shipping Co executive vice-president for maritime policy and government affairs Bud Darr said that efficiency remained one of the major means of reducing carbon now, and would remain so in the future.

"The low-hanging fruit of energy efficiency has already been picked but there are still some things we can do," Mr Darr said.

"We can optimise arrival times so we do not end up going faster at sea than we need to just have ships rushing to wait for a berth. There are also still some technology gains to be made."

The techniques learned in energy efficiency up to this point would be valuable in the transition to new fuels, he added.

"All of the really long-term alternative fuels that we are looking at to decarbonise have density challenges, whether it is green hydrogen, green ammonia, e-methanol or synthetic LNG," he said

"The less of the fuel that you need for the level of autonomy that you have to have for a ship, the shallower those hills are that you have to climb with those alternative fuels. You are bringing more of them into reality sooner by continuing the drive for energy efficiency."

MSC remains open-minded about what fuels will be successful, and Mr Darr warned against settling on a solution too soon.

"We need to be creative and not foreclose any options prematurely that may have promise. It is way too early to do that, and we cannot afford to bank on one single solution and be wrong."

But he warned the route to decarbonisation would not be a simple one.

"When you talk about green hydrogen and green ammonia, you're talking about renewable energy infrastructure to produce those that does not yet exist," he said.

"The production capability now is about 70m tonnes of ammonia per year. You have to create a mid-stream that doesn't exist yet and get it onto ships."

Moreover, shipping would not necessarily be at the front of the queue when fuels did become available.

"We're not the only one that think they are a good idea," he said. "But we're working with our providers today to see what the possibilities are not just for future ships but for those we have today."

Mr Darr called for regulatory frameworks that would provide a critical mass to get everyone "moving in the same direction".

"This is a global problem and it doesn't matter whether a gram of CO2 is emitted in Geneva or Durban," he said.

"It needs a global solution, so when we talk about regional or national measures we need to be cautious that there are not cascading effects that serve as a hindrance to getting what we ultimately need."

To that extent, he supports a two-fold approach to international regulation that encompasses both technical moves, such as EEDI and CII, but also market-based measures with a carbon pricing component.

"That is going to be central both to internalise costs that are currently externalised and ultimately, when solutions are readily available to help equalise the pricing between the new solutions and the old fuel."

But any tax must be directed towards solutions.

"They have to be thought through carefully and scaled the right way," he said. "This is uncharted territory when it comes to global assets and emissions."

ANALYSIS

Tankers: The only way is up

DEMAND for crude and refined products is rebounding — finally — but is not forecast to return to pre-pandemic levels until end-2022 at the earliest.

Tanker earnings have now remained weak for a third consecutive quarter. Rates are unprofitable on most routes for nearly all tanker types, with only modern, scrubber-fitted vessels able to exceed operating costs.

No recovery is expected until October, when extra seaborne cargoes to meet winter gasoil requirements and fewer transport and quarantine restrictions are expected to boost a moribund market.

So where is the market right now — and by how much will seaborne flows increase?

High crude prices from restrained output are good for the oil-producing companies that are members of the Organisation of the Petroleum Exporting Countries, but not tanker owners.

Shipments and tonne-mile demand from key Middle East Gulf producers and Opec members remain lower than 2019 and 2020 comparative periods.

The global trading fleet of some 2,800-plus crude tankers (panamax-sized and larger) is caught between Opec's battle for profits and the coronavirus outbreaks denting demand across Southeast Asia and Latin America.

Total tanker tonne-mile demand — which measures volumes carried by distance travelled — in the months from January to April is 12.4% lower than the year-ago period. Tonne-miles are also 9.8% down on 2019 levels, Lloyd's List Intelligence data shows.

Liftings from the Middle East Gulf, which accounts for 41% of global tonne-miles, are between 10% to 15% lower than the same four-month period over the past five years, according to data compiled by Lloyd's List.

In April, tonne-mile demand measured from the Middle East was down 29% on April 2020 — a month when an oil price war lifted volumes shipped to record levels. Tonne-miles are 17% lower than April 2019, with 40 fewer tankers.

The Opec-plus deal agreed by 21 producers removed some 9m barrels per day from the market a year ago and has so far returned less than half this.

An additional 5.7m bpd will be added to global demand for the last seven months of 2021, according to the International Energy Agency, suggesting that tanker rates have already touched bottom. Another 3.1m bpd is forecast for 2022.

Opec added 1m bpd to production over July, but with oil prices seeing two-year highs, buying has slowed from China, the biggest crude importer. This has occurred despite record refinery throughput.

Oil import growth

The economic powerhouse propelling global commodities demand and record prices is unlikely to arrest the decline in oil import growth.

Higher prices historically curb China's spending — and, with significant inventories, the country's national oil traders and refiners can afford to take their foot off the pedal.

On top of this, second-half crude import quotas for private refiners that account for one-quarter of capacity are going to be 35% lower, Bloomberg News reported on June 22.

In May, crude imports by India — until 2020 cited as a key driver of global crude demand growth — were at the lowest in 11 months, Lloyd's List Intelligence data shows.

When it comes to exports of refined products — India is a swing supplier of middle distillates — May exports reached 5.7m tonnes, the highest in 12 months, according to Indian government figures.

Demand remains well below pre-pandemic levels in other key consuming regions that underpin seaborne flows.

For the 27 members of the European Union, February imports of gasoil, jet fuel and diesel from outside the bloc were 15% lower than February 2019, at 4.4m tonnes.

Despite improved fundamentals, diesel demand in particular has yet to fully recover, affecting shipments from the east-of-Suez suppliers.

Instead, Russian imports to the EU27 now dominate, Eurostat figures show. This market is mostly served by handysize tankers shipping from the Baltic Sea ports, which adds the least to tonne-mile demand.

In the US, the Energy Information Administration estimates summer gasoline demand at 9.1m bpd, 400,000 bpd below 2019 levels.

One of the few positives is negative net fleet growth. Shipping analysts MSI forecast the suezmax fleet to contract by 1.6%, and VLCCs and aframax tankers by 1% this year.

Other vessel types also dominate newbuilding slots, which has trimmed the orderbook size and stalled future fleet growth, adding to positive sentiment for 2023 onwards for those able to see beyond the immediate headwinds.

That leaves the anticipated removal of US sanctions as the most influential variable facing tanker rates for the remainder of 2021.

Finding new ways to stay afloat

MUCH of the recent past of the ship finance world has made glum reading for shipping companies.

The stand-out trends of the past few years have been a stark reduction in the lending capacity available to shipping from its traditional banks and a crumbling of belief in the industry among capital investors of almost every stripe that has slowed public equity offerings and bond issues to a crawl.

On top of this, a widely trumpeted linking of future lending with shipping's carbon footprint has been largely interpreted as yet another barrier to confront the smaller shipowner in particular.

An industry conference recently heard that the combined lending portfolio of the top 20 banks in the sector has shrunk by about $120bn over the past decade, to about $250bn.

"It is a matter of fact that shipping is not getting the support," says Ted Petropoulos, a former shipping banker and founder of consultancy Petrofin, which has monitored global ship finance activity for many years.

Nonetheless, this still gives "a wrong impression", according to Mr Petropoulos.

"While bank finance is down — especially from the largest traditional lenders — you have a greater breadth of bank finance in the sector and these new banks are becoming more active."

By way of example, he cites banks from Australia and Southeast Asia that have discovered that lending to the industry can be done with relatively little risk — and that a gap has been left with some of the large European lenders dropping out.

To these can be added Greek banks that have been gaining market share in bankrolling Greek owners as the industry is core in their own country.

"When you ask why there isn't more capital despite shipping performing rather well in recent years, one of the factors is that for many large lenders in the US or Europe, shipping was not a core financing product and so has been relatively easy to cut out for some institutions. Many banks have also retreated to support mainly local businesses."

Leasing has also expanded to fill part of the gap in ship lending, especially as lessors widened their scope from newbuildings to cover secondhand transactions, too.

According to Shanghai-based Smarine Advisors, the shipping portfolio of Chinese lessors reached $66.5bn in 2020.

During the first half of 2020, due to the pandemic, there was a slowdown in fresh business flow — but despite this, Chinese leasing grew by 11% last year, according to Mr Petropoulos.

"Leasing is now a key source of finance and adds to a much more varied mix of financing than was the case in the past," he says.

"Altogether, we think that a lot of the industry bank finance has been replaced by other providers, including some that don't really publicise it.

"The proof is that the fleet is growing and somebody is financing all the newbuildings and secondhand acquisitions. Overall, finance is keeping up with the development of the fleet."

With at least two of the mainstream shipping sectors — dry bulk and containers — enjoying by far their best conditions for a decade or more, sentiment towards putting money into shipping is shifting.

This has been seen at institutional and retail investor level through the growth of so-called "financial shipowners" but also in a string of recent public markets deals.

Recent flotations such as Zim in New York and Taylor Maritime in London broke a long-running drought of initial public offerings, while there has also been an upsurge in trading volumes on both sides of the Atlantic, in bond deals and in merger and acquisition action.

Cautious banks

However, Mr Petropoulos remains sceptical that seeing shipping in the money again will prompt many leading lenders to regain much more of an appetite for the industry.

"Banks are going to continue being cautious. They are looking for protection to amortise debt," he says.

"The percentage of lending they are advancing is not keeping up with the price increases we are seeing for vessels. If you want better than 50%, you will need a period charter with a first-class charterer."

Recent comments by most of the major American and European banks involved in shipping — which are almost unanimously signed up to the Poseidon Principles — is convincing evidence that such lenders are unlikely to change their focus on larger, corporate-style shipping groups, with an increasing emphasis on companies' carbon footprints and overall sustainability posture.

"It's not a matter of whether you get an extra basis point off your margin if you do a green loan," DNB Bank's global shipping head Christos Tsakonas told a Marine Money conference in June.

"It's going to be a capital availability issue going forward. With most of us committed to net zero ambitions, it will be very difficult to allocate capital unless it is to projects that tick certain boxes. That's where things are heading."

On the same panel, Citi's global industry head of shipping and logistics, Shreyas Chipalkatty, said banks as well as owners faced challenges from the growing emphasis on sustainability.

"You have to throw out your current rulebook," he said.

"You can't use the same rulebook you have used to finance shipping for the past 30-40 years because you didn't have a gun to your head [then].

"We have a gun to our head now in terms of the environmental imperative, so we can't afford to allow another 40 years for the market to find financing solutions for this industry. We have to find new ways of doing stuff."

MARKETS

Seaborne trade growth back to pre-pandemic levels

SEABORNE trade is expected to grow 4.2% in 2021, according to Lloyd's List Intelligence data.

The total volume of seaborne trade fell 3.4% in the past year during the global pandemic.

Liquid bulk trade was the most affected, falling 9% while dry bulk dropped just 1.6% as tonne miles grew. Container volumes ended up contracting just 1.4%, according to the data.

LLI head of consulting Christopher Palsson said the world was more interconnected than in the 2008-09 recession, so trade had recovered faster by necessity.

"The only thing that holds it back is that we cannot get stuff out quickly enough," he said.

The problem had shifted from one of demand to supply, with the container shortage and port congestion exposing the global supply chain's fragility to shocks like the Suez Canal blockage in March.

Danish Shipping chief executive Anne Steffensen said the recovery in seaborne trade was reassuring.

"We're all getting richer by trading with each other. And for us in the shipping industry, it's nice to see that factories and consumers across the world have found each other and we have something to transport."

She said the growth rate would likely be lower in coming years, but still robust.

The pandemic had prompted speculation countries could shift production of goods closer to home.

But Ms Steffensen said such "near-shoring" was unlikely at scale, and any emergence of parallel supply chains would also benefit shipping.

Mr Palsson said future incremental trade growth would come from Asia and Africa, where populations and economies were growing faster.

Growth would be in places closer to where goods are already made, meaning less cargo to be carried, he said.

The World Trade Organisation expects global trade to rise 8% in 2021 after its 5.3% drop in 2020.

Congestion at Southern California ports caused by supply chain 'collapse'

THE chronic backlog of ships and containers at the San Pedro Bay ports of Los Angeles and Long Beach has been created by a variety of factors outside the control of marine terminals, according to a report commissioned by the Pacific Maritime Association.

"The terminal and vessel backlogs that occurred in San Pedro between July 2020 and March 2021 were the result of a cumulative collapse of the entire logistics supply chain," said the report for the PMA which represents 70 ocean carriers and terminal operators.

The global pandemic has led to "dramatic swings" in cargo volumes on the US west coast — from a "stark plummet" early in the pandemic to an "unprecedented surge" beginning in the second quarter of 2020 and continuing today.

This wave of mostly Asian imports has "stretched" the regional and national supply chains at "every point".

Over the year, the two ports have experienced "extreme cargo swings", falling to under 1m teu in March 2020, then nearly doubling to 1.8m teu a year later in March 2021.

Warehouses are filled to capacity, causing back-ups all the way to port terminals, made worse by shortages of shipping containers, rail cars, trucks and chassis to meet the enormous demand.

The report said the lack of warehousing has played a key role in the backlogs, as shown by the "limited and declining" vacancy rate of industrial warehouse property immediately around the ports and farther inland.

"Data shows that the vacancy rate of industrial warehouse space has been declining in the Inland Empire to under 4%, and is under 2% in the Los Angeles South Bay area near the ports," it says.

The lack of warehousing left shippers with few options for storing containers, apart from streets and marine terminals. Street dwell times for containers on chassis have hit "crisis levels", exceeding the industry "red zone" of six days continually since November 2020.

Early December 2020 and January 2021 saw peak street dwell times for chassis at nine days — a full week above the optimal level of one to three days.

The lack of warehousing space also meant that marine terminal dwell times for containers began increasing in July 2020 and peaked in January at over five days — more than twice the standard time.

The rise in dwell times on the streets and in the terminals meant more and more equipment was tied up, creating a growing shortage of containers and wheeled chassis to carry them.

The findings of the report indicate that the breakdown in "off-terminal logistics", rather than a lack of longshore workers at terminals, has fuelled the terminal and vessel congestion.

The International Longshore and Warehouse Union was able to respond to the terminal volume demand, "but the breakdown in off-terminal logistics systems led to the terminal and vessel congestion".

Mounting congestion

Although longshore labour hours reached historic

levels, production per hour dwindled due to the mounting congestion at the ports' marine terminals.

"With nowhere to locate additional containers, ships at the San Pedro Bay Port Complex declined or cancelled labour more than 1,000 times between last October and this March," the report said.

In November alone, more than 40% of container vessels at berth cancelled or declined labour gangs. As ships remained at berths longer, more and more incoming vessels had to be diverted to anchor, creating headline news.

While ships stayed at anchor up and cargo sat on terminals, the ports also saw "diminished rail capacity" through 2020 and early 2021, as reflected by the reduced number of intermodal trains moving daily through the Alameda Corridor — the ports' main rail connection to the national railways headed to markets in the east.

"From 2020 to the end of March 2021, the average number of daily trains through the Alameda Corridor was at historically low levels, reflecting potential rail car shortages, a shifting of service levels by the railroads, or both," the report said.

Since about 60% of intermodal containers are currently transloaded, the report said the capacity constraints and congestion at regional warehouse and transload facilities also affect discretionary cargo bound for markets east of the Rocky Mountains, "critical to the health" of west coast ports.

The Marine Exchange of Southern California, which monitors the region's vessel traffic, on July 1 said 18 containerships were at anchor in San Pedro Bay — nine each for the two ports.

It expects the arrival of 18 containerships in coming days, 12 going to berths and six to anchor. As others shift to berths, that means the number is well down from the high point of 40 at anchor in mid-February and 25 in April. Marex termed the trend as "steady to down".

IN OTHER NEWS

Costamare deal for 12 vessels boosts bulker fleet ahead of possible spin-off

COSTAMARE, the containership owner, has continued its re-entry into the dry bulk market, confirming it is now up to 28 bulkers.

The New York Stock Exchange-listed owner announced it had diversified just over two weeks ago, acquiring 16 bulkers, ranging from handysizes of 33,000 dwt and kamsarmaxes of 85,000 dwt. The most recent tranche of another dozen ships is thought to have remained within the same segments.

It is understood that larger bulkers including capesizes have not been specifically ruled out.

Cargo owners back ammonia-focused start-up

FIVE cargo owners are backing a Norwegian joint venture set up to develop ammonia-fueled bulk carriers.

Viridis Bulk Carriers, a start-up advocating ammonia use in short-sea shipping, has penned a memorandum of understanding with Elkem, Vestkorn, Biomar, Franzefoss Minerals and Saltimport to develop a zero-emission logistic system.

These incoming partners are exposed to a wide variety of commodities ranging from metal products to peas and beans to fish feed.

Pioneer Marine looks to expand following buyout

THE management of Pioneer Marine, a Greece-based bulker owner, has decided to proceed with a buyout.

Chief executive Jim Papoulis and chief financial officer Korinna Tapaktsoglou, along with the rest of the management team have agreed the move with the board of directors, Lloyd's List understands.

SIPG earnings surge on container shipping boom

SHANGHAI International Port Group, the main operator of the world's busiest port, has been boosted by a robust container shipping market.

The Shanghai-listed, state-owned company in an earnings forecast expects a first-half year net profit of Yuan8.5bn ($1.3bn), representing a 122.5% increase compared with the same period last year.

It said cargo throughput at the port of Shanghai recorded a substantial growth during the six months.

Star Bulk launches two share offerings worth $150m

STAR Bulk Carriers said it has launched two at-the-market equity offerings that could fund further vessels for what is already the largest dry bulk fleet publicly listed in the US.

The offerings, under sales agreements each for $75m worth of common shares signed separately with Deutsche Bank Securities and with Jefferies, may provide the Nasdaq-listed owner with proceeds of up to $150m in aggregate.

ATM offerings allow the banks, acting either as agents of the owner or as principals, to sell shares “from time to time” and Star Bulk said it has “no intention” of immediately starting sales under either offering.

CMA CGM delivers Little Lady Liberty to New York

A SMALL replica of the Statue of Liberty has arrived in New York by France in celebration of French-US relations.

The 9 ft (3 m) bronze statue arrived at the Port of New York & New Jersey by a CMA CGM vessel and will placed on display for the July 4 Independence Day.

“We gathered in this same place to celebrate the arrival of the largest vessel to ever call at these coasts in the United States of America CMA CGM Marco Polo,” said APM Terminals Port Elizabeth managing director John Palma.

Classified notices follow

Looking to publish a judicial sale, public notice, court orders and recruitment?

For EMEA please contact **Maxwell Harvey on +44 (0) 20 7017 5752 or E-mail: maxwell.harvey@informa.com**
For APAC please contact: **m&lapacsalesteam@informa.com**

IN THE SUPREME COURT OF GIBRALTAR
ADMIRALTY JURISDICTION

Claim No. 2021/ADM/004

Admiralty Claim in rem against the Vessel known as M.V. "Ocean Taipan"

BETWEEN

ING BANK N.V., SINGAPORE BRANCH

Claimant

- and -

The Owners of the M.V. "Ocean Taipan"

Defendant

Notice is hereby given as follows:-

1. The vessel herein, namely "OCEAN TAIPAN", has been ordered to be sold by order of the 17th day of June 2021, of the Honourable Mr. Justice Yeats, Puisne Judge.
2. Proceeds of sale have been deposited and paid into Court.
3. The order of priority of the claims against the proceeds of sale will not be determined until after the expiration of the period of 60 days from today's date.
4. Any person with a claim against the ship, or the proceeds of sale thereof, on which he intends to proceed to judgment shall do so before the expiration of the period above described.

Dated the 5th day of July 2021.

Lloyd's List Intelligence

Get a complete view from the trusted source for maritime data and intelligence

80+ expert analysts review, analyse and enhance data to give you the most validated view

Consultants provide you with the future view of the world fleet

Connections with key industry players provide you with exclusive news and insight

Choose the trusted source

Contact us today on **+ 44 20 7017 5392 (EMEA)** / **+65 6508 2428 (APAC)** / **+ 1(212) 502 2703 (US)** or visit **lloydslistintelligence.com**

Container Tracker

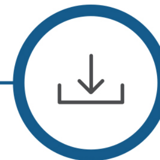
Save time. Stay compliant.

Track containers, not just ships

Simplify transhipment tracking with end-to-end downloadable data trails on containers – by container number or Bill of Lading.

Complete checks in minutes, not hours

Save time, with all the data you need in one interface, supported by tracking intelligence from over 600 Lloyd's agents worldwide.



Download the evidence

Downloadable reports ensure you have the necessary documentation to prove compliance, including specific end-to-end transhipment reports and more.

Request a demo:
America Tel: +1 212-520-2747
EMEA Tel: +44 20 7017 5392
APAC Tel: +65 6505 2084
lloydslistintelligence.com/containertracker