

Lloyd's List



INSIDE

Rodolphe Saadé

Decarbonisation derailed?

Shiprepairer gloom

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Can carriers contain a coronavirus cash crisis?





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Via Marchese Campodisola, 13
80133 Naples - ITALY

Phn +39 081 496 111
Fax +39 081 551 74 01

switchboard@grimaldi.napoli.it

www.grimaldi.napoli.it



The editor's letter

LINTON NIGHTINGALE

The numbers tell the story

Figures put forward by analysts and economists in an attempt to add some clarity to how shipping will fare in the fallout of the coronavirus pandemic make for sobering reading

Although the full extent of the coronavirus pandemic's impact on the global shipping industry is still difficult to gauge, the picture is becoming increasingly bleak.

Doom-laden forecasts make for sobering reading. And that is to put it mildly.

At the time of writing, the International Monetary Fund shared news that the world was on the cusp of the worst economic crisis since the Great Depression of the 1930s — one that will far surpass the more recent stock market crash of our lifetime in 2008-2009.

The IMF said that the world economy faces a 3% contraction in 2020. To put this into perspective, the deficit back in 2009 was recorded at 1%.

And the good news kept coming.

Shortly after the IMF made light of its solemn projection, economists too warned of a lost decade of growth for Latin America and the Caribbean.

In the context of our industry, British shipping economist Martin Stopford warned in a recent paper — modelling three scenarios for shipping in its recovery from the pandemic — of the grave consequences the industry will face in the case of a deep economic downturn.

Dr Stopford said in this instance — his worst-case scenario — seaborne trade will fall 15% by 2024. This would be followed by 0.7% cargo growth through to 2050, resembling the shipping recession after the second oil crisis in the early 1980s.

The short-term outlook is equally grave. For example, analysts are predicting that the container shipping industry stands to lose nearly \$1bn in 2020. This, though, is the 'best-case' scenario; the worst, losses of an eye-watering \$23bn.

Indeed, the months ahead will be challenging, to say the least. The numbers being bandied about are enough to unnerve even the most strong-minded optimist.

Webinar

Making sense and adding clarity to these uncertain times is no mean feat. However, for those looking for some answers, may I point you in the direction of our new weekly 'Ask the Analysts' webinar series.

The inaugural live broadcast will be held on April 29, when editorial experts from Lloyd's List will join colleagues from Lloyd's List Intelligence to answer your questions on any aspect of the shipping industry. For registration details and information on how to submit questions in advance, see page 33.

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DAVID OSLER
Finance editor

Shipping can help the world avoid mistakes of the 1930s

World trade could fall by around one third as a result of coronavirus. Governments need to ensure we don't get mired in another Great Depression

Only the oldest people now living have personal recollections of the Great Depression. Yet the imagery of the period is still burnt into the popular imagination, even nine decades later.

In Britain, we think of those iconic black and white photographs of the Jarrow hunger marchers, or that cloth-cap-clad unemployed man on a street corner in Wigan; the US has the film version of John Steinbeck's classic novel *The Grapes of Wrath*; in numerous other countries, the 1930s were blacker times still.

The question on many minds right now is whether coronavirus condemns us to rerun the economic — and perhaps even political — horrors our grandparents somehow lived through. This does not have to happen, nor should it be allowed to.

Undeniably grim

At this stage, the prognoses are undeniably grim. On the World Trade Organization's projections, world trade will fall anywhere between 13% and 32% this year before a rebound in 2021.

Even at the milder end of that spectrum, the reversal of fortune will exceed the 12.5% decline witnessed in the aftermath of the global financial crisis of 2008-2009. Our industry is still living with the outcome; just ask the devastated north German maritime cluster.

If we get even close to the top end of that

range, we are indeed reopening the history books. As Martin Stopford points out in his well-known work *Maritime Economics*, trade by sea declined by 26% between 1929 and 1932.

More than 20% of the world fleet went into lay-up and, by 1933, vessel values plummeted by as much as 99%.

Rapid rebound

The onus now must be on how governments respond to the challenges we collectively face, and finding the best way to bring about a rapid rebound.

Ninety years ago, that response was scarred by nationalist and protectionist impulses — and, when we survey the current crop of world leaders, there are many who seem all too obviously susceptible to similar temptations.

The priority will be to make certain that monetary, fiscal and trade policies are both set on an expansionary course and properly co-ordinated, across the G20 and beyond.

Given the chance, shipping can be depended upon to play its part in keeping goods moving, motivated not just by obvious self-interest but by an awareness of its real responsibilities.

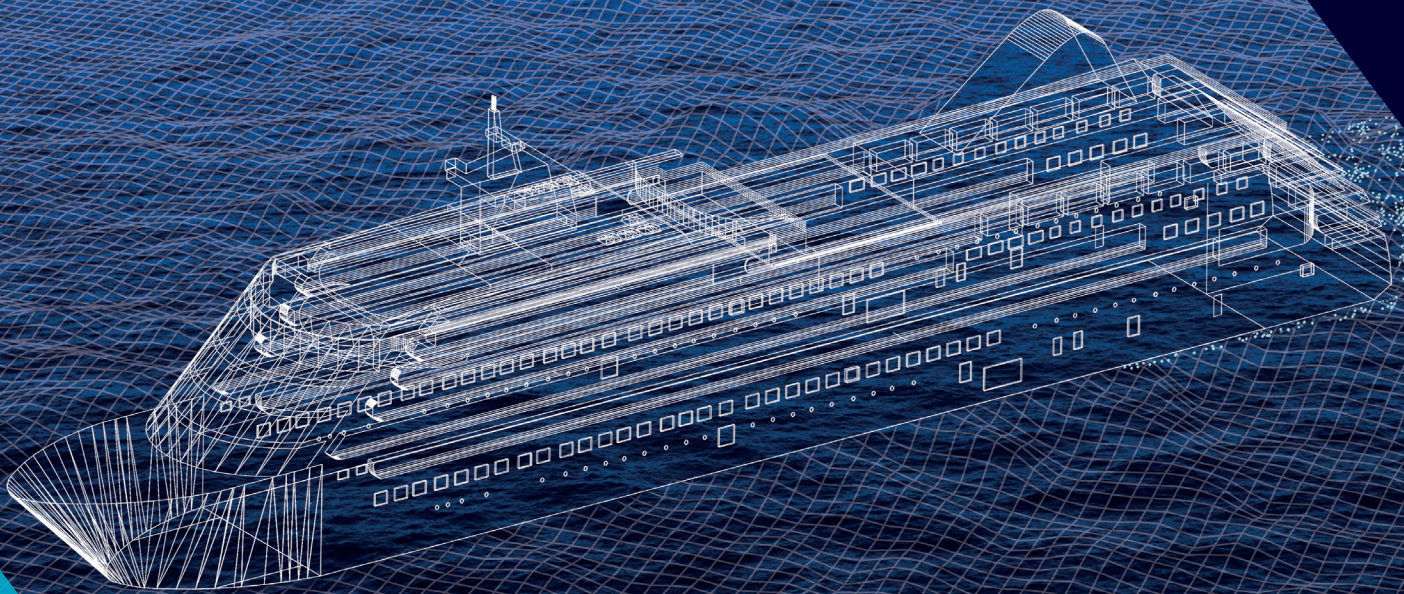
To stand a cliché on its head, this time we really do have the opportunity to learn from history, rather than repeat it.



The question on many minds right now is whether coronavirus condemns us to rerun the economic — and perhaps even political — horrors our grandparents somehow lived through. This does not have to happen



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RICHARD CLAYTON
Chief correspondent

What if coronavirus taught us to consume less?

The greatest threat to shipping has been identified by some to be climate change and by others to be cyber-security. As of now, Covid-19 is even more disruptive

Panelists at the recent Capital Link digital forum debated whether a return to the old 'business as usual' is the goal we should aim for.

Advocates of decarbonisation argued that not even the coronavirus interruption should delay the rate of change; financiers debated the merits of hunkering down or taking a risk.

Not surprisingly, shipowners in the audience didn't get much steer in any direction.

There is one challenge to shipping that rarely gets discussed, although it is probably even more troublesome: what would happen if the coronavirus taught us all to consume less stuff?

It's the ultimate fear for shipping, trumping a reduction in tonne-miles brought about by either near-shoring or protectionism.

What if consumers in Asia, North America and Europe decided they no longer needed to replace their smart phones every two years?

What if we all saw the environmental footprint of replacing our clothes every six months? What if we kept our cars for five or six years, instead of two or three?

Before long, the upward trend of globalisation would be stalled. Governments would focus on finding employment for their own people and manufacturing goods in-country that were — pre-coronavirus —

sourced overseas. People consuming less would feed through to lower levels of cargo and reduced demand for shipping.

Covid-19 has disrupted employment but the pre-coronavirus economy wasn't providing equal opportunity — as increasing levels of unrest testified.

While shipping was part of that problem, it did bring affordable energy, enable food availability and carry around the world the materials for sustainable manufacturing, healthy eating and good jobs.

The viral outbreak has shown that shipping was both part of the problem — and part of the solution.

Obligation to cut emissions

There is, of course, no 'silver bullet' in achieving shipping's obligation to cut emissions by 2050 to half the 2008 level.

New technologies are vital in this effort, both big and small. New fuels, new designs, new ways of working. They are all under development.

However, there is one disruption that could make all the difference for shipping, and it's a simple change no-one wants to think about: what if the coronavirus taught us to consume less?

It takes an epidemic to make us question the values of shipping's 'business as usual'.



What if consumers in Asia, North America and Europe decided they no longer needed to replace their smart phones every two years? What if we kept our cars for five or six years, instead of two or three?



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finalists



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The Lloyd's List Excellence in Shipping Awards are the industry's flagship awards programme, seeking to recognise and reward excellence and success within the industry, from large companies, established SMEs and promising start-ups.

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Category winners at these awards are then given the chance to be doubly recognised through automatic inclusion as finalists in the Lloyd's List Global Awards.

To find out more about the 2020 awards, visit: lloydslist.com/awards or contact: natasha.dwyer@informa.com



Top tips for entering the awards:

1. Check your entry meets the criteria

You'd be surprised how many entries get rejected due to a simple mistake such as being in the wrong category, year or region.

The judges will check your entry against the criteria. You should too.

2. Stick to the word limit

No-one wants to wade through an overblown entry full of frothy platitudes on why your entry is the absolute best.

The limit is 500 words. Stick to it.

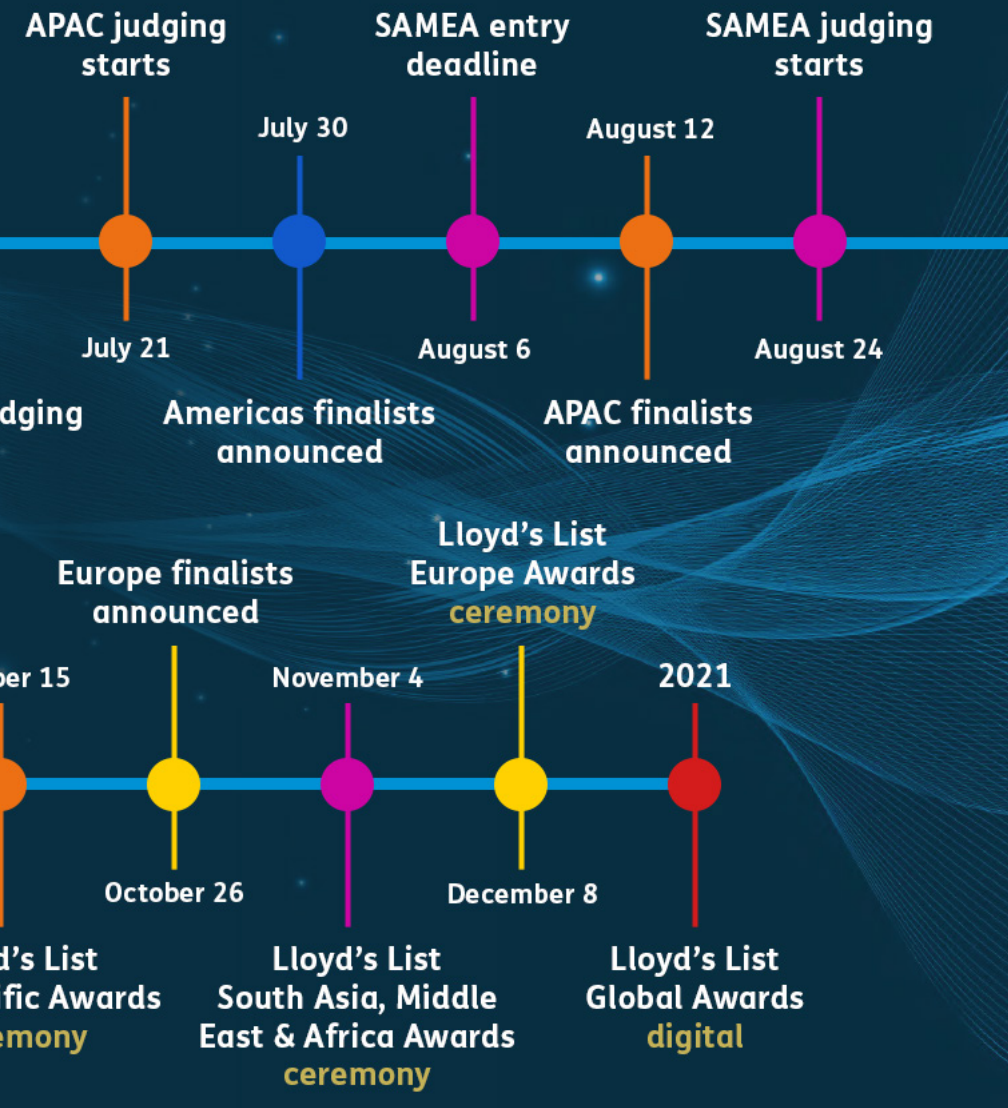
3. Provide online supplemental information

Our judges do a surprising amount of research into the shortlisted entries.

Make their job easy by including links to online videos, webinars or articles that support your entry.

celebrating excellence

Awards: 2020 timeline



Our awards this year

Our industry is facing difficult and unprecedented circumstances.

The global coronavirus pandemic crisis and market upheavals are placing significant pressure on maritime businesses worldwide.

Despite facing challenges that would have been unimaginable a year ago, those within the maritime industry are responding with strong dedication and purpose.

We believe it is this commitment to solving these unexpected and complex problems that will help contribute to the re-establishment of movement and trade, the regain of balance and the recovery of economies.

We feel it is important to remain fully committed to all the extraordinary individuals within the maritime industry, to recognise and celebrate outstanding achievements, and to support each other.

We hope you'll join us.



4. Enter more than one category

There is no limit to the number of categories you can enter.

A single project, deal or technology solution could work for a number of categories.

5. Set free your inner journalist

Reporters at media school have 'what, where, when and how' drummed into them from day one.

What is the entry about? Where did it take place? When did it happen? How did it come about?

6. Hit the deadline

Late entries don't count. No-one wants that. After all, you can't win if your entry doesn't count.

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- Dr. Anil Sharma
Founder & CEO

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Container shipping's coronavirus cash crisis

A special report



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Container shipping's fragility at the hands of an increasingly volatile global market was laid bare after Hanjin's exit from the market.

Coronavirus: a storm too many

Navigating the coronavirus storm could prove too great a challenge for even the sturdiest of container shipping stock, **Linton Nightingale** reports

Container shipping is on the ropes. Make no mistake, the coronavirus storm has the potential to rock the industry — and then some.

Issues at the top of the agenda in boxship boardrooms at the turn of the year now pale in significance to the crisis that has effectively brought the global economy to its knees.

Indeed, digitalisation, decarbonisation and even the sulphur cap — which was initially billed to be the big story of 2020 — have taken a back seat as the industry faces up to what promises to be its biggest ever single challenge, amid an already tumultuous history. The focus now switches to survival.

Even conservative estimates point to full-year losses approaching \$1bn for 2020, with global container liftings anticipated to drop by as much as 10% on last year.

However, this comes with the caveat that lines will refrain from reverting to their old tricks of chasing market share, sparking a price war in the process. Given carriers' previous form, this is no given.

The worst-case coronavirus scenario for container shipping is sobering, to say the least. Failure to get its house in order could cost the industry as a whole more than \$23bn, according to shipping consultancy Sea-Intelligence. This eye-watering sum leaves little doubt that the crisis will have its casualties.

Yet as alluded to above, container shipping is no stranger to adversity. The global financial crisis that sent the world's stock markets crashing in 2009 hit the liner industry harder than most. In the years that followed, it led to overcapacity, weak freight rates and rising debt levels, which all took their toll.

High-profile casualty

The impact proved too much for some, as each passing year, the shutters came down on some of the industry's most celebrated and illustrious names, eventually culminating with its most high-profile casualty in 2017, South Korean giant Hanjin.

The ghost of Hanjin still haunts the industry to this day. Losing one of container shipping's stalwarts was a stark reminder to those that have survived until now how quickly fortunes could turn in an industry that once appeared untouchable when, before the financial crisis unfolded, year upon year of exponential growth was considered the norm.

Hanjin's exit from the box shipping scene also laid bare the sector's fragility at the hands of an increasingly volatile global market.

Some carriers, though, were more fortunate than the hapless Hanjin. Those that may well have followed a similar path were snapped up by the larger carriers through merger and acquisition, as part of an unprecedented era of consolidation.

Today, the container shipping elite has been whittled down to fewer than 10 who can lay claim to being truly global players.

However, this market concentration has enabled these lines not only to cement their market dominance, but also gain the scale, scope and access to regional trades they have long craved.

Even so, the carriers now operate on the trunk trades under the banner of three core alliances, The Alliance, Ocean Alliance and 2M, as a necessity to ensure the ships — ordered through a period of seemingly relentless vessel-upsizing in the quest for scale economy — are full and slot costs are kept low.

Change of tack

Indeed, bringing down costs and operating more efficiently was driven home in the fallout of the global financial crisis of 2008-2009, prompting a change of tack among container operators if they too were not to succumb to those that had fallen before them and stay afloat.

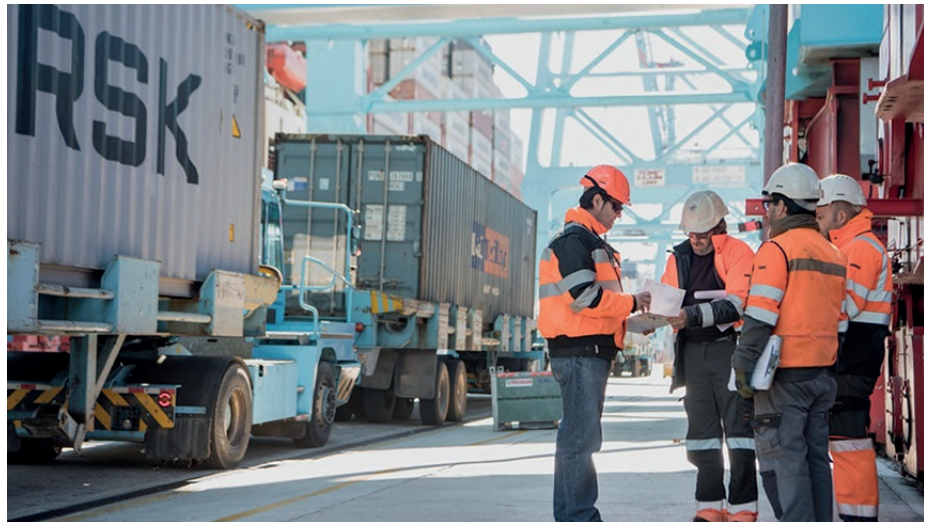
While vessel-sharing agreements and alliances were deemed a must, so too was the digitalisation of the broader business to simplify long and tired processes, as revenue-generators and for trimming costs — but also the diversification of the traditional liner shipping business.

Whereas before the ocean leg took preference, emphasis has since switched inland. While some have opted to drive as much business as possible through affiliated terminals, others — most notably Maersk Line and CMA CGM — have looked to an all-encompassing logistics offering to customers.

This notion of vertical integration, by varying degrees, has enabled carriers to spread risk, but ultimately — and more importantly — widen their grip on the end-to-end supply chain.

Nevertheless, this concerted move inland is a long play. Success would never be born overnight and teething problems — as seen with CMA CGM's takeover of logistics specialist CEVA — were to be expected.

Yet these measures, in addition to widespread cost-cutting and a newfound restraint on vessel newbuilds to a more manageable and absorbable level, had — at the very least — increased confidence that container shipping's future would be of firmer footing.



Maersk Line has looked to an all-encompassing logistics offering to customers.

“*Cost-cutting, slot-sharing, and vertical integration, which have sought to put the industry in good stead, can only go so far, if the volumes are not there to support the fundamentals of the business*”

The introduction of the sulphur cap may have scuppered this goal to some degree, but this was only deemed to be a short-term issue — if, of course, carriers were able to pass on transitional costs to shippers.

Fast-forward to April and carriers would be ecstatic if the new legislation was the only issue it had to contend with. Although the industry would likely take a substantial hit, it was a hit it could just about manage.

Then came the coronavirus pandemic.

Cost-cutting, slot-sharing and vertical integration, which have sought to put the industry in good stead, can only go so far, if the volumes are not there to support the fundamentals of the business. It is this factor that underlines container shipping's predicament.

The only consolation is that the associated rising fuel costs from the sulphur cap have essentially evaporated due to the collapse of the oil markets. For now, though, these thoughts are secondary.

As the industry tries to get to grips with the cargo shortfall, the weapon of choice

at the disposal of the carriers has been an extensive blank sailing programme.

Service cancellations have grown in intensity and number almost by the week, as lines hastily try to keep rates at a respectable level amid the demand downturn.

However, this is no long-term fix. There is a limit to how long carriers can withdraw ships from service, no matter how deep the pockets of certain parties may be. And there is no certainty when volumes will return to normal.

Although China and other parts of Asia are beginning to ease lockdown restrictions put in place to limit and contain the spread of the virus, there is still no sign as to how long it will be until the western world follows suit.

For container shipping, reliant on a weighty consumer purse in the western world, the hope will be that the lifting of restrictions will come sooner rather than later.

However, the industry will be mindful not only of the overhanging threat of a second wave of infection, which will see lockdowns reinforced, but also how consumer confidence will take time to return.

The reverberations of such an economic hit will prove a considerable stumbling block for wage increases — and, with it, disposable income — while the threat of unemployment looms large.

The reality is that it could be some time before countries and economies regain their feet to trigger the much-needed volume rebound for the container industry.

This is time that many carriers, both small and large, can ill afford. Riding out the coronavirus storm could prove one storm too many for some and test the resolve of even the sturdiest of lines.

Weathering the storm



Esteban De Armas/Shutterstock.com

While the impact of the coronavirus pandemic will be felt across the industry, some will be better able than others to ride out the storm.

James Baker, Cichen Shen and Janet Porter assess the state of play among container shipping's chief protagonists and how the individual lines are likely to fare in the fallout of the coronavirus pandemic

The container shipping sector is set to embark on one of the most challenging periods of its history, as the impact of coronavirus hits home. This analysis looks at the ability of the major carriers to weather the proverbial storm.

European carriers

Maersk Line:

If “might is right” turns out to be the way to survive the coronavirus crisis, Maersk is in a strong position.

The world's largest carrier, with a fleet capacity of just over 4m teu, is in the process of converting its business from that of a shipping and energy conglomerate to that of an integrated provider of container logistics.

The transition, which began back in 2016, has seen the Copenhagen-based company extract itself from the energy markets and link up its container shipping assets — which include the line itself, with its terminal operations — and increasingly focus on the whole logistics supply chain, from customs brokerage, warehousing and inland transportation.

Maersk was initially upbeat following the outbreak of coronavirus in China and the factory closures that followed the lunar new year. In its 2019 results presentation, chief executive Søren Skou was optimistic for a V-shaped recovery in volumes after factories

returned to production. That, however, was before the outbreak became a pandemic and localised supply issues became a global demand slump.

A month later, the carrier suspended its guidance for the year due to the uncertainty over world trade and the impact of efforts to reduce the spread of the virus.

Yet financially, Maersk is in a better place to weather the storm than some of its rivals. A healthy cash return in 2019 allowed it to trim its debts by \$3.3bn and, at just under \$12bn, this is manageable, given the company's revenues.

In a recent update to customers on the impact of coronavirus, ocean and logistics chief executive Vincent Clerc said that while the impact of the crisis was starting to be felt across the business, the company remained determined to keep its ships sailing, ports operating and global trade moving.

“While the current situation is unavoidably adding pressure to our business too, we want to reassure you that Maersk went into this situation from a position of strength and is a well and conservatively financed company, with a solid foundation to see you and your important cargo through these volatile times,” Mr Clerc said.

Nevertheless, like most carriers, it has had to radically restructure its network in line with falling demand.

“We believe that it is our responsibility to right-size in order to protect our cost position, both to be able to weather these storms but importantly also to ensure that you have a partner who cares for the integrity of your supply chain as we look to lifting the world out of this crisis,” Mr Clerc said.

The outlook for the remainder of the year continues to be obscured by the pandemic. It is likely further service cuts and retrenchments will occur before volumes being to pick up again.

However, as trade does eventually return, Maersk, with its increasingly deep roots in the supply chain, is likely to be in a strong position to benefit from the upturn.

Hapag-Lloyd:

Hapag-Lloyd was one of the first carriers to admit that the coronavirus outbreak was likely to have a serious impact on container shipping this year.

In an interview with Lloyd's List in early March in Long Beach — where he had been due to speak at the TPM conference that was cancelled due to the outbreak — chief executive Rolf Habben Jansen said 2020 held an “extraordinary amount of uncertainty”.

At a time when others were talking of V-shaped recoveries and expecting volumes

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to pick up by April, Mr Habben Jansen changed his default stance of cautious optimism to that of being “not overly optimistic” about the year ahead.

As the crisis deepened, Hapag-Lloyd reacted by reining in costs and slashing capacity.

By April 1, the day on which HMM formally joined The Alliance — the vessel-sharing agreement that includes Hapag-Lloyd, Ocean Network Express and Yang Ming — Hapag-Lloyd announced a swathe of blankings across the network.

The Alliance has cut one quarter of its capacity on the Asia-northern Europe trade during the second quarter and a staggering 44% on the Asia-Mediterranean trade.

On the Europe-North America route, where Hapag-Lloyd has a strong history, the capacity cut is less than 10% — but on the transpacific, it has cut services by one fifth.

This conservative retrenchment will help save costs and, with luck, will help maintain rates as volumes decline.

Hapag-Lloyd, like Maersk, has done a good job in lowering the debt burden it built up through its growth phase, when it merged first with CSAV and then with United Arab Shipping Co.

“We’ve always had a fairly conservative financial policy and that is why, for the past two years, we have said we would bring down our debt,” Mr Habben Jansen said.

“That means that today, our balance sheet is strong. That is very comforting in a situation like now. If your balance sheet is more strained, you quickly get into all sorts of difficulties that you would like to avoid.”

Hapag-Lloyd reported a healthy rise in profits last year to \$418m on revenues that rose 3% to \$14.1bn. In addition, almost \$1bn in financial debt was repaid during 2019, reducing financing costs for the company.

Alphaliner noted that the line’s Altman Z Score — a mathematical formula developed for measuring the likelihood of bankruptcy — stood at 1.92, the highest of any in the sector. Any number under 1.5 indicates weakness. However, it added that Hapag-Lloyd was also among those that had negative working capital, where current liabilities exceed current assets.

Yet according to the consultancy Sea-Intelligence, Hapag-Lloyd’s high level of owned rather than chartered ships — a legacy of its recent mergers — gives it the highest ratio of ownership of the major carriers.

“In the current situation, this provides them with the most solid base, should it be necessary to invoke sale and leaseback to weather the current financial storm.”



As the crisis deepened, Hapag-Lloyd reacted by reining in costs and slashing capacity.

Mediterranean Shipping Co:

Mediterranean Shipping Co is suffering along with every other container line from a massive disruption to world trade after the big consumer nations locked down their economies to help control the spread of Covid-19.

However, the privately owned group controlled by the Aponte family has also been hit by the collapse of the passenger shipping sector, which forced it to suspend its entire cruise line operations.

Then, over Easter, MSC had a third setback when a cyber-attack shut down computer systems at its Geneva headquarters for five days, although its global agency systems continued to function normally.

MSC group president and chief executive Diego Aponte has written an open letter setting out actions taken in response to the pandemic.

He also stated that “as a truly global group of companies, with a stable financial position across our various businesses, we are in a position of long-term strength”.

In truth, very few people outside the family know much about the group’s finances, but for the 2020 first quarter, MSC was probably in fairly good shape.

Cashflow would have held up because of the advance payment of cruise bookings, plus the settling of container freight invoices up to the end of March for cargo moved prior to the Chinese lunar holiday and extended factory closures. That reflects the way in which container lines are paid for shipments carried on a free-on-board basis.

The real crunch will come in the weeks ahead as the full impact of MSC’s shutdown of its cruise operations — and the slump in retail spending — depresses revenues.

MSC’s terminals business is likely to be the least affected by the global economic downturn, but the group nevertheless faces tough times in the months ahead.

“The Apontes [at MSC] are smart. They will find a way round this. Somehow, they keep managing to pull rabbits out of the hat

Industry talk that the younger Apontes would prefer to focus on its profitable cruise business than low-margin container shipping is pure conjecture — but if correct, the family may be having second thoughts.

As to how it will emerge from the crisis, most industry insiders expect MSC to survive relatively unscathed.

The recovery will be helped by the arrival later in the year of former top Maersk executive Søren Toft as head of MSC’s cargo operations, who is likely to cut costs as part of an efficiency drive.

“The banks won’t let them go,” said one industry expert who knows MSC well.

“The Apontes are smart. They will find a way round this. Somehow, they keep managing to pull rabbits out of the hat.”

CMA CGM:

CMA CGM is on everyone’s watchlist.

The French group that ranks number four in the world in terms of containership capacity is widely admired for the leadership it has shown on environmental matters, including the decision to power its newbuildings with liquefied natural gas rather than wait for an industry-wide decision on fuel.

Over the years, it has also been at the forefront of consolidation as it built up a global network through a mixture of organic growth and acquisitions.

For the most part, CMA CGM has a good track record of identifying and then integrating takeover targets.

However, its latest acquisition — the \$1.6bn purchase of Swiss group CEVA Logistics — has not gone smoothly and many industry-watchers think it was a mistake, given CMA CGM's struggle so far to achieve the promised synergies and retain customers.

Nevertheless, group chairman and chief executive Rodolphe Saadé is confident it was the right move, given the need for container lines to be able to offer fully integrated end-to-end services and not just port-to-port deliveries.

Mr Saadé has the support of Robert Yildirim, who has a 24% stake in CMA CGM following his \$600m bailout a decade ago, when the French group was deep in the red after a wrong call on bunker hedging.

Mr Yildirim says CMA CGM is in good financial shape and expects the shipping industry to pull through the pandemic emergency in a better condition than many other sectors.

However, it is CMA CGM's level of debt — approaching \$18bn — that has unnerved the

bond markets and persuaded Moody's to put the group's credit rating under review for a downgrade. CEVA's credit rating has been downgraded already.

Both Mr Saadé and Mr Yildirim note that the debt figure has been inflated by new global accounting rules, and that it will come down following the \$1bn disposal of some port assets, plus sale and leaseback transactions.

Nevertheless, CMA CGM is still regarded as vulnerable, with uncertainty about whether the French sovereign fund, Fonds Stratégique d'Investissement, would step in again on the same scale as it did in 2010, given many more pressing demands for financial support and numerous other container line alternatives.

Because of Covid-19, "a lot of carriers will really struggle to repay their debts", one industry source observed.

"CMA CGM will be okay in the next month or two because of cash flow."

However, the impact of blanked sailings and the collapse of consumer spending will start to be felt in the late spring and early summer, which is when CMA CGM is likely to have some difficult conversations with its bankers.



CMA CGM, with a level of debt approaching \$18bn, is regarded as vulnerable.



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Asian carriers

Cosco Shipping:

Chaos is a ladder. Even though the coronavirus pandemic is eroding consumers' demand for containerised products, equity analysts in China still gave a "Buy" recommendation to Cosco Shipping Holdings' Shanghai-listed shares after it published its 2019 annual results.

This is, of course, partly due to the immature short-selling mechanism in China's stock markets, which leads to few bearish rankings by analysts on individual stocks. However, the long position also reflects their perception of the liner shipping markets and the country's state-owned enterprises.

CSH, which controls two carrier brands — Cosco Shipping Lines and Orient Overseas Container Line — and the world's third-largest fleet in this sector, posted impressive financial results for 2019.

Yet analysts' confidence was also underpinned by the vessel capacity discipline displayed by shipping lines following the wave of industry consolidation in recent years. That means freight rates can be maintained despite slack demand.

"Under the box shipping model of high operating and financial leverage, no major carriers can afford a decline in both liftings and rates," said Shanghai-based Shengwan Hongyuan Securities.

Market movement has been supportive to the argument, with increasing blank sailings from carriers on east-west main lanes, where rates are relatively stable.

If the virus-led recession persists, carriers may even consider redelivering chartered vessels to further reduce supply, CSH's deputy head Chen Shuai told analysts.

A cut-throat price war for market share is certainly not favoured by Mr Chen. Without it, larger carriers will be able to cash in on their economies of scale.

For CSH, its acquisition of OOCL in 2018 appears successful so far. The deal helped expand the company's fleet capacity by more than one third.

Last year, revenue per teu from the combined box shipping business increased by 1.8% year on year, while cost per teu dipped 1% in US dollar terms on a comparable basis.

The Chinese analysts said they were waiting for the "turning point" — the time when foreign countries, especially the large consumer nations in the west, can have the public health crisis under control — for leading carriers such as Cosco to reap the rewards.

Yet the turning point may come earlier, should something similar to the 2016 Hanjin



Chinese analysts are waiting for the "turning point", when Cosco may reap the rewards.

Shipping bankruptcy occur amid the current challenging market conditions, said Shengwan Hongyuan Securities.

"The industry leaders are expected to become the final winner in this crisis," noted China's Tianfeng Securities when commenting on CSH's results.

These views are embedded with a perception that the state shipping giant is "too big to fail" (probably more so than any of its competitor carriers) and it can even take the opportunity to continue acquiring smaller rivals who will not sustain the market trough, which may become unprecedented for the sector.

The risk is, of course, is that the downturn becomes too deep and lengthy for anyone to win out. Or it could be the fear of a global takeover by the Chinese — as demonstrated in a recent speech by EU competition commissioner Margrethe Vestager — that is growing and spreading along with coronavirus.

Evergreen Line:

Evergreen Line is among the few most low-profile and mysterious liner shipping carriers. Its top management seldom speak to the press or at public events.

The business is not entirely listed on the stock exchange, so a full picture of its operating and financial performance remains elusive to outsiders.

However, the coronavirus outbreak is causing a big headache to the entire liner shipping industry. Even the players with relatively strong finances cannot be excluded from the impact and will be under strain should the economic shockwave develop into a prolonged global recession.

For Evergreen Line, the world's seventh-largest carrier in the sector, the first-quarter revenue figures released by its Taipei-listed unit Evergreen Marine Corp (Taiwan) has at least revealed part of the stress.

The company's revenue in February and March contracted by 7.7% and 5.9%,

respectively, with increased blank sailings. April and May could prove to be worse, as more service cancellations are introduced.

While incomes are shrinking, cashflow becomes critical.

Some industry observers believe the deep pocket of its parent conglomerate, Evergreen Group, and the latter's long-established relationship with lenders will help strengthen the shipping business's balance sheet and bolster its capital.

However, this helping hand may be diverted by the group's embattled airline division, which has been hit even harder by the virus fallout.

Back on the shipping side, it is difficult to fathom the debt ratio of the Taiwanese carrier. Yet it is worth noting that Evergreen has the sector's largest orderbook — 64 ships, or nearly 54,000 teu, according to Alphaliner.

A large number of these newbuildings were expected to be delivered this and next year, which would increase pressure for spending and financing unless the handovers are pushed back.

The current low bunker price will provide some relief, although the accompanying thin spread between very-low-sulphur fuel and high-sulphur fuel is not favourable. Evergreen Line is one of the sector's frontrunners of scrubber instalments, while the upfront costs for that equipment are stretching budgets for many carriers.

Luckily the Taiwanese government recently said it was working on some rescue plans, including T\$50bn (\$1.7bn) in aid funds for domestic airlines and another T\$30bn for its shipping firms.

What is also positive is that the three major shipping alliances seem to have displayed continued discipline on capacity deployment. This will help avoid another price war that could significantly deepen the sector's losses.

That said, the succession battle between the sons of Chang Yung-fa, founder of

Evergreen Group, appears to have been reignited earlier this year. This may add another layer of uncertainty over what direction the multi-billion-dollar business empire will take.

The hope is that the nimbleness and entrepreneurship that has been demonstrated by the family business over the past half century will help it turn crises into opportunities once more.

Ocean Network Express:

“As ONE, we can.” The Singapore-based carrier, the world’s sixth-largest, attested to its motto last year when it overcame its teething problems and turned around from losses to profits. So can it do it again this time?

That forecast, in hindsight, now looks overly optimistic.

Affected by the coronavirus outbreak in China, volumes on ONE’s eastbound transpacific services fell by one fifth in February compared with the previous year, according to the line’s latest available liftings figures. Westbound services to Europe were also down by more than 8%.

Meanwhile, the \$75m extraordinary losses booked by Mitsui OSK Lines for ONE appears another ominous portent.

MOL, one of the three Japanese parents of the liner shipping joint venture, said the losses reflect “the trend of both charter rates and vessels’ costs in our assumption”.

Now the situation seems more parlous. The virus has become a pandemic and has driven the global economy into a recession. The continued lockdowns in big consumer countries are crippling container trade demand, and a recovery is not yet on the horizon as the disease remains rampant.

Carriers have increased efforts in capacity withdrawal to shore up freight rates. The Alliance, where ONE is a member, announced in early April a string of blank sailings and route mergers for May and June on the Asia-Europe, transpacific and Asia-Middle East trades.

That followed the decision by ONE to suspend its China-Australia service, which it jointly ran with Maersk and MSC.

Sea-Intelligence forecast a 10% reduction in volumes this year, based on experiences of previous steep recessions. This would reverse the industry’s \$5.9bn profit in 2019 to an \$800m loss in 2020, even if rates can be maintained at their current level, the consultancy says.

However, for a midsized carrier like ONE, having a relatively small market exposure in an extremely bad market is not necessarily a disadvantage, provided the company has a strong balance sheet.

The latter will depend not only on its



Having overcome its teething problems, solidarity is now needed by ONE more than ever.

own efforts in cost reduction and service optimisation but also on the firm support from its parent companies.

The way MOL, NYK Line and K Line merged their container shipping business was an innovative practice to the industry of creating a bigger carrier. It was also a showcase of the Japanese group’s solidarity. This solidarity is now needed by ONE more than ever.

Others:

Ever since Hanjin Shipping’s bankruptcy, the industry cannot help gauging who will be next.

The coronavirus pandemic has driven the world economy into possibly its worst recession since the Great Depression some 90 years ago. This is putting the survival of container shipping lines to the test.

Judging from their financial status, almost all the main carriers have either a high or very high chance of bankruptcy, according to the Altman Z-Score results posted by Alphaliner in a recent report.

Some may wonder, while those biggest ones are arguably too big to fail, how resilient are the smaller players?

At the bottom of the ranking are HMM and Yang Ming, the world’s ninth- and eighth-largest carriers, respectively.

They are now members of The Alliance and share other common ground: both are state-owned. The former’s largest shareholder is policy lender Korea Development Bank, following the bailout in 2016; while the latter is approximately 45% owned by the Taiwanese government.

Despite the consecutive losses and sky-scraping debt ratios in recent years, the odds for closing shop or being a takeover target appear low, as the two are flagged as “national carriers”.

Yang Ming chairman Bronson Hsieh previously said the company’s cost pressure will reduce substantially this year with the redelivery of some old chartered tonnage.

Meanwhile, HMM’s fleet expansion is beginning to materialise as it starts to take delivery of its 24,000 teu series in the second half of 2020 — provided there is no delay in the schedule.

Another carrier sitting low on the list is Singapore-based Pacific International Line, whose financial woes have been thrust into the spotlight in recent months.

In April, the company published its full-year results for 2018 and half-year report for 2019, which have been long overdue. Its results for the whole of 2019 remain available.

From what can be seen, the figures are not encouraging. Net losses stood at \$254m for 2018 and \$35m for the first six months of last year.

As of mid-2019, PIL’s total financial debt, including lease liabilities but excluding amounts due to related companies, amounted to \$3.9bn. Among these, \$1.3bn are current liabilities due within a year.

Its Hong Kong-listed subsidiary, Singamas, also confirmed that the parent group was in discussions with multiple creditors to settle deferred payments, including \$147m owed to Singamas.

However, in a recent interview with Lloyd’s List, PIL chairman SS Teo denied bankruptcy rumours circling about the company. He suggested the string of asset disposals in recent months were not fuelled by a need to trim down debt, but rather by a desire to rationalise the family-owned portfolio in the light of unfolding unfavourable macroeconomic forces.

Among all the “smaller” carriers on the list, Wan Hai Lines looks to be in the best position. This Taiwan-based, privately run intra-Asia specialist has always been viewed by the industry as a perfect example of a “small but beautiful” carrier.

The company posed about \$118m net profits for 2019, more than doubling the level seen in 2018 in the process. It was also capable of paying \$186.8m in total for two young 12,000 teu ships sold by PIL in March.

Even so, it did not manage to escape from the downgrading by Taiwan Ratings from “stable” to “negative” amid the coronavirus shockwave.

The rating agency said the shrinking international trade volume caused by the spreading disease could decimate Wan Hai’s cashflow this year and the path to a recovery next year was “highly uncertain”.



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From a strategic viewpoint, the drastic change in trade volume is a condition thrust upon carriers that they cannot alter.

High seas ahead for carriers

Looking beyond the short-term impact of the coronavirus pandemic, carriers face a tough job to stay afloat. Casualties could prompt an even higher degree of concentration of larger carriers as more small and midsize carriers leave the field, **Lars Jensen reports**

The short-term impact of the coronavirus pandemic spread is becoming acutely visible to all participants in the global supply chain.

At the time of writing, the number of cancelled deepsea sailings is approaching 400, congestion problems are emerging in various ports around the world and crew-change has become problematic.

Yet even in the middle of these problems, it might be worthwhile to attempt to look slightly further ahead. How will this impact carriers to 2021 and beyond?

From a pure demand perspective, the latest International Monetary Fund forecasts make for sobering reading. In financial terms, they expect world trade volume in economic terms to decline 11% in 2020, followed by a partial rebound of 8.4% growth in 2021.

From a strategic viewpoint, the

drastic change in trade volume is a condition thrust upon carriers that they cannot alter.

Therefore we should instead expect carriers to adapt to the situation and this provides a baseline for anticipating the strategic fallout.

In the short term, carriers have two options. They can choose to accept the volume loss and refrain from attempting to gain market share from each other. For now, this is the behaviour in which we have been seeing them engage. If they can continue doing this, the industry will be loss-making in 2020 — but “only” to the tune of around \$800m.

However, they can also choose to attempt to fill the vessels by growing their market share, using reduced prices as a tool. This will immediately lead to a price war — and is the behaviour we saw during the financial crisis of 2008-2009.

Should carriers choose this path, the collectively loss could run to \$23bn.

A baseline assumption should be that they choose the more restrained approach to make it through the bottom of the market.

The true market differentiator comes with the upturn in 2021. When the rebound appears, it will likely be very sharp, resulting in capacity shortages — and this is where carriers can distance themselves competitively by using the downturn to be well prepared for this.

It is less a matter of vessels and more a matter of making sure they have empty containers located in the right places. The current disruption of all the known trade flows is likely to severely disrupt the usual empty equipment positioning.

Box bankruptcies

Yet will we see bankruptcies before we get to the rebound? As this pertains to the segment of smaller regional carriers, the answer might well be yes, although it is not possible to predict exactly to whom this will apply.

The key competitive parameter in this situation is the ability to find additional cash, as well as negotiate new terms with creditors and — only to a lesser degree — the actual financial solidity.

For the larger carriers, a bankruptcy can, of course, never be ruled out but should not be seen as a baseline scenario. Again, this comes down to the carrier's ability to find more capital when needed, as well as its ability to negotiate more lenient terms for loan commitments.

It should be remembered that even during the worst parts of the financial crisis a decade ago, no large or mid-sized carrier went bankrupt. Some were close, but they managed to stay afloat.

The only large carrier we have seen go bankrupt was Hanjin many years

“
When the rebound appears, it will likely be very sharp, resulting in capacity shortages — and this is where carriers can distance themselves competitively by using the downturn to be well prepared for this
”

later — and, despite the short-term turmoil it created, it did not materially alter the dynamics of the market. Within six months, all vessels were out sailing again — albeit with new owners and operators.

However, in the years following the financial crisis, we saw consolidation gather pace. The crisis and the subsequent rebound served to weaken some carriers and strengthen others — and the current pandemic crisis will likely be no different.

Hence when we get beyond 2021, we are likely to see a liner shipping market with an even higher degree of concentration of larger carriers — and with more of the small to mid-sized carriers having left the playing field, either having been acquired by the stronger large carriers or having had to close down.

Lars Jensen is chief executive and partner, Sea-Intelligence Consulting



Consolidation pays off for carriers during crisis

The consultancy Sea-Intelligence warns, however, that ‘nothing should be taken for granted’ in the current crisis, under which any companies or even states could go into default

<https://lloydslist.maritimeintelligence.informa.com/LL1131994>



Hanjin was the only large carrier to go bankrupt after the last financial crisis of 2008-2009.



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Between the lines: the extent of the coronavirus crisis

Container shipping could stand to lose a collective \$23.4bn in 2020 in the event of a 10% drop in volumes, writes **Alan Murphy** as part of Sea-Intelligence’s regular analysis for Lloyd’s List magazine

The coronavirus outbreak initially hit China very hard, causing an immediate and widespread lockdown.

As a result, the Chinese government extended the Chinese New Year holidays, which meant that Chinese manufacturing output was impacted more heavily than the traditional seasonal volume dip.

Just as China was starting to get back on its feet, the impact of coronavirus started being felt around the world, especially in Europe and in the US, subsequently becoming a global health emergency and being declared a pandemic by the World Health Organization.

As of April 14, roughly two million people had been infected, while almost 122,000 people had lost their lives.

In recent weeks, we have dedicated entire issues of our weekly analytical report, the Sunday Spotlight, to the impact of coronavirus on the container shipping industry.

As the situation is developing at a fast pace, we will continue to see multiple ripple effects as the weeks progress. While the loss of volume cannot be mitigated, how the industry stakeholders choose to address the operational challenges will make all the difference.

The recent collapse in oil prices seems to be a silver lining for the carriers. Not only will it provide a much-needed cash injection, because of the natural time lag of any bunker oil price cost pass-through mechanism (bunker adjustment factor), but also presents a unique opportunity last seen when bunker prices dropped



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Bypassing the Suez Canal and its tolls is one way carriers can help minimise costs.

below \$300 per tonne in 2016: sailing south of Africa, to avoid the Suez Canal toll.

CMA CGM is already making these sailings, while Maersk has scheduled such sailings. As minimising cashflow expenses is of high priority for the carriers, all options are on the table, including the Suez bypass.

A clearly negative side-effect is an increase in not just transit times but also emissions. Yet in these turbulent times, a choice between short-term financial survival and long-term reduction of emissions is not really a choice at all.

Network impact

In the following article, we delve into the analysis.

There are a few methodological choices we want to highlight, as to how we have attributed blank sailings to coronavirus:

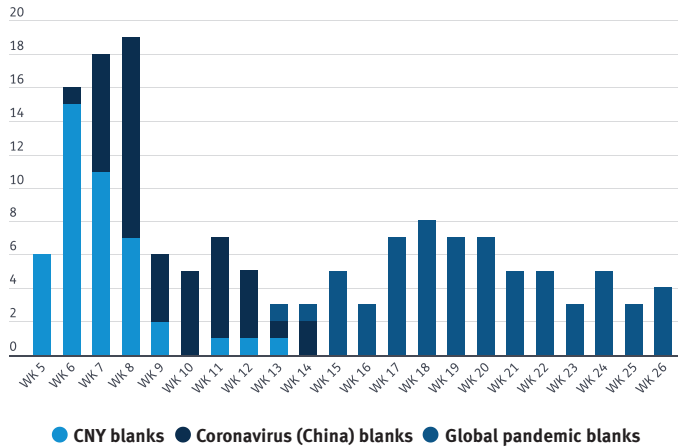
- The analysed period is from week 5 to week 26 (22 weeks), with week numbers referring to the week of departure from the last port in Asia. If, in a given week, a service has no vessel leaving Asia, we count that as a blank sailing.

- To distinguish between ‘normal’ CNY blank sailings and those attributable to the pandemic, we have designated all blank sailings announced or scheduled before January 25 as CNY blank sailings. As CNY blank sailings are usually announced five to six weeks in advance and, as there were no blank sailings announced for the CNY period in weeks 1-4, this is a clear distinction.

- For blank sailings announced after January 25, we have labelled those announced from CNY until March 13 as ‘Coronavirus (China) blanks’, as this was the period where coronavirus primarily impacted production capabilities and supply chains in China, and the blank sailings were not caused by a shortage in demand in destination regions, but rather by a lack of containers to ship out of China.

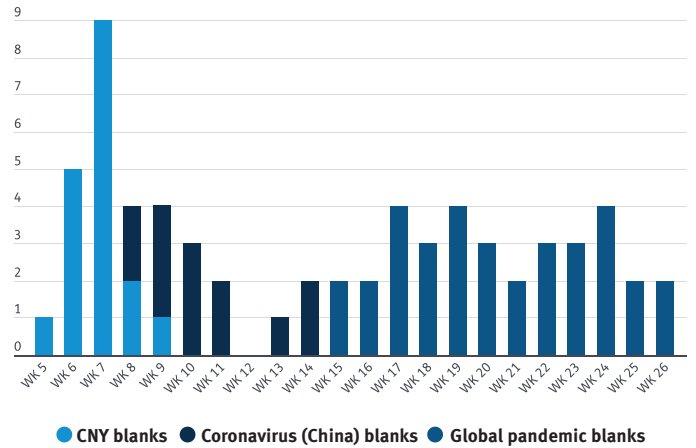
- Blank sailings announced after March 13 have been labelled ‘Global pandemic blanks’, as the impact has now moved to a pandemic, and the blank sailings are now primarily caused by a drop in demand in destination regions, rather than a shortage of production in China.

Figure 1: Blank sailings (Asia-NAWC)



Source: Sea-Intelligence

Figure 2: Blank sailings (Asia-NAEC)



Source: Sea-Intelligence

Figures 1-4

Figures 1-4 show the number of blank sailings in weeks 5-26, both actual past blank sailings and those scheduled at the time of writing, on the transpacific and Asia-Europe trade lanes. We have kept the axes the same in all four charts, for visual comparison between the trade lanes.

In total, there are 215 blank sailings on transpacific, out of which 153 are as a

result of coronavirus, and the remaining 62 are because of CNY. On the Asia-Europe trade, there are 154 blank sailings, out of which 108 are as a result of the coronavirus outbreak.

The 261 blank sailings on these four trade lanes, coupled with another 123 on other deepsea trade lanes, means the total number of blank sailings due to coronavirus has reached 384.

In capacity terms, the blank sailings account for roughly 3m teu on the transpacific and Asia-Europe trades combined (1.3m teu on transpacific trade and 1.7m teu on Asia-Europe). This translates into a capacity reduction of 15% (13% on transpacific and 17% on Asia-Europe), over the full week 5-26 period.

The pandemic impact far surpasses the magnitude of the CNY capacity reductions,

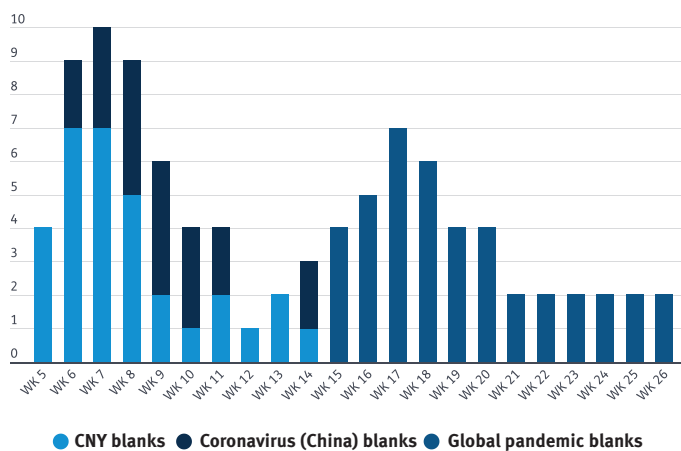


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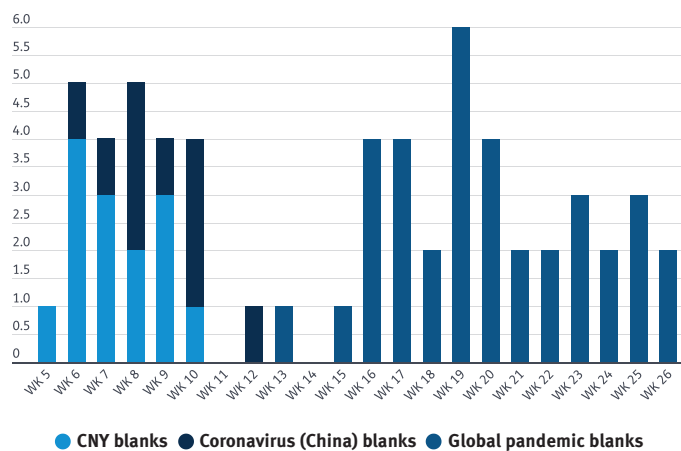
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Figure 3: Blank sailings (Asia-North Europe)



Source: Sea-Intelligence

Figure 4: Blank sailings (Asia-Mediterranean)



Source: Sea-Intelligence

as the 3m teu capacity removal equals 2.4 times the 'normal' 2020 CNY capacity reductions on these trades. This level was first surpassed in week 13, when carriers announced capacity reductions of around 1.6m teu.

In rough terms, over the 12 weeks through to April 14 the impact of coronavirus corresponds to one additional CNY, while the coming 12 weeks will see the impact of one further additional CNY.

Figure 5

Looking forward at weeks 15-26, there will be a ramp-up in blank sailings on both the Asia-Europe and transpacific, with 19%-26% slated to be taken out of Asia-Europe, equalling 1.2m teu.

On the transpacific trade lanes, 14%-15% is slated to be withdrawn, which translates into a capacity reduction of 810,000 teu.

To account for the volatility induced by these disruptions, we have also taken a rolling three-week average of weekly capacity reductions, and the trends we

see are very similar across all four trade lanes. There was a brief interlude in weeks 12-13, where China was slowly getting back up and running, while the rest of the world was not yet fully impacted by the pandemic. In the coming five to six weeks, the weekly capacity reductions on the transpacific are set to increase to 15%-20%, while Asia-Europe will see weekly capacity reductions increase to 25%-30%.

Figure 6

Figure 6 breaks down the percentage of capacity slated to be blanked on transpacific and Asia-Europe in weeks 15-26, across each of the three carrier alliances.

At present, both 2M and The Alliance have blanked roughly 20% of their capacity on the transpacific, while Ocean Alliance has blanked a considerably lower 11% on Asia-North America west coast (Asia-NAWC) and 6% on Asia-North America east coast (Asia-NAEC).

Similarly, on Asia-Europe, 2M is slated

to blank roughly 25% of its scheduled capacity, while The Alliance is slated to blank 25% on Asia-North Europe (Asia-NEUR) and 44% on Asia-Mediterranean (Asia-MED). Ocean Alliance's capacity reductions are much lower, at 11% on Asia-NEUR and 15% on Asia-MED.

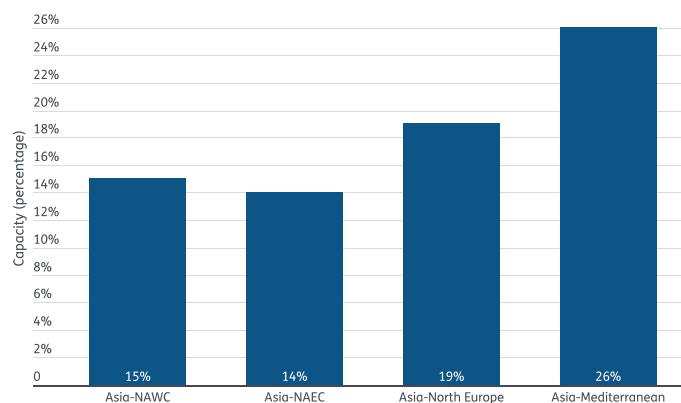
If this holds true, it will mean that Ocean Alliance is much less impacted by coronavirus and it is seeing a much lower drop in demand, compared with 2M and The Alliance.

Given that it is faced with the same market dynamics, we cannot see any objective reason for why Ocean Alliance would be impacted differently. As such, we would expect it to blank further sailings in the weeks ahead, to a similar level as its competing alliances.

As for the potential loss of demand, we can take the Asia-Europe and transpacific trades as a proxy for global developments, which would — somewhat simplistically — imply that the loss in demand the carriers are seeing thus far also equals 2.4 times the normal impact of CNY.

Figure 5: Total capacity blanked (weeks 15-26)

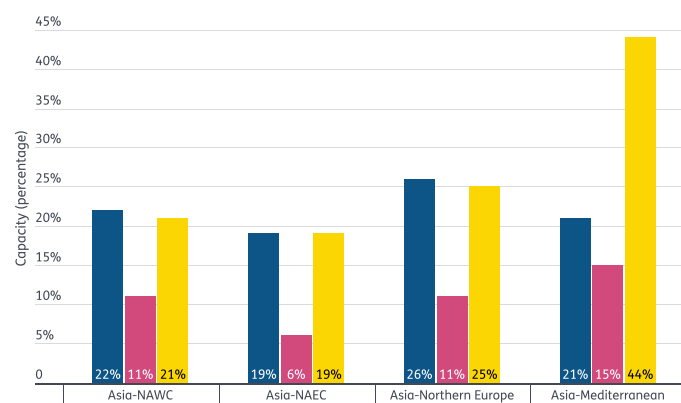
Global pandemic blanks



Source: Sea-Intelligence

Figure 6: Alliance capacity blanked (weeks 15-26)

Global pandemic blanks



Source: Sea-Intelligence

In a normal year, the global demand drop due to CNY is 2.7m teu, which would translate into a 6.5m teu demand drop in weeks 5-26, on the basis of capacity already removed from operation.

If we were to make the overly optimistic – but unrealistic – assumption that no new sailings will be blanked and container demand will return to a 2019 level after week 26, this would still lead to a demand decline of 4% for full-year 2020.

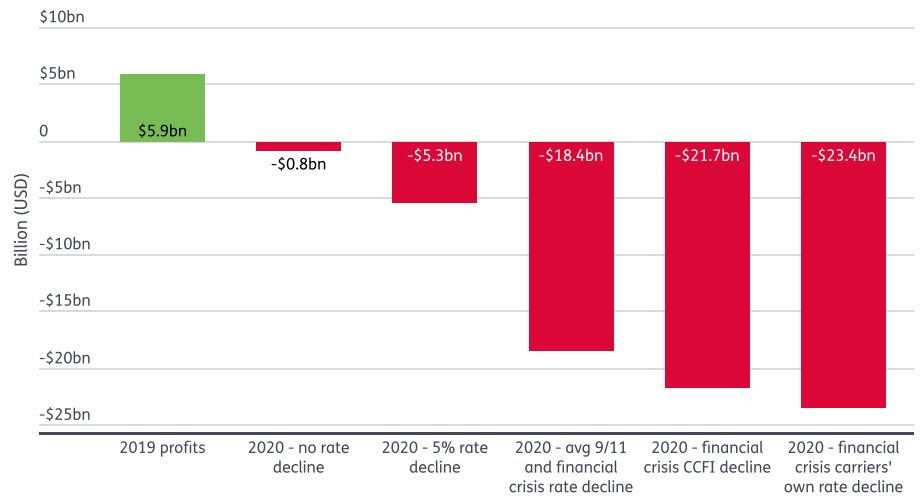
However, we take a somewhat bearish view and expect further blank sailings, so we currently project a demand drop of 10% for 2020.

Financial predictions are wrought with challenges at the best of times, and any projection of the financial impact on carriers in these troublesome circumstances will naturally be subject to considerable uncertainty.

Using a model based on the volume and rate sensitivity guidelines published in Maersk's 2019 annual report, and assuming a base line of 10% volume loss, we have come up with five different scenarios of the combined impact of volume loss and rate declines on the collective operating profits for the 12 largest carriers (85% of capacity). These are based on the assumed level of rate decline for the second through to the fourth quarter of 2020:

1. The most optimistic scenario, of no rate level change year on year, and only an impact from a 10% volume decline;
2. A somewhat arbitrary rate level decline of -5% year on year in the second quarter through to the fourth quarter of 2020;
3. A rate decline of 16%, corresponding

Figure 7: Potential carrier loss 2020 (base 10% volume decline)



Source: Sea-Intelligence

to the averaged impact on the China Containerised Freight Index (CCFI) Composite Index in 2002 (recession and 9/11) and 2009 (global financial crisis);

4. A rate decline of 23%, corresponding to the impact on the CCFI Composite Index in just 2009 (global financial crisis);
5. A rate decline of 26%, corresponding to the 2009 freight rate decline experienced by carriers as recorded in their 2008 and 2009 financial reports.

Figure 7

Figure 7 shows the combined operating profits of the 12 carriers in 2020, based on these five different scenarios, in combination with a 10% volume loss.

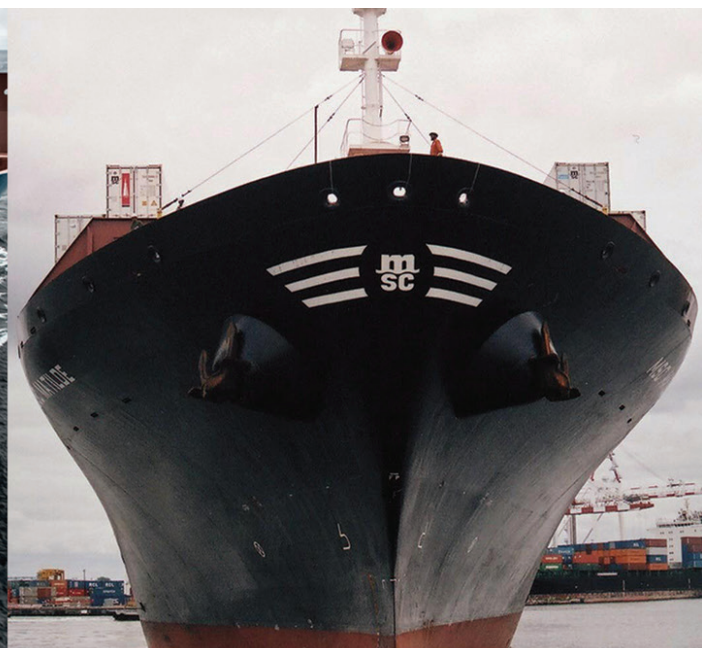
We should stress we are not projecting a specific level of carrier loss in 2020,

but rather providing our best estimate of 2020 carrier operating profits, given these scenarios – and leaving it to the readers to decide which they find most likely.

In the worst-case scenario, where a 10% volume loss is combined with the same level of rate loss – as the carriers themselves reported in 2009 – we would see the carriers lose \$23.4bn in 2020. This is even considering a 0% rate change in the first quarter of 2020.

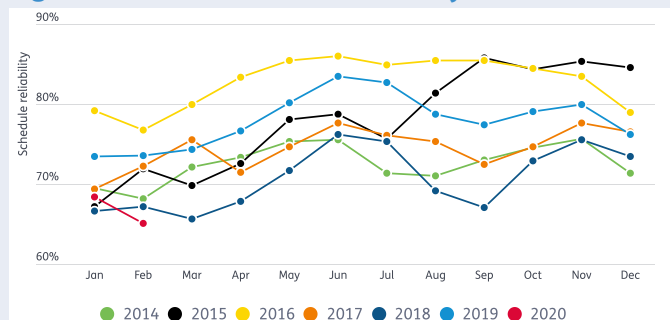
Such a worst-case scenario would be devastating for the industry, as the combined operating profits of these top-12 carriers for the full eight-year 2012-19 period was \$20.9bn.

Alan Murphy is chief executive and founder, Sea-Intelligence Consulting



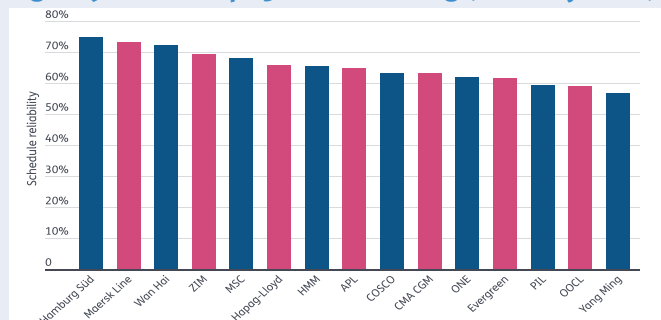
ZIM has blanked roughly 20% of its capacity on the transpacific and is slated to blank 25% of its scheduled capacity on Asia-Europe.

Figure 8: Global schedule reliability



Source: Sea-Intelligence

Figure 9: Global top 15 carrier ranking (February 2020)



Source: Sea-Intelligence

Schedule reliability in February 2020

In both December 2019 and January 2020, schedule reliability dropped month on month, with the January 2020 figure of 68.4% the lowest since September 2018.

In February 2020, it dropped even further to 65.1% — the lowest figure recorded by Sea-Intelligence. Compared to February 2019, schedule reliability in February 2020 was down 8.5 percentage points.

Figure 8: In terms of average delays, already in January 2020, the figure for late vessel arrivals was the highest across any month, except when compared to early 2015, due to the US west coast labour dispute. The trend continued in February 2020: the average delay for late vessel arrivals increased by 0.09 days month on month to 4.95 days.

The average delay for all vessel arrivals reach 1.49 days in February 2020, which was the highest figure since January 2015, during the US west coast labour dispute. With the continued impact of the coronavirus pandemic, March 2020 schedule reliability is likely to continue falling and delays are likely to increase.

Figure 9: Hamburg Süd was the most reliable top-15 carrier in February 2020, with schedule reliability of 74.7%, followed by Maersk Line with 73% and Wan Hai, 72.2%. Nine carriers recorded schedule reliability of 60%-70%. There were only three carriers that had schedule reliability of less than

60%: PIL with 59.2%, OOCL with 58.9% and Yang Ming with the lowest of 56.8%.

ZIM was the only top-15 carrier to record a month-on-month improvement in schedule reliability, of two percentage points. MSC recorded the smallest monthly decline of 1.7 percentage points. Six carriers recorded monthly declines of more than eight percentage points, while APL was the only carrier to record a double-digit monthly decline, of 10.8 percentage points.

None of the top-15 carriers recorded a year-on-year improvement in schedule reliability. The smallest annual decline of 5.7 percentage points was recorded by Hamburg Süd. Seven carriers saw double-digit year-on-year declines in schedule reliability in February 2020, with Wan Hai recording the largest decline of 16.2 percentage points.

Figure 10: The average industry schedule reliability on the east-west trades declined by 7.3 percentage points month on month in January-February 2020, reaching 64.2%.

2M was the most reliable carrier alliance, with January-February 2020 schedule reliability of 71.1%, recording a month-on-month decrease of 5.7 percentage points. Ocean Alliance followed second, recording a decrease in schedule reliability of 11.9 percentage points to 64.8%. The Alliance was the least reliable carrier alliance, as it has been consistently since the launch of

the new alliances in April 2017, with a schedule reliability of 54% and a month-on-month decrease of 5.8 percentage points.

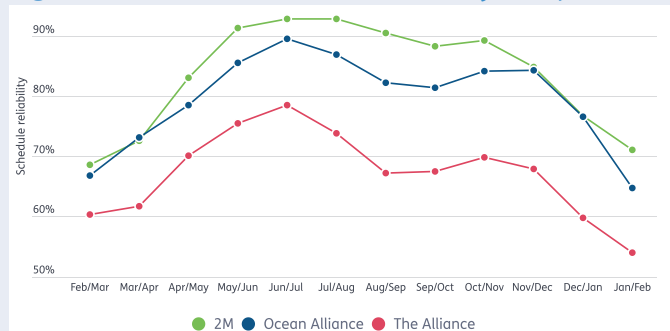
Figure 11: In January-February 2020, Asia-Mediterranean and transatlantic eastbound routes recorded schedule reliability higher than 60%, with Asia-North America east coast recording the lowest figure of 54.2% across the six east-west trade lanes.

Although global schedule reliability was at its lowest recorded point in both January and February 2020, the transpacific and transatlantic trade lanes recorded a year-on-year improvement. This has more to do with the fact that schedule reliability on these trades — especially on the transpacific — was absolutely dismal in 2019.

Asia-North America west coast and Asia-North America east coast recorded massive annual improvements in schedule reliability of 19.1 and 22.7 percentage points, respectively, while transatlantic eastbound and westbound recorded year-on-year improvements of 11.1 and 6.4 percentage points, respectively.

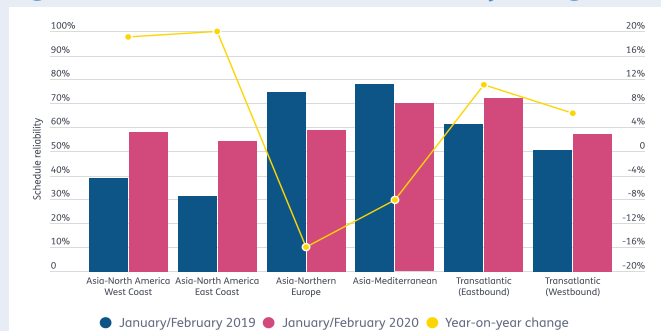
Both Asia-Europe trade lanes recorded year-on-year declines in schedule reliability in January-February 2020. Asia-Northern Europe saw a 16 percentage point decline, and Asia-Mediterranean an 8.1 percentage point decline.

Figure 10: Alliance schedule reliability (2019-20)



Source: Sea-Intelligence

Figure 11: Trade lane schedule reliability change



Source: Sea-Intelligence

A Colleague told me I run like a girl;

I told him if he ran a little faster he could too....



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Following in father's footsteps

The chairman and chief executive of CMA CGM probably thought he knew what to expect when he stepped into the top job three years ago; while he understood it would not be easy, even he could not have anticipated quite how difficult the job was to become, **Janet Porter** reports

Following in the footsteps of a famous father is never easy, particularly one who was such a force of nature. Yet Rodolphe Saadé seems undaunted by the challenge of running family-controlled CMA CGM and ensuring it remains at the forefront of the container shipping industry.

Jacques Saadé was one of the pioneers of containerisation, surviving against all the odds as other more established shipowners from traditional maritime nations vanished from the scene.

Over 40 years, he and his brother-in-law, Farid Salem, built up the French group into one of the world's biggest container lines, through a mix of organic growth, acquisitions and an unerring eye for new market opportunities.

Today, CMA CGM operates a fleet of more than 500 ships, with a combined capacity of 2.7m teu. It recorded group revenue of \$30bn last year.

Rodolphe Saadé took over as chairman and chief executive in 2017 and has pursued a very similar strategy to that of his father, who died in 2018.

On the surface, at least, the two would seem to be quite different personalities. Rodolphe appears more reserved and measured than his feisty and hard-nosed father, who was never afraid to take some controversial decisions for the sake of the business.

Yet they also have plenty in common, notably nerves of steel in what has always been an unpredictable industry, in which so many have failed.



Saadé: has pursued a very similar strategy to that of his father, who died in 2018.

“*I believe we have a good equilibrium today. I don't believe there is more [consolidation] to come. What customers are looking for today is not so much size as service quality*”

And right now, steady nerves are exactly what is needed as CMA CGM struggles to integrate a difficult acquisition, reassure financial institutions that its huge level of debt is manageable, and tries to assess the impact of the coronavirus pandemic on world markets and hence on container shipping.

Rodolphe Saadé probably thought he knew what to expect when he stepped into the top spot three years ago, but even he could not have anticipated quite how difficult the job was to become.

Yet speaking to Lloyd's List just after CMA CGM published its 2019 results in early March, he sounded confident that the group would pull through this latest period of turbulence, just as it has in the past.

Certainly, he had good reason to be pleased with the group's financial numbers last year, as CMA CGM outperformed most of its major competitors in the fourth quarter of 2019.

CMA CGM was also forecasting higher cargo volumes in 2020 than 2019 as the container trades started to rebound from the slump in the early weeks of the year, but that was before much of Europe and North America went into lockdown.

CEVA acquisition

Notwithstanding coronavirus, if there is anything that is keeping Mr Saadé awake at night, it is probably last year's \$1.6bn takeover of the Swiss company CEVA Logistics.

CMA CGM, which was formed from the merger of two companies, has a good acquisitions track record.

Over the years, the company has bought many regional carriers to enhance its global presence. It then kicked off the recent round of consolidation by buying and turning round Singapore's NOL and its container shipping arm, APL.

However, CEVA Logistics has proved far more of a challenge, with several top management reshuffles and restructurings as Mr Saadé tries to make a success of the investment in the face of considerable industry scepticism.

He is convinced, though, that it was right to buy CEVA.

"I really believe in developing a logistics division so that we are in a position to offer our customers end-to-end solutions," he insists.

"I am very confident that by the end of the year, we will see significant signs of recovery, so I do not regret at all having bought CEVA."

Net debt

Mr Saadé appears equally unfazed by CMA CGM's net debt of almost \$18bn, pointing out that the figure has been inflated partly by new global accounting rules — and that it will be coming down to some extent as a result of the sale of some port interests.

"The number is big, but I am not concerned," he says, noting that the group has plenty of assets, such as ships, with a book value of \$12.8bn at the end of 2019, plus containers, equipment and properties, to offset its liabilities.

"We are taking all the necessary actions to ensure we have enough cash available," he promises.

LNG commitment

At the same time, CMA CGM remains committed to its ambitious environmental protection programme. It made history back in 2017 by choosing to fuel its next generation of newbuildings with liquefied natural gas.

The first in the series of nine vessels,



The first in the company's series of nine LNG-fuelled containerships, the 23,000 teu CMA CGM Jacques Saadé, is about to enter service and is due to be inaugurated in June.

the 23,000 teu *CMA CGM Jacques Saadé*, is about to enter service and is due to be formally inaugurated at a ceremony in Marseilles in mid-June.

CMA CGM has also ordered another 10 ships of 15,000 teu for delivery from 2021 that will be powered by LNG.

"We firmly believe that LNG is the best fuel for today. Maybe tomorrow, the industry will come up with something better for the environment, but today, LNG is the right choice," says Mr Saadé.

Of the existing fleet, CMA CGM has fitted scrubbers on about 60 ships, while the rest will burn low-sulphur fuel.

Consolidation

Reviewing likely industry developments in the container shipping industry, Mr Saadé says he does not think there will be further merger and acquisition activity of any significant scale after several years of consolidation that have reduced the number of global carriers from around 20 to seven.

"I believe we have a good equilibrium today. I don't believe there is more [consolidation] to come. What customers are looking for today is not so much size as service quality," he says.

These days, being bigger is not the way to improve customer service.

"We need to grow organically, grow with the market, but we are not looking for more M&A on the shipping side. Today we are fine with what we have," says Mr Saadé.

Instead, CMA CGM intends to focus on developing and expanding its logistics activities to provide customers with a full range of transport services.

Yildirim investment

Mr Saadé also says the group retains the confidence of its biggest outside shareholder, Turkish businessman Robert Yildirim, who came to the rescue in 2010 with a \$600m cash injection when CMA CGM looked at risk of collapse.

That was meant to be a short-term investment, but now looks like an open-ended arrangement.

"We have a great relationship. I believe he is happy with his investment and he is not looking at exiting. We are happy to have him by our side," says Mr Saadé.

Back to the future

The biggest issue on everyone's mind right now, though, is the likely impact of the coronavirus pandemic on the global economy in the months ahead as the disease spreads around the world.

Mr Saadé was taking heart from the situation in China, where factory production was returning to normal after the extended shutdown as the country took drastic steps to contain the virus.

He was forecasting a recovery in freight rates in the second quarter of the year as shippers scrambled to replenish inventories and protect supply chains.

However, the situation has since deteriorated as consumer demand evaporated and cargo volumes shrank.

Nevertheless, CMA CGM said most of its ships that had been idle were back in operation by late April.

"The situation is complex and exceptional," Mr Saadé acknowledges.

"We are not used to a virus that spreads so quickly all over the world, but we believe the fact that China is rebounding is a positive sign."

Could coronavirus derail the decarbonisation agenda?

Is zero-carbon shipping on the back burner, or could the economic fallout from the coronavirus pandemic actually help to drive decarbonisation as governments consider stimulus packages and investments to rebuild economic growth, resetting the carbon trajectory in the process?

Richard Meade reports

Newbuilding orders are forecast to hit a 50-year low point in 2020, according to the latest revisions to Lloyd's List Intelligence's shipbuilding outlook.

If evidence were needed, it seems shipping's strategic decisions are currently on hold. The multi-billion-dollar question is whether they have been put into hot or cold lay-up.

While the industry has collectively pressed pause on anything beyond operational decision-making for the moment, the assumption remains that a hiatus led by a U-shaped recovery will determine the pace of the industry's willingness to return to the generational project of digitalisation and decarbonisation.

With the regulatory agenda temporarily on ice, a short-term delay to decision-making timelines is now inevitable. Yet as the macro-economic forecasts darken, boardrooms recalibrate to survival mode and governments grapple with mounting debt burdens, the momentum achieved towards zero-carbon shipping in 2019 starts to look like a distant memory — and, indeed, priority.

As one prominent shipping chief



Alex Marakhovets/shutterstock.com

Shipping was engaged in a global decarbonisation programme before the coronavirus pandemic jolted all the calculations associated with this activity.

executive put it to Lloyd's List, "the industry is basically in time out right now".

So could coronavirus derail shipping's decarbonisation agenda?

While targets are long-term, the urgency and the cost were topping the pre-coronavirus agenda for good reason.

Halving shipping's emissions by 2050 could require investment in excess of \$1.4trn and the timeline requires zero-emission vessels to become a viable commercial, safe and scaleable reality in the 2020s — ideally in the first half of the decade.

The immediate engineering investment is the least-concerning part of that equation. If the recent low-sulphur shift has taught us anything, it is that the real challenge is ensuring the new fuels are affordable and available where ships need them — and very little of that is within shipping's gift to control.

Investment rethink

A fundamental overhaul of land-based investment in new fuel supply chains is required, along with market-based measures and a mechanism to share costs along the supply chain — and ultimately the consumers of the end-product.

We ended 2019 with the Poseidon

Principles in play, the Get to Zero campaign building a head of steam and previously recalcitrant industry participants engaging in the detail of how to fund the research funding required.

Contrast that with the new economic reality that awaits us beyond the immediate coronavirus-fuelled financial crisis.

The contraction in China — the engine of global growth for the past two decades — is the starkest economic sign of the damage caused by the pandemic.

The International Monetary Fund has warned of the worst global economic outlook since the Great Depression of the 1930s, with output losses this year expected to far exceed those that followed the financial crisis of 2008-2009 — a period that decimated large swathes of the shipping sector.

Bandwidth is an issue. The shipping industry has a track record of dealing with problems in series, not in parallel. Consider the way in which sulphur was tackled as a separate issue to greenhouse gas emissions as a proxy for the general approach to holistic thinking — but on a more granular level, this is still a fragmented industry, where operators lack the basic capacity to engage beyond the immediate and regular crises that befall them.

External forces

However, the more significant derailment threat to the decarbonisation timeline sits outside the industry and with the private sector investor, cargo interests, government-backed projects and, of course, the oil and gas sector.

While a handful of maritime industry leaders have been quick to assure that the green agenda will not be jettisoned in the wake of the coronavirus crisis, the more interesting indicator of sentiment has come from some of the box sector's biggest customers collectively demanding a green recovery — at least from the European bloc.

An alliance of ministers, chief executives and researchers urged the European Union to build its recovery package after the coronavirus crisis around the Green Deal strategy of sustainable growth.

Government intervention

So could it be the case that the economic fallout from the coronavirus pandemic might actually help drive decarbonisation as governments consider stimulus packages and investments to rebuild economic growth and the resulting programmes focus on a resetting of the carbon trajectory?

The EU Green Deal that has been proposed as a framework for investments in Europe rather sets the tone for an economic recovery with strings tied to renewable energy and green infrastructure development. And there are encouraging signs from China and South Korea that a similar approach to a green recovery is in the works.

Also noteworthy was Shell's recent announcement that it would deepen its greenhouse gas emissions reduction "ambitions", including offsetting emissions from oil and gas production by 2050.

If shipping is considering wavering in its mid-term ambition, the message seems to be that the pressure from the rest of the supply chain will not be letting up.

And then there are the less-obvious outcomes of the current situation to consider.

We have already seen a significant move toward remote surveys and the challenges with crew changes are perhaps one of the greatest drivers towards increased levels of automation on board the next generation of vessels.

The coronavirus backdrop has catalysed — more effectively than any corporate thought-leadership programme — the pressing need to accelerate the digitalisation of the industry, which in turn is one of the greatest potential



STR/APP via Getty Images

The coronavirus backdrop has catalysed the need to accelerate digitalisation of the industry.

efficiency drivers in which shipping can invest over the near term.

While no-one has the playbook for the coronavirus outbreak, industries are learning and adapting to this new reality on the fly, where new methods of working virtually and remotely are being devised and implemented in real-time.

The rapid shift toward remote inspections from class societies is a mere hint of the potential behavioural changes under way that will last well beyond this current crisis.

Coronavirus is catalysing companies across the supply chain to leverage digital technologies to change the dimensions of what we do and how we do it as an industry.

In working around the challenges imposed by the current remote working requirements, digital efficiencies are being found daily and collaboration is being forced upon an industry that previously only accepted the potential of digitalisation as a theoretical opportunity to be taken and assessed by others.

Necessity may be the mother of invention, but this is likely to end up being a frenetic period of advancement for the industry.

Short-term shift or long-term change?

So much, of course, depends on how long the current situation lasts.

The shipping industry's decision over fuel choice may seem off-beam in terms of the industry's agenda right now.

Climate change will always feel much further away than a pandemic on our doorstep and we still have not got out of our national 'bubbles' to reason why modifying actions on one side of the globe is justified by the plight of the people on the other side of the globe. It is, after all, an unfortunate reality that — much like climate change — coronavirus is creating

more economic and health impacts in poorer parts of the world.

The reality is that for all the positive progress towards decarbonisation, the industry was struggling to make tangible investment decisions even before the economic tsunami of coronavirus crashed through the global markets, upending every aspect of shipping in its wake.

While the long-term goals remain unchanged, decarbonisation could now take a back seat while governments focus on rebuilding their economies, injecting further uncertainty into the regulatory timelines and leaving owners wary of making any firm decisions.

Forward-thinking companies and political leaders will argue that progress cannot be paused completely. Yet a more realistic assessment is that in the near term, at least, strategies will have to adapt and decisions will have to be taken.

Previous assumptions regarding bridging technologies and fuel flexibility that would facilitate the transition from traditional fuels may now need to be revisited as timelines extend.

However, all this must be considered with the knowledge that the pressure from shipping's customers, governments and a rapidly evolving supply chain will not be letting up the pressure to change.

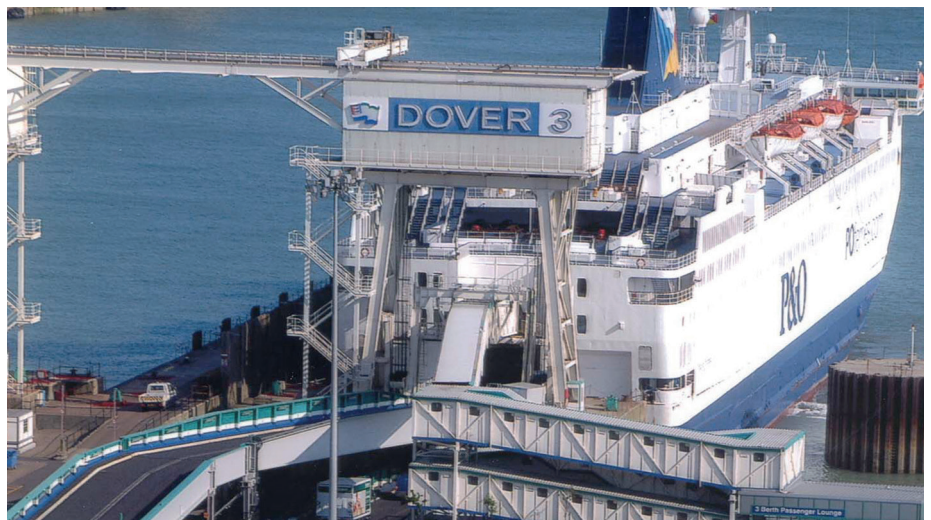
Regardless of the industry's coronavirus recovery strategy, increasing complexity now comes as standard.

There is no 'one size fits all' solution to the industry's multi-fuel future, with uncertainty pervading every decision from the immediate arbitrage opportunities fuelled by transitioning fuel strategies to the longer-term future-proofing required to invest in ships, infrastructure and new business models.

Coronavirus will do little more than delay an already urgent need to take difficult decisions.

Don't let coronavirus take down ferry companies too

Shortsea and ro-ro operators are literally providing a lifeline by making sure Europe's hospitals still stock medicines and its supermarkets still stock food. If they need state support in these exceptional times, so be it, **David Osler** reports



P&O Ferries describes itself as being 'in survival mode'.

It is easy enough favourably to namecheck Schumpeter's notion of creative destruction until it's your company that stands on the cusp of being creatively destroyed.

No surprise, then, that as coronavirus takes its toll on the fortunes of our industry, calls for shipping-specific government support beyond that available to the generality of the private sector in many countries are coming to the fore.

Such declamations are at their most vociferous in relation to the European ferry and shortsea sector, which is still carrying trucks full of food, medicines and other absolute necessities, even as it is forced to take a catastrophic loss of passenger revenues on the chin.

For some companies, this is already a life-and-death struggle.

P&O Ferries, one of Britain's biggest ro-ro outfits, describes itself as "in survival mode" unless a seafarer union makes major concessions in the face of the depredations of coronavirus.

Let that stark warning sink in.

The editorial policy of Lloyd's List is broadly against state subventions, for all the standard economics textbook reasons. Even in the dark days through which we are living, the moral hazards of distorting fair competition are obvious.

As ro-ro rock star Emanuele Grimaldi has properly pointed out, many operators – not least in his native Italy – have

“*It has long been accepted practice to subsidise ferries to outlying islands. In a sense, all of Europe now counts as an outlying island while we are united in fighting this pandemic*”

consistently lost money since the global financial crisis. After a decade of attrition, they will be only too happy to present themselves as deserving mendicants.

However, Mr Grimaldi's concerns are not entirely disinterested. He can reasonably expect to number among the survivors, and may be looking for cheap acquisitions among concerns that fall by the wayside.

In short, just as there are famously no atheists in foxholes, consistent Schumpeterians are few and far between at times of major economic downturn.

While it is a truism that the shortsea niche is well overdue for a shake-out, we can rely on the market to work its magic later. At the moment, even the efforts of the seven-stone weaklings are vital, and

there is a strong case to keep them afloat for the duration.

Trade associations are particularly keen not to see taxpayer backing presented as a bailout. Sadly, that is inevitably how many people will regard matters, not least because they recall last year's Brexit-related public ferry procurement fiasco.

Moreover, the perception is abroad that shipping fails to stump up its just contribution to the public purse when times are good, thanks to the widespread availability of tonnage tax and/or flag states that levy only the most nugatory of fiscal imposts.

As the social media uproar over airline boss Richard Branson's temerity in requesting help for Virgin Atlantic illustrates, it may be politically unavoidable to take such sentiment into account.

There are plenty of methods of doing that, perhaps in the form of equity stakes by way of payback, or making the aid repayable over time. However, frankly, that's the small print right now; the need is for swift action.

It has long been accepted practice to subsidise ferries to outlying islands for social reasons.

In a sense, all of Europe now counts as an outlying island while we are united in fighting – and eventually defeating – this ferocious pandemic together.

Shortsea shipping is doing its duty to society; let society now do its duty to shortsea shipping.

Lloyd's List is launching a new series of 'Ask the Analysts' webinars, where our international team of editorial experts and Lloyd's List Intelligence colleagues will answer your questions on any aspect of the shipping industry. Register to participate in the live sessions and submit your questions in advance



Song_about_summer/Shutterstock.com

We live in interesting times. The market is confronted by an increasing number of questions as unprecedented economic dynamics upend every aspect of the shipping industry.

Reliable answers, however, are in short supply.

While no-one has the playbook for the coronavirus outbreak, Lloyd's List and Lloyd's List Intelligence occupy a unique position at the heart of the stories shaping shipping, with our international team of experts well placed to meet the daily demand of inquiries coming in from readers.

That's a conversation we now want to open up to the wider maritime market.

Therefore, each month, Lloyd's List and Lloyd's List Intelligence experts will hold a live webinar where we will answer your questions on any aspect of the shipping industry.

You can register to participate in the live sessions and submit questions in advance via an online form.

Access will be free to anyone who registers, and you will also be able to view previously recorded sessions on demand to get in-depth information about a particular topic.

Experts to answer your questions in new webinar series

While we will lead the conversation with our immediate view of the market each month, the discussion will be determined by your questions.

We will aim to answer as many questions as we can during the webinar by utilising our extensive Lloyd's List Intelligence data, combined with editorial expertise.

If we are unable to address all your questions, we will endeavour to provide answers through follow-up articles and analysis on the Lloyd's List website.

So, get your questions in as soon as possible, ask us about your market conundrums or simply tell us where you want us to be aiming our

combined editorial firepower over the coming weeks.

The first live event will take place on Wednesday April 29 at 14:30 BST. The panel for the first session is as follows:

- Richard Meade, editor, Lloyd's List;
- Christopher Palsson, head of the Lloyd's List Intelligence consulting team;
- Michelle Wiese Bockmann, Lloyd's List markets editor;
- Anastassios Adamopoulos, Lloyd's List reporter;
- Janet Porter, chair of the Lloyd's List editorial board;
- Richard Clayton, Lloyd's List chief correspondent;
- James Baker, Lloyd's List containers editor.

The Lloyd's List 'Ask the Analysts' webinars will take place on the final Wednesday of each month. Time will alternate between Asia Pacific and EMEA/US slots.

Webinars will be free to attend but registration is required. Please submit your questions via the form at: <https://pages.maritimeintelligence.informa.com/LL-AMA-Apr>



Ask the Analysts Webinar

April 29, 2:30pm BST





Register now >



Shipbuilding is still expected to increase this year but the coronavirus outbreak is likely to see output fall below previous forecasts.

China to strengthen position as world's biggest shipbuilder

Shipbuilding output is still on course to rise in 2020, based on estimates from Lloyd's List Intelligence, with China expected to increase its share of the total world dwt delivered, **Adam Sharpe** reports

Total shipbuilding output this year is 122m dwt, up 24m dwt from last year, according to Lloyd's List Intelligence's latest Shipbuilding Outlook report.

However, due to the coronavirus outbreak, the preliminary forecast for May has already been reduced to 100m dwt, Lloyd's List understands.

Based on the April estimates, China was predicted to deliver some 45m dwt this year, which would be the country's biggest share of the global total shipbuilding production since 2013. This is likely to be revised down to 42m dwt in the next update.

South Korea's deliveries were expected to grow by 5.8m dwt to 38.4m dwt, an 18% rise, but the country has been hardest hit as a result of coronavirus-related cancellations and this could see total output drop to 26m dwt, down from 32.6m dwt last year.

Japan was initially forecast to deliver 24.1m dwt, unchanged from 2019, but

that number is now expected to fall to 20m dwt.

Orderbook shrinks

New orderbook information is not yet available, so all of the figures from this point onwards will be based on forecasts presented as of the end of March 2020.

The global orderbook for 2020 is 369m dwt. Of that total, the tanker and bulker sector has almost 159m dwt, followed by general cargo with 148m dwt and container and ro-ro with 49m dwt.

The global orderbook is forecast to shrink by 73m dwt (25%) in 2020 due to high deliveries and low ordering, according to Lloyd's List Intelligence data.

This decline will be highest in the tanker and bulker and general cargo segments, where the orderbook will shrink by 33m dwt and 26m dwt, respectively.

The orderbook for container and ro-ro is set to drop by 11m dwt, while offshore and service will shrink by 3m dwt.

The tanker orderbook of 1,839 vessels comprises of 550 ships in the chemical/product segment (29m dwt); 519 crude tankers, which – as would be expected – is the largest segment in terms of capacity, with 97m dwt; and 309 vessels in the pure chemical tanker segment (6.6m dwt).

South Korea has the largest orderbook in the tanker segment, with 733 vessels (82m dwt), while the Chinese orderbook stands at 677 vessels (49m dwt). The third-largest orderbook is the Japanese, with 191 ships (14m dwt).

Comparing the average size of the vessels in the South Korean orderbook to those in the Chinese, the South Korean orderbook is at an average of 112,000dwt, while the Chinese is 72,000dwt.

China has the highest share of the total orderbook in terms of capacity with 48%, around 178m dwt, followed by South Korea with 119m dwt – a 31% share.

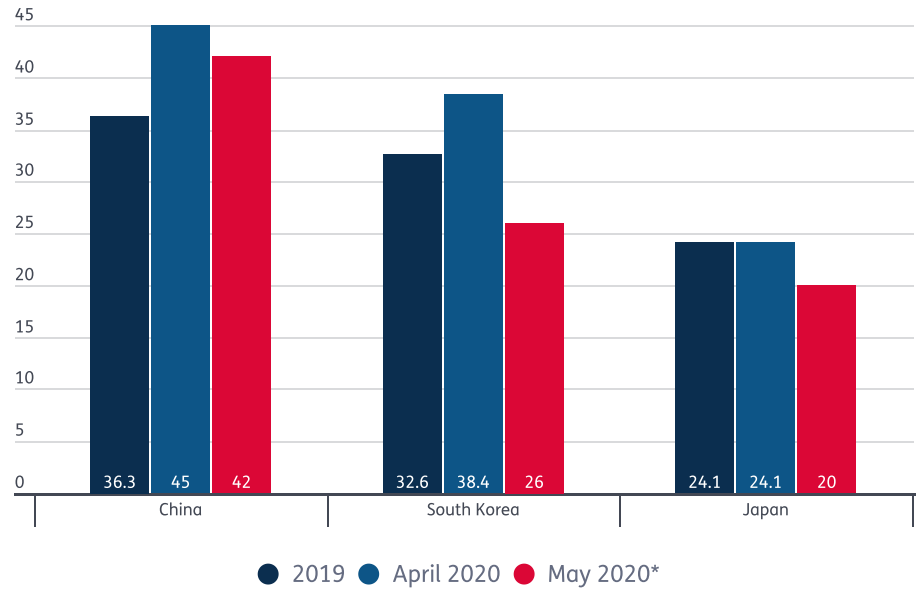
The Japanese share has dropped by two percentage points compared with 2019, to 14% (51m dwt).

In terms of the number of ships currently on order at shipyards, which Lloyd's List Intelligence pegs at 6,397 vessels currently, China also dominates with 42%, or 2,658 in total. This, however, is down 2% compared with 2019.

China's orderbook is dominated by bulkers with 1,136 ships, along with 667

Estimated shipbuilding output in leading nations (m dwt)*

Prior to the Covid-19 outbreak, global shipbuilding output was expected to increase by 122m dwt from 2019. This figure has been now revised down to 100m dwt.



*preliminary estimate

Source: Lloyd's List Intelligence

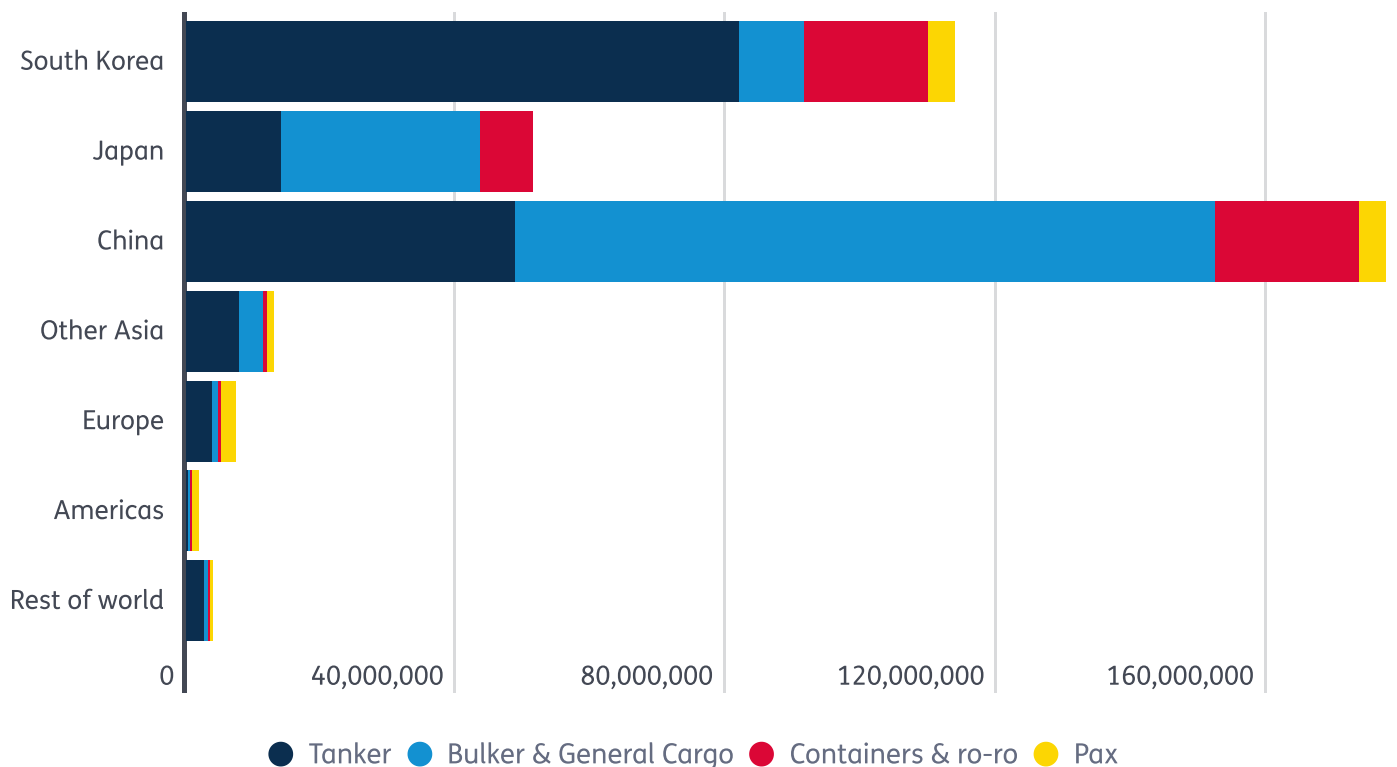
tankers and 463 container and ro-ro ships. In terms of dwt capacity, bulker and general cargo accounts for 58% of the total (104m dwt), followed by tankers with 27% or 48m dwt.

The total number of vessels on order

at China's shipyards is twice that of the second- and third-placed regions.

Europe has overtaken South Korea to have the second-biggest orderbook with 1,127 vessels, compared with 996 vessels in the Asian country.

Global shipbuilding orderbook by vessel type and country (no. of vessels)*



*Excluding newbuilding postponements and cancellations under negotiation

Source: Lloyd's List Intelligence

Market must develop more flexible solutions to risks in Arabian Gulf



Hasan Shivanji/AFP via Getty Images

Iran's detention of *Stena Impero* last year was one of several incidents involving shipping in the Arabian Gulf.

Shipowners are turning to strike and delay-type coverages to help mitigate against the high cost of marine war risk insurance in the region, **Paul Park**, of the Standard Club, reports

The Strait of Hormuz connects the Arabian Gulf with the Gulf of Oman and has always been a vital route for commercial ships to access five of the world's top 10 oil-exporting countries, as well as providing a passage to the world's largest liquefied natural gas exporter.

According to the US Energy Information Administration, the daily oil flow averages 21m barrels per day, or more than 20% of global petroleum consumption.

With only Saudi Arabia and the United Arab Emirates possessing the capability to move oil out of the Arabian Gulf via pipeline, the Strait of Hormuz remains the world's most important choke point for seaborne oil and LNG.

During the course of last year, a number of attacks occurred in the Gulf, not just on commercial ships but also targeting onshore facilities and military assets. The threat environment was notably heightened for ships transiting the Strait of Hormuz.

Four tankers were sabotaged in May 2019 and, one month later, two further tankers were attacked, apparently using limpet mines.

In the months that followed, the British-flagged *Stena Impero* was detained by Iran in what was believed to be retaliatory action for the seizure by the British Royal Marines in Gibraltar of an Iranian ship suspected of carrying oil to Syria.

Processing facilities

Meanwhile, on land, oil-processing facilities in Saudi Arabia were targeted and significantly damaged by airborne drones and a US military base and the US embassy in Iraq were attacked in early 2020.

Political tension between the US and Iran threatened to escalate into military action, with consequent risk to the safety of merchant shipping and potential for disruption or even closure of the Strait of Hormuz.

Last year was the latest year in more than three decades of intermittent unrest in the area. As well as attacks on commercial shipping, there has been a sporadic stream of rhetoric from Iran threatening to impose additional controls

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on shipping or block the channel altogether. Yet previous incidents were at a low frequency compared to 2019, with six ships attacked in a matter of weeks.

More than ever, shipowners need to evaluate their exposure to war and/or war-like events in the area and implement solutions to protect their assets and their people if a ship is attacked, detained, entrapped or otherwise restrained from trading to and from the area.

One aspect of this risk assessment includes potential delays from imposition of Maritime Security Transit Corridors, where ships are obliged to wait and join scheduled convoys with a naval escort.

When looking at the risk management process, insurance is an important element. Typically, a main area of focus is securing protection against exposure to the significant costs involved in the event of a physical loss or detention.

Most owners will be familiar with marine war risk insurance, which typically indemnifies the purchaser for hull or machinery damage caused by war risks, as well as detention or diversion costs.

Navigation and trade

Another area of focus is disruption to navigation and trade. It is likely any war and or war-like event in the Arabian Gulf will lead to lengthy delays for ships trading in the area.

The events of 2019 provide ready examples. Ships damaged by sabotage required inspection, possibly involving unscheduled drydocking and repairs before being declared seaworthy again. Ships that are detained, although not suffering physical damage, are unable to earn until released.

Even if the incident is not focused directly on the ship, it can be massively disruptive to maritime trade.

Infrastructure damage to production facilities in Saudi Arabia had significant consequential effects on the volume of cargo available for transportation. Protests and strike action in Iraq meant ports were dysfunctional and ships suffered delays as a consequence.

Although generally intended to indemnify the operator for lost earnings as a result of a physical loss, extended war loss of hire insurance is available to cover specific additional perils such as detention by a nation state.



In 2019, the threat environment was heightened for ships transiting the Strait of Hormuz.



Park: shipowners need to evaluate their exposure to war and/or war-like events.

However, the typical retention of the first 14 or even 21 days may be uncomfortable for owners, who prefer risk-transfer solutions that operate at a more primary level.

Other solutions are available to provide protection against the cost of ship delays at a lower level.

Strike and delay cover is such a product, providing cover for delay arising from war and/or war-like events both on shore and on board. Cover is available on an annual basis at predictable cost,

“Although generally intended to indemnify the operator for lost earnings as a result of a physical loss, extended war loss of hire insurance is available to cover specific additional perils such as detention by a nation state

”

without the significant additional premiums for calls to designated high-risk areas that characterise many marine war risk insurances.

Today's ship operators face more risk than their predecessors and some of that risk is less predictable. Fortunately, they also have a wider range of solutions to manage that risk and protect their interests than ever before.

Paul Park is strike and delay class underwriter at the Standard Club

Should reports be relied upon in maritime disputes?

David Handley, at Watson Farley and Williams, discusses the admissibility of MAIB reports in maritime disputes

In *Ocean Prefect Shipping Ltd v Dampskibsselskabet Norden AS (The Ocean Prefect)* [2019] EWHC 3368 (Comm), the English High Court recently clarified how UK Department of Transport Marine Accident Investigation Branch (MAIB) reports may be used in shipping litigation disputes.

It was commonly considered that such documents were inadmissible, but this view had been cast into doubt by a Court of Appeal in a decision regarding the use of Air Accidents Investigation Branch (AAIB) reports (*Rogers v Hoyle* [2014] EWCA Civ 257).

In *The Ocean Prefect*, the court has confirmed that MAIB reports are, indeed, inadmissible in maritime disputes.

MAIB reports

When a ship is involved in a serious marine incident, both the coastal and flag state can investigate and issue a report.

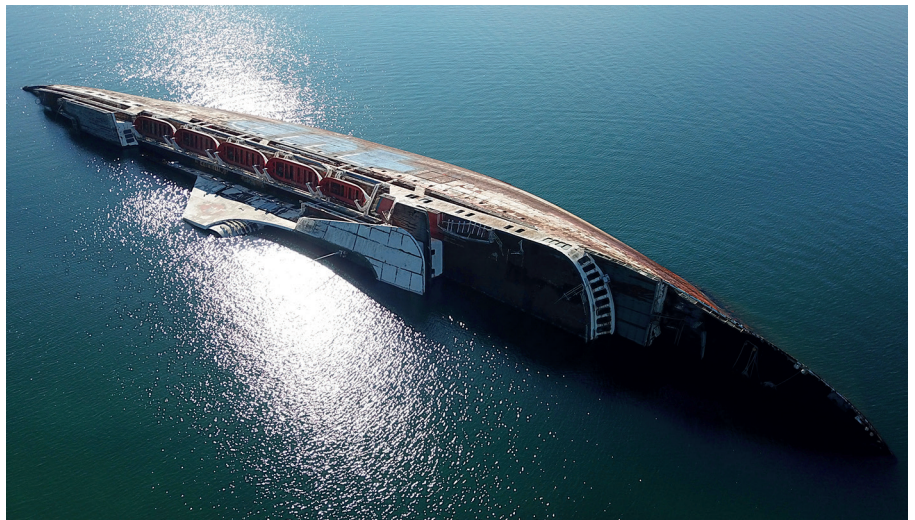
In an attempt to standardise reporting internationally, in 2008, the International Maritime Organization issued a code of conduct on accident investigation.

In the UK, following Sheen J's report into the capsizing of *Herald of Free Enterprise*, with the loss of 193 lives, the MAIB was established. Its purpose is to freely investigate maritime incidents and establish the root cause, with a view to preventing similar incidents occurring again.

This approach means that failings of the regulators can be highlighted where relevant. Indeed, the MAIB has been critical of the Maritime and Coastguard Agency where it has considered it appropriate.

The Merchant Shipping (Accident Reporting and Investigation) Regulations 2012 (SI 2010 No 1743) set out how the MAIB should proceed with an investigation and how investigators are to use their powers, derived from the Merchant Shipping Act 1995.

The Regulations also set out restrictions on the use of the report following its



Aerial-motion/Shutterstock.com

The MAIB's purpose is to freely investigate maritime incidents and establish the root cause.

publication. Regulation 14(4) provides that, where information has been obtained by an investigator exercising the powers of an "inspector" under the Act, any part of a document or analysis it contains is inadmissible in "judicial proceedings" whose purpose is to attribute liability, unless permission of a court is granted.

The judgment

Ocean Prefect, a British-registered vessel, ran aground twice when entering the port of Umm Al Quwain in the United Arab Emirates and an unsafe port claim was brought by the owners of the vessel in a London Maritime Arbitrators Association (LMAA) arbitration.

The MAIB issued a report to investigate the circumstances of the grounding and to see what lessons could be learnt with regard to improving the safety of shipping, which both parties' experts referred to in their expert reports.

The owners' expert considered the MAIB report to be favourable to the owners' unsafe port case and the owners argued that the MAIB report's conclusions should be borne

in mind by the tribunal. The charterers and the MAIB argued that this was incorrect, and that it should not be borne in mind by the tribunal.

The owners applied urgently to the English High Court under the 2012 Regulations for permission to rely on the report in the London arbitration, for which the hearing was just a week away.

The two key questions for the court were:

1. did a private LMAA arbitration satisfy the definition of "judicial proceedings" for the purposes of the MAIB Regulations (the owners argued that it did not); and if so
2. should the court allow the MAIB report to be used in those proceedings (the owners argued that it should)?

Question 1

The court found that the London arbitration was within the definition of "judicial proceedings" for the purposes of the 2012 Regulations. The fact that arbitral proceedings were confidential made no difference to this issue.

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Question 2

The main objection for using MAIB reports in maritime disputes has always been the impact this may have on future investigations.

The MAIB have wide-ranging powers, including the ability to compel witnesses to meet with them and exclude legal representation from those meetings.

By preventing the use of MAIB reports in legal proceedings, it is hoped that witnesses will talk more freely to the MAIB, without fear of self-incrimination, allowing a more thorough investigation.

The 2012 Regulations set out the factors that the court must consider in making its decision. Having had regard to the views of the chief inspector, the court must consider whether the interests in justice outweigh any likely prejudice that will occur to:

- the current investigation into the accident;
- any future safety investigation conducted by the MAIB; or
- relations between the UK and another state or organisation.

In this case, the chief inspector's view was that admitting the report in the arbitration would be likely to prejudice future investigations, diminishing the MAIB's ability to have candid conversations with witnesses and unqualified access to accident sites.

Against this, although the court recognised that refusing to admit the report may cause the owners prejudice in the arbitration, it would still be possible to cross-examine witnesses without reference to the report; and both parties would be assisted by their own experts.

There was also no restriction on the witnesses explaining, under cross-examination, what evidence they had given to the MAIB and, if they were willing to do so, providing copies of the statements that they had made to the MAIB.

In those circumstances, Teare J considered that the detriment to incident investigation (having taken account of the chief inspector's views) of giving permission for the report to be admitted outweighed any benefit to a commercial arbitration between the parties, and ordered that the MAIB report should not be used in the London arbitration unsafe port proceedings.

The court appeared to be particularly swayed by the chief inspector's view that such use would have a damaging effect on future incident investigation. This was an argument that was rejected by the Court of



Handley: case may provide a useful distinction in the future.

Appeal in *Rogers v Hoyle* in respect of the AAIB. There the use of an AAIB report was permitted, contrary to representations made on behalf of the AAIB on the impact on future investigations and the potential burden on the AAIB itself.

The Court of Appeal rejected those submissions on the basis that

- the AAIB report was admissible evidence and had particular value;
- any exercise in discretion is to be carried out with the overriding objective in mind; and
- there is a distinction in the AAIB Regulations between the "report" and the "records", with legislators considering only "records" should be restricted. While there is no similar distinction between "records" and the "report" in the MAIB Regulations (meaning that under the MAIB Regulations the restriction applies to the report itself), the Court of Appeal commented that the MAIB Regulations seemed to contemplate that MAIB reports may be prima facie admissible. However, that point was not subject to full argument in that case and it was not binding on the High Court in *The Ocean Prefect*.

Comment

This decision confirms what many involved in MAIB or flag state investigations have considered to be the position for some time,

namely that MAIB reports cannot be relied upon in maritime disputes. This will therefore need to be borne in mind by parties litigating their maritime disputes in London arbitration or in the English High Court.

It also seems that because of subtle differences between the AAIB Regulations and the MAIB Regulations — particularly as to the regard to be given to the chief inspector's views — a report may be admissible in air accident legal proceedings under the AAIB Regulations, whereas an equivalent report will not be admissible in maritime dispute legal proceedings under the MAIB Regulations.

Interestingly, in a reference before the Admiralty Registrar (in *Keynvor Morlift Ltd v The Vessel "Kuzma Minin"* [2019] EWHC 3557 (Admlty), prior to the hearing in this case, a different approach was adopted.

In that instance, the defendants had put the report forward to refute arguments the claimants were trying to establish to argue dangers in reference to article 13 of the 1989 Salvage Convention.

The claimants argued that, on the basis of *Rogers v Hoyle*, the report should not be before the court.

Master Kaye QC conducted a thorough examination of the case law as it then was and concluded that the report should be allowed.

He found that the court had a discretion as to whether or not to admit the report and, applying the same reasoning in *Rogers v Hoyle* to this case, the report ought to be admitted.

Master Kaye QC felt this was further strengthened when considering the regulations seek to restrict its use when used in judicial proceedings that have the purpose of attributing or apportioning blame or liability.

As the case before Master Kaye QC did neither and the report was being used as a wider fact-finding exercise, the regulations did not prevent its admission.

Given the subsequent Admiralty Court decision, it is unlikely that this case will have a material change on the way such reports are considered. It might, however, provide a useful distinction in the future.

David Handley is senior associate and master mariner, Watson Farley and Williams

This article was first published in MRI, an Informa publication: www.maritime-risk-intl.com



Port throughput slumps while floating storage at elevated highs

A review of the most significant data-led analysis from the past four weeks in collaboration with Lloyd's List Intelligence

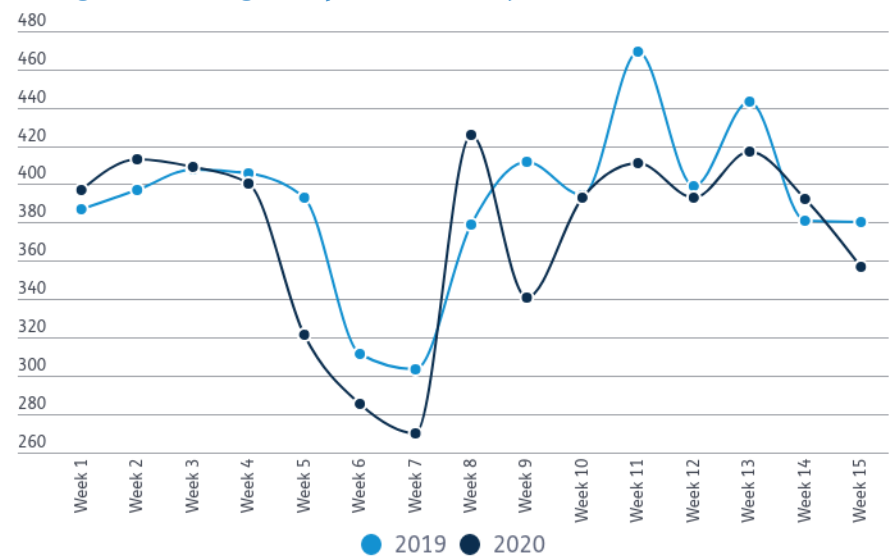
The impact of COVID-19 on shipping activity is being seen across a range of data, from port calls to tanker rates.

Starting in China, where the first cases of coronavirus were recorded, Lloyd's List Intelligence data for vessel activity — whether containerhips, general cargo vessels with container capacity, con-ro vessels or container barges — at the main ports of Shanghai and Yangshan reads like a gauge of the country's economic activity.

Pre-lockdown, the opening weeks of 2020 showed port calls were relatively unchanged compared with a year ago but then started to drop dramatically in February.

While this is not uncommon, due to the Chinese New Year holidays, it was clear by week 7, with factory closures and travel restrictions widespread, that this was not a seasonal blip.

Shanghai and Yangshan port calls (2019 vs 2020)



Source: Lloyd's List Intelligence

There were brief signs of a significant bounceback after Chinese infection rates improved domestically and the factories sprung back into life. However, officials warned in late March that the vast majority of the cargo moving was ordered before the outbreak and to expect a big drop in demand as the US, Europe and other countries introduced lockdown measures and carriers increased blanked sailings.

By mid-April, port calls had dipped below year-ago levels and this slowing was expected to continue into May, with carriers removing nearly one third of all total capacity on the Asia-northern Europe route alone in the coming weeks.

Ports globally are now facing up to the challenge of throughput declines for the remainder of the year.

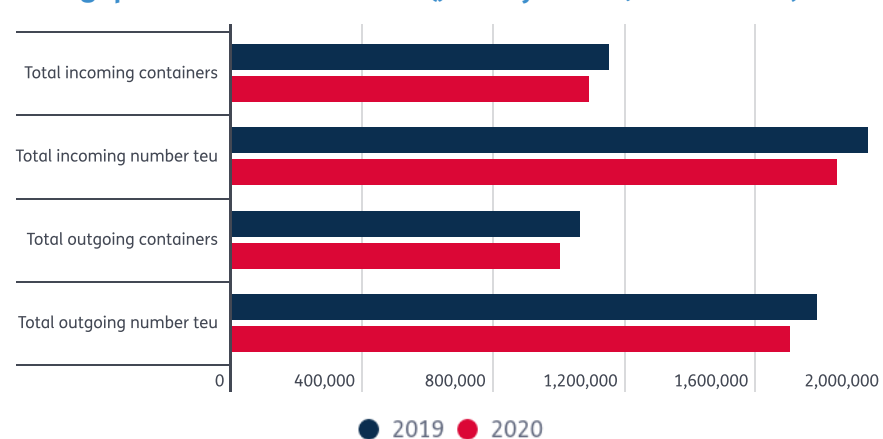
The port of Virginia, situated on the US east coast, has announced plans to close one of its three container terminals on account of the volume slowdown, as fellow US ports on the Pacific coast — the Northwest Seaport Alliance, Oakland, Los Angeles and Long Beach — reported dramatic drops in traffic through March.

Rotterdam

Europe's largest port, Rotterdam, says it expects total combined volumes across its facilities to drop by around 10%-20% this year and indicated that it expects worse is yet to come.

Total throughput in the first quarter was 112.4m tonnes, down 9.3% on the corresponding period in 2019. Yet Rotterdam noted that volumes in container

Throughput at Port of Rotterdam (January-March, '000 tonnes)



Source: Port of Rotterdam



By mid-April, port calls had dipped below year-ago levels and this slowing was expected to continue into May. Ports globally are now facing up to the challenge of throughput declines for the remainder of the year

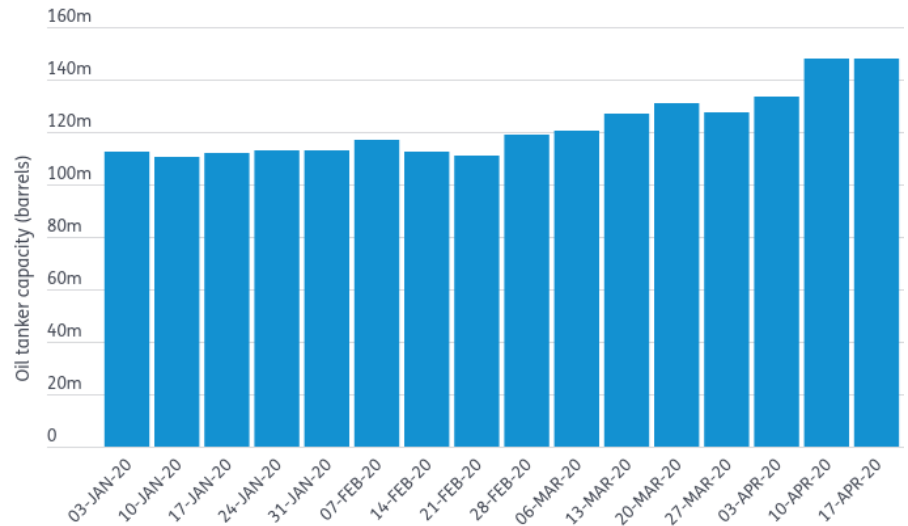


handling, liquefied natural gas and biofuels during the first quarter of 2019 were at record highs.

Container volumes fell by 4.7%, as an already weak economy in Europe was hit by the beginnings of the pandemic in China.

“The impact of the coronavirus crisis was apparent to only a limited extent in late March as a fall in goods flows from China after the partial lockdown there in February,” the port said.

Estimated capacity of tanker floating storage*



*Includes VLCCs, suezmax and aframax tankers

Source: Lloyd's List Intelligence

Floating storage

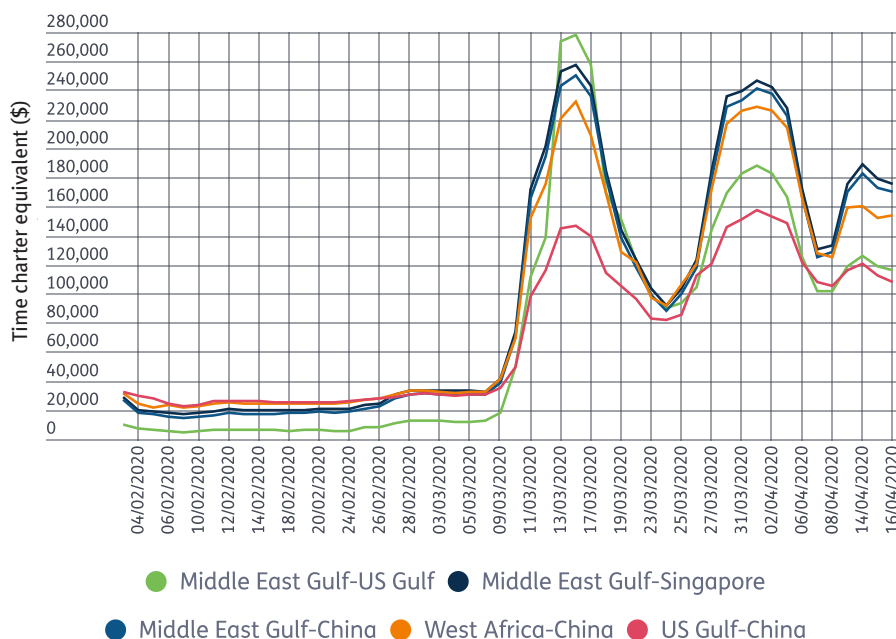
Meanwhile, oil tanker capacity being used for short-term floating storage in the wake of the oil demand crash continues at elevated highs.

In the two weeks ending April 17, the capacity of tankers being used as floating storage was about 148m barrels, marking an increase of floating storage capacity by 30m barrels since the beginning of March, according to Lloyd's List Intelligence.

The capacity spike in recent weeks suggests that ships have already started on their floating storage contracts. However, a second wave of interest in floating storage could be on the horizon.

Although major oil-producing nations have agreed to slow production, oil demand is expected to slump even further. Euronav chief executive Hugo De Stoop says oil will continue to require movement and storage, helping to protect high tanker rates.

VLCC spot rates persist at elevated levels



Source: Baltic Exchange

Tanker rates

The low oil prices as a result of a disagreement between Saudi Arabia and Russia over production cuts led to a massive spike in tanker spot rates in mid-March, as well as increased demand for tankers as floating storage venues for short-term fixtures of six months.

Saudi-owned shipping company Bahri ignited the market when it chartered 25 very large crude carriers in the space of a few days after the kingdom said it would flood world markets with its oil.

Spot rates in key VLCC routes have fallen slightly, but remain considerably above the \$100,000 mark, according to data from the Baltic Exchange. With the demand for oil set to undergo record declines and supply cuts deemed to be insufficient for the meantime, the dynamics are set to push earnings higher.

The Month in charts is taken from Lloyd's List's regular Week in charts published online each and every Friday



Yard Talk with Cichen Shen and Hwee Hwee Tan

A regular column that looks behind the news headlines, adding analytical value to coverage of the big Asian shipbuilders and yards around the world

Shiprepairers in virus gloom

The coronavirus thunderbolt and oil war hit Chinese repair yards just after their best year in more than a decade, while Singaporean yards also fell victim to the pandemic

Shiprepair yards should really thank the International Maritime Organization. The rush to install scrubbers and ballast water treatment systems fuelled by the IMO's new environmental rules had brought them many good days until the coronavirus outbreak and oil price collapse.

Before that, the Chinese shiprepair association, known as SPCC, said in its annual report that 2019 was the best year its members had experienced during the past decade, seeing combined revenue top Yuan22bn (\$3.1bn).

Even in the virus-stricken first quarter of 2020, their total output was up 84% year on year.

A case in point was Cosco Shipping Heavy Industries (Guangdong), a major player in the sector. The company said it completed repairs or retrofits on 44 vessels, of which 15 were for scrubber fittings and 10 for BWTS.

Compared to traditional shiprepair projects, installation of scrubber and BWTS delivers a much greater contract value, especially after prices were pushed up by the earlier surge in demand.

Yard sources in China said the two devices could have made up 60% of the revenue for large state-owned repairers, such as CSHI, last year — and 30%-40% for their smaller, privately run Chinese competitors.

Sales bonanza

The sales bonanza and the resulting slot shortage was also used as the reason for inflating the conventional repairs, which further boosted yards' income.

However, such a boom is quickly going into reverse, even though yard workers have returned since China managed to bring the outbreak under control.

CSHI said all its workers had returned to the yard in mid-March. However, SPCC and industry sources noted that many shipowners — especially owners of large containerhips — had changed their mind



Even in the virus-stricken first quarter of 2020, Chinese repair yards saw their total output rise by 84% year on year, helped by scrubber retrofits.

“*Such a boom is quickly going into reverse, even though yard workers have returned as China brought the outbreak under control*”

for scrubber fittings since pump prices nosedived and bunker costs plunged. Some carriers were even said to have cancelled the orders of the exhaust gas-cleaning systems, with yard retrofitting time now falling to 20 days from 45 days at its previous peak.

While the grace period given by BWTS installations delayed by the coronavirus outbreak has also affected yards' business, the increased slots fail to increase utilisation via other repairing projects.

When the virus developed into a

global health crisis, that made China tighten restrictions on the entry of foreigners, including service engineers, as well as the entry of foreign vessels.

Short-lived boost

The previous worker shortage at Chinese repair yards had given a short-lived boost to their main competitors in Asia, the Singaporean yards.

Statistics from the Maritime and Port Authority showed the number of ships calling at Singapore for repairs went up by two dozen to 248 in February.

Sembmarine, one of the largest local players in this sector, told Lloyd's List in early March that inquiries for shiprepair and upgrade work had jumped 30% since the coronavirus outbreak in China.

However, the city state itself then fell victim to the pandemic, which was mainly triggered by overcrowding and a lack of hygiene at foreign worker dormitories, which spilled over to its yards.

With the confirmed infections among foreign workers continuing to set new highs on a daily basis, the Singapore government ordered Sembmarine and

Singapore yards hit as coronavirus infections surge

Singapore's leading shipyards are being forced to halt or suspend some operations as new confirmed coronavirus cases surged among foreign workers housed at dormitories, writes Hwee Hwee Tan.

Responding to queries about talk of yard closures, a Sembcorp Marine spokesperson said the group would only scale back production activities for two weeks from April 17.

The two yards at Admiralty and Tuas Boulevard "are not shutting down". That was contrary to what several industry sources have suggested to Lloyd's List.

The intent is "to reduce the number of people in the yards and lower the coronavirus transmission and infection risks among our many workers and subcontractors staying in dormitories".

Singapore's Ministry of Health has identified foreign worker dormitories as places thought to grow clusters of coronavirus infection.

SembMarine's move is being viewed as hampering work on projects being undertaken at its yards.

London-listed oil and gas producer Energean, which is an end-client, said in a regulatory disclosure that work on the *Karish* floating production, storage and offloading vessel cannot go ahead as planned, given a two-week temporary halt to operations at SembMarine's Admiralty Yard.

However, SembMarine assured Energean that the hull mooring would be secured during the two-week suspension.

At the time of writing, Singapore had seen at least 1,800 confirmed coronavirus infections among foreign workers who make



Sembcorp Marine has a massive shipyard facility in Tuas.

up the bulk of the workforce at its shipyards and other heavy industry sectors, with a large majority of these detected over the first two weeks of April.

Seventeen of the 43 purpose-built dormitories for foreign workers in Singapore had been classified as virus clusters.

These included Acacia Lodge and Cassia@Penjuru, which are operated by units of Keppel Corp, the conglomerate that also owns Keppel Offshore & Marine.

An increase in confirmed cases was also reported at Keppel O&M's repair and conversion yard along Pioneer Sector road.

Keppel Shipyard, the entity operating the facility, was linked to 21 such cases as of April 10, up from four initially detected at the start of the month, data from the Ministry of Health showed.

Early cases at the Pioneer Sector yard were linked to ExxonMobil's *Liza Unity* FPSO and Eni's Coral South floating liquefied natural gas project.

Keppel Shipyard is believed to have further extended work suspension at least in some parts of its Pioneer Sector facility. The yard was supposed to emerge on April 14 from a two-week partial closure effected after the first infections were linked to projects being carried out on its premises.

Singapore-listed ST Engineering, which also operates shiprepair yards, separately confirmed to Lloyd's List that it has recorded a confirmed coronavirus case at its piping department in Benoi.

The worker tested positive on April 13 and his workplace was cordoned off for cleaning and disinfection of affected areas. ST Engineering said this was completed the next day. Co-workers who had close contact with the infected employee were put on a 14-day leave of absence, a spokesperson added.

Keppel O&M declined to comment, citing the observation of a blackout period before its financial results are released at the end of April.

some small to medium-sized shipyards to stop all work on site until May 4.

At least one of Sembmarine's yard has seen the number of confirmed coronavirus cases climb among workers there.

Keppel Shipyard, a second major player in the sector, is also said to have extended the suspension on at least part of its operations in mid-April on order from the government.

Its parent group, Keppel Corp, operates two dorms identified as clusters for coronavirus infections.

The predicament facing repair yards

“
At least one of
Sembmarine's yard
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confirmed coronavirus
cases climb among
workers there
”

is also reflecting another layer of uncertainty from the coronavirus shockwave battering shipowners.

Many owners, with the consent from flag states and classification societies, have been forced to push back drydocking for repairs and inspections of their vessels, just as they are doing with crew changes.

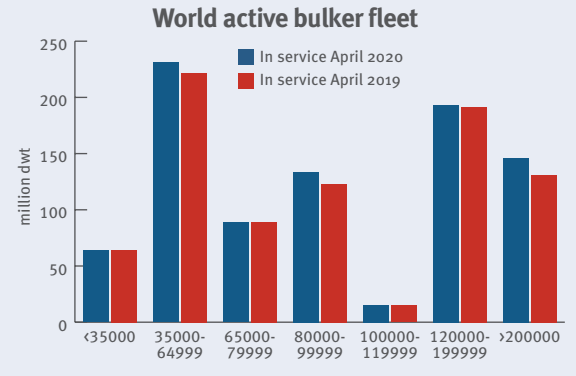
Yet no-one knows how long such a disruption will last, and whether the virus may return — especially during the winter season in the northern hemisphere — if it cannot be suppressed within the next few months.

The global active fleet of bulkers totalled 11,953 vessels, comprising 871.8m dwt, in early April, according to Lloyd's List Intelligence. In terms of carrying capacity, this represented a rise of 4.4% against last year.

Ships with a capacity greater than 20,000 dwt continue to be the main fleet driver of growth, climbing 11.5% on the year-ago level. This was in addition to an

8.7% jump in smaller dry bulk units in the post-panamax sector, or between 80,000 dwt and 99,999 dwt, on 2019 levels.

The dry bulk orderbook stood at 935 units at the start of April, with a combined capacity of 88.9m dwt. In 2020, 658 more ships are due for delivery, with an additional 248 vessels due to hit the water next year and a further 29 vessels from 2022 onwards.



Dry bulk operators optimistic despite uncertainty

Although sluggish market sentiment has hit freight rates, ship operators think they can rely on a rebound in the Chinese economy to support demand in the second half of the year, writes **Inderpreet Walia**

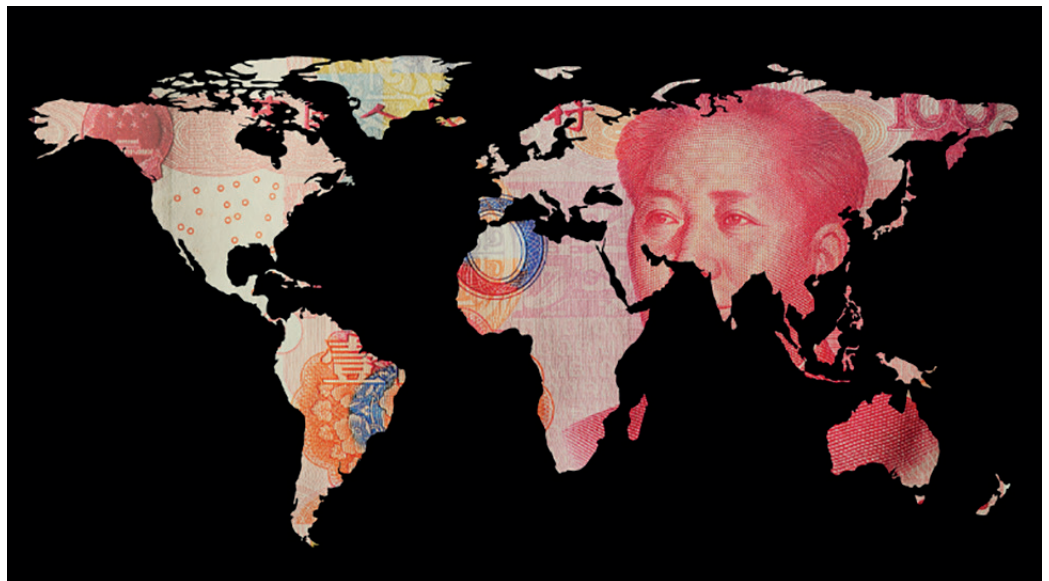
Dry bulk owners are holding out for an upturn in demand and spot market rates in the second half of this year, as earnings have remained below breakeven levels for most classes of vessel.

The coronavirus pandemic has effectively written off any hope of making much in the way of profits this year, as rates in the past three months fell below breakeven levels and the Baltic capesize index moved into negative territory this year, for the first time in its almost 30-year history.

The demand for industrial and consumer goods has plummeted. This means demand for the raw materials used in manufacturing processes is also set to suffer dramatically. This, in turn, will hurt the demand for bulkers.

Forecasts on rates for the third quarter are a little better than the second quarter, but shipowners could still struggle to generate profitable returns from charter rates.

Although the International Monetary Fund made an unprecedented reversal of its global gross domestic product forecast for the current year, taking it from +3.3% a couple of



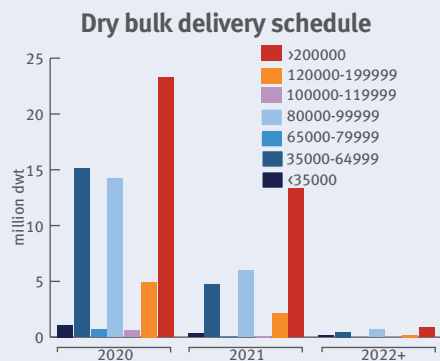
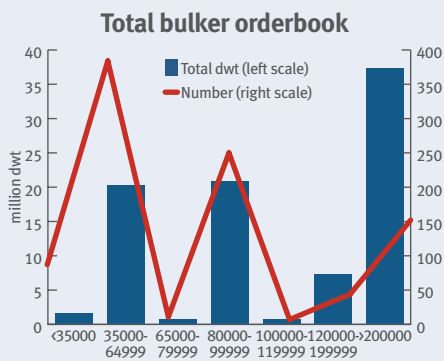
Dry bulk owners are relying on the Chinese economy to provide a recovery in freight rates.

months ago to -3%, dry bulk owners are relying on the Chinese economy to normalise in the second half of the year, with economic stimuli adding to the usual seasonality.

While China has so far not announced the official GDP projection for the year, the IMF projection issued in early April forecast a growth rate of 1.2%.

"We notice that the People's Bank of China cut interest rates further on April 15, with broad





Data from:

Lloyd's List Intelligence
Maritime intelligence | Informa

lloydlistintelligence.com

credit growth accelerating, perhaps an indication that fiscal stimulus is working through the system,” Clarkson Platou Securities said in a recent note.

Ralph Leszczynski, the head of research at brokerage Banchero Costa, argued that with “the economy in China suffering due to reduced external demand for Chinese manufacturing exports, and therefore the risk of rising unemployment, the government is likely to take refuge in the tried and tested policies of more investment in infrastructure, which will boost demand for iron ore and other raw materials”.

East Asian economies

The greater role of east Asian economies in the dry bulk trades should partially shield these trades from the full negative effect of the lockdowns in most other parts of the world, he said.

Despite all this, growth in dry bulk commodities will most likely be well below the growth in fleet capacity — and might even be zero or negative — which will, of course, have a very negative impact on the freight market, Mr Leszczynski conceded.

Khalid Hashim, chief executive of Thai dry bulk operator Precious Shipping, however, believes a V-shaped recovery is on the cards for the dry bulk segment.

“Our last calculations showed that some \$10.5trn of stimulus had been legislated by different governments around the world to combat the ill-effects of the coronavirus,” he said.

“*The world’s inhabitants still have to eat and pigs need to be fed. National and global trade policies are likely to shift in a less trade flow friendly direction, but good soil and growing conditions cannot easily be relocated to somewhere closer to consumers*”

Mr Hashim pointed out that this is almost 11.7% of world GDP being thrown at the problem, “so the recovery, when it does come, will be very strong”.

Grains and beans

Meanwhile, grain and bean trades have been showing remarkable resilience during these trying times, helping owners survive the virus outbreak.

While year-on-year soyabean exports fell 14% in the first two months, 11.6m tonnes were exported in March just after the economy reopened, sending total exports for the quarter into record-breaking territory, BIMCO data shows.

Danish grains consultancy BullPosition’s managing director Jesper Buhl noted that the demand for grains and beans is unlikely to be significantly dented by the current turmoil.

“The world’s inhabitants still have to eat and pigs need to be fed.

“National and global trade policies are likely to shift in a less trade flow-friendly direction, but good soil and growing conditions cannot easily be relocated to somewhere closer to consumers.”

Can supply help?

Unfortunately, not for now. This is because even the usual supply-side levers are not at shipowners’ disposal at present.

The closing of shiprecycling yards in the Indian sub-continent region has placed a pause on what was shaping up to be a strong year for scrapping.

According to Evercore ISI analyst Jonathan Chappell, newbuilding deliveries for 2020 were already set to re-accelerate before the demand downshift.

This means that even with likely delivery delays, the capacity prospects would depend on scrapping.

“The good news is that owners acted swiftly to the onset of coronavirus, with overall scrapping already exceeding full-year 2018 levels; however, with most shipbreaking nations in lockdown, removals have ground to a halt, limiting one of the few levers shipowners could pull to attempt to bring dry bulk utilisation into balance.

“All told, the supply and demand balance for 2020 has worsened meaningfully from just three months ago, which — combined with lower-than-forecast first-quarter spot rates — is likely to result in unfavourable year-over-year rate trends and another year of losses across the sector.”

Mr Khalid expects many more ships will head for the beaches due to the very low freight markets once India, Pakistan and Bangladesh restart their shipping recycling yards, mostly because of the fact that costs from drydocks, special surveys and retrofitting ballast water treatment systems will all require a lot of money.

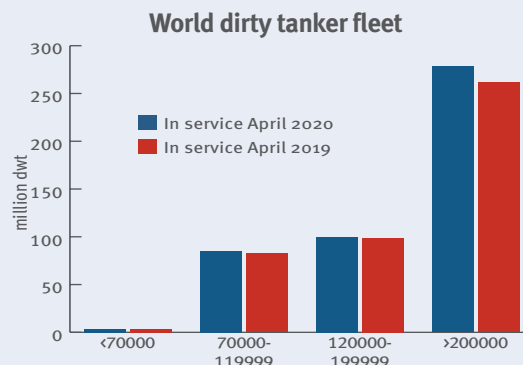
Mr Leszczynski expects a 3% net fleet growth expansion for dry bulk this year, with some delays in deliveries compensated by less-than-expected demolition.

The active crude carrier fleet comprised of 2,437 ships, equivalent to 466m dwt, at the start of April, according to Lloyd's List Intelligence. This represented a 4.4% increase over last year.

Very large crude carriers, of 200,000 dwt and above, continue to lead the growth, with numbers up 6.4% on year to 278.4m dwt. Aframax

tankers of between 70,000 dwt and 120,000 dwt continue to drive advances in the fleet too, up 2.8% on year to 802 vessels, representing 84.6m dwt.

The global orderbook was composed of 255 ships with a carrying capacity of 47.8m dwt. A further 21.9m dwt is due for delivery in 2020, with 19.8m dwt due in 2021 and just over 60m dwt from 2022 onwards.



Negative oil: positive for floating storage, a quandary for Trump

Oil's unprecedented and historic price collapse threatens US shale producers and provides a geopolitical quandary for the Trump administration. For tanker owners and oil traders, the crash means the contango in oil markets is so steep that floating storage economics have never been so favourable, writes **Michelle Wiese Bockmann**

The 36m barrels of Saudi crude scheduled to arrive at the US Gulf over the month of May is a legacy of the kingdom's now derailed March pledge to flood the world with crude.

This triggered the first collapse in prices, before the scale of the coronavirus-led demand downturn became apparent.

Bahri chartered 25 very large crude carriers in less than five days in early March, igniting sky-high deals for tankers over 2020's first quarter as demand outpaced supply.

The kingdom's national shipping arm paid a rate equivalent to a record \$350,000 per day for one VLCC, *Sea Splendor*, at the height of the chartering frenzy.

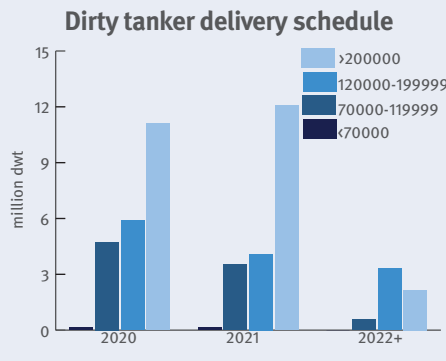
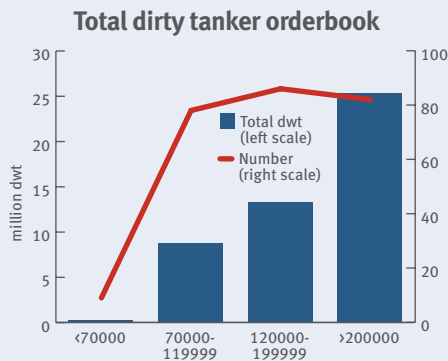
The VLCC arrivals are certain to extend pressure on the West Texas Intermediate oil price for June, after the May contract attracted global headlines when it traded in negative territory and reached as low as minus \$37 per barrel.

With little available commercial storage at the contract's physical delivery point of Cushing, Oklahoma, and the contract expiry imminent, producers caught short

Cost of floating storage calculations (\$)

	12 months	6 months
Assumed cargo size (bbls)	\$2m	\$2m
Front month price	\$21.15	\$21.15
Future price	\$33.28	\$32.40
Spread \$/bbl	\$12.13	\$11.25
Assumed cargo cost	\$42.3m	\$42.3m
Assumed cargo value at end	\$74.4m	\$64.8m
Cost calculations		
VLCC rate (per day)	\$75,000	\$85,000
Hire host VLCC over period	\$27.4m	\$15.9m
Assumed bunker consumption (tonnes per day)	\$10	\$10
Assumed bunker cost	\$232.50	\$232.50
Fuel cost	\$848,625	\$434,775
Total cost of storage	\$13.6m	\$16.3m
Per month cost of just storage US\$/bbl (excluding carry costs)	\$0.57	\$1.36
Total storage plus cargo cost	\$55.9m	\$58.6m
Difference between total storage cost & future price	\$18.4m	\$6.2m
Gain or profit per barrel over period	\$9.22	\$3.09
Gain or profit per barrel per month	\$0.77	\$0.51

Source: Lloyd's List



Data from:

Lloyd's List Intelligence
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effectively paid for oil to be taken off their hands.

The incoming Saudi crude pits one of the cheapest crude producers against some of the world's most marginal: US shale producers. It represents a serious geopolitical squeeze for the Trump administration.

The US is overwhelmed by unwanted oil in the landlocked Permian basin and is now dealing with an import glut on the Gulf coast as well.

International headlines about negative oil on April 20 are the most dramatic signal yet of the chaos enveloping global crude, with demand contracting by an unprecedented 30% or 30m bpd since the pandemic lockdown paralysed the world's economy.

The 9.7m bpd in production cuts agreed by the Organisation of the Petroleum Exporting Countries and its allies in mid-April was clearly insufficient to stabilise oil prices.

Tanker owners are banking on demand for floating storage of crude and refined products to buoy rates and earnings in the short term to offset these crippling demand drops.

Floating storage remains one of the few viable options to address the oversupply of crude overwhelming the market.

Rising number of tankers are being chartered for six- to 12-month periods, providing a much-needed rates floor.

Some 16 tankers were reported chartered for six-month or 12-month periods in the first two weeks of April, according to shipbroker reports.



Bahri chartered 25 VLCCs in less than five days, igniting sky-high deals for tankers in 2020's first quarter as demand outpaced supply.

VLCCs were chartered for about \$85,000 daily for six months and fetched around \$70,000 to \$75,000 daily over 12 months, depending on the age and fuel economy.

On today's calculations, oil traders who buy oil on the spot market at current prices and take a futures position for its sale in six months can make substantial profits on floating storage, even at today's inflated rates for charters.

Excluding the cost of carry, oil traders would make as much as \$6.1m profit for floating storage of crude on a VLCC over a six-month period and \$18.4m over a year.

Figures compiled by Lloyd's List are based on a spread of between \$11.25/bbl and \$12.13/bbl, respectively, for Brent crude, the international benchmark.

There are estimates that commercial storage will be exhausted by the end of May in the US, unless the Trump administration allows commercial leasing of its Strategic Petroleum Reserve.

There are other anecdotal reports that major storage hubs, including the Amsterdam-Rotterdam-Antwerp area, are also likely to reach capacity by early June.

The crude oversupply facing US-produced crude — now estimated at 2m bpd — is difficult to redress via floating storage.



'Dire implications' for tankers if floating storage fails to offset demand contraction

Average time charter equivalent rates have dipped from a record \$210,000 daily on April 2 to \$170,000 daily on April 20, with floating storage providing a floor to the coronavirus-led collapse in oil demand

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The global active fleet of liquefied natural gas carriers comprised 567 vessels totalling 86.1m cu m as of early April, a 6.1% increase on its year-ago total, according to Lloyd's List Intelligence.

The LNG orderbook stood at 153 units, representing 23.4m cu m carrying capacity. Of this, 6.5m cu m is scheduled for delivery in the rest of 2020; 9.9m cu m in 2021; and nearly 7m cu m in 2022 and beyond.

For liquefied petroleum gas tankers, the active global fleet was composed of 1,568 ships, with a carrying capacity of 36.1m cu m, up 6.6% on year.

The LPG orderbook is still dominated by very large gas carriers. Of the 129 vessels on order, 62 VLGCs, nearly 22% of the fleet, are due for delivery.

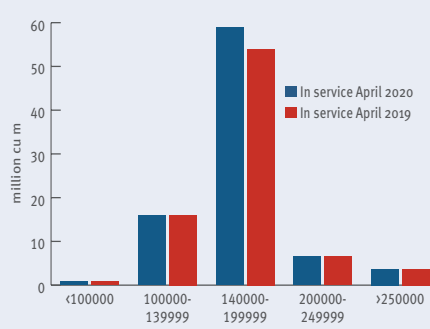
The global fleet of product tankers comprised 8,791 vessels with a carrying capacity of 195.6m dwt, a rise of 2.4%.

The product tanker orderbook stood at 312 ships, comprising 14.6m dwt: 156 MR vessels, 15 LR1s and 45 LR2s.

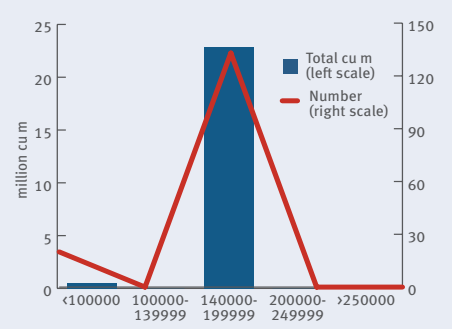
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LNG TANKERS

World LNG tanker fleet

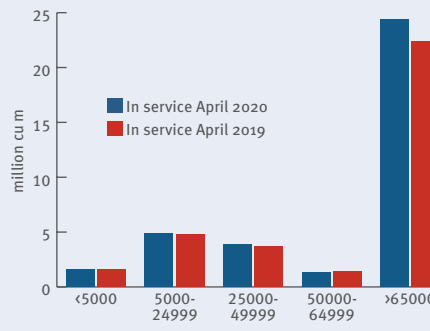


Total LNG tanker orderbook

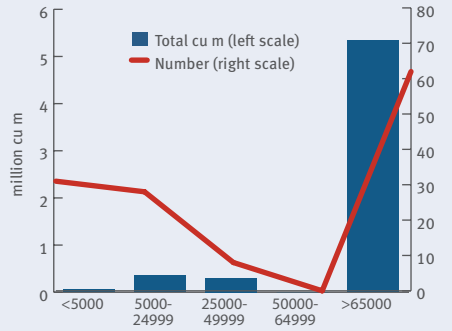


LPG TANKERS

World LPG tanker fleet

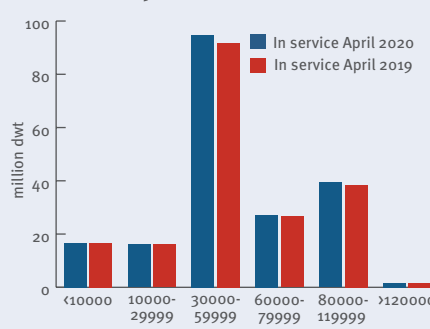


Total LPG tanker orderbook

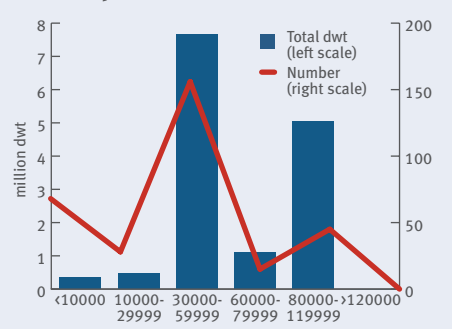


PRODUCT TANKERS

World product tanker fleet



Total product tanker orderbook



Shale oil needs to be piped or trucked from the Permian basin to the US Gulf, in addition to the other costs.

Ships being used for floating storage, defined as tankers at anchor for 20 days or more, is at the highest levels in records going back to 2009. Some 160m barrels on 110 tankers was tracked storing crude for the week ending April 10, according to Lloyd's List Intelligence.

That includes 56 VLCCs from the global fleet of 790. Some 38 VLCCs in floating storage are owned by Iran's national shipping company and unable to trade because of US sanctions, inflating these numbers.

Tankers are also taking longer routes around the Cape of Good Hope to extend voyages and face longer discharge delays in port

“Despite the positive numbers, BIMCO has one of the industry’s most pessimistic assessments of what the OPEC-plus cuts will mean. The removal of tonnage to floating storage to deal with oil overcapacity will not be enough to offset the sliding demand, the shipowner group’s analysis shows”

because of storage issues. There are greater numbers of unsold or distressed cargoes, based on anecdotal reports.

These figures are not immediately apparent in floating storage data, although if delays persist, they will eventually be added to the tally.

Back in 2009, the last time when collapsing crude demand triggered floating storage, some 54 VLCCs were tracked in floating storage — a much higher percentage of the total VLCC fleet, which then numbered around 500 vessels.

Despite the positive numbers, BIMCO has one of the industry’s most pessimistic assessments of what the OPEC-plus cuts will mean. The removal of tonnage to floating storage to deal with oil overcapacity will not be

enough to offset the sliding demand, the shipowner group’s analysis shows.

“The first quarter of 2020 has been one of the most profitable quarters in the past decade for crude oil tankers, which will hopefully provide a liquidity buffer for the challenging months that lie ahead,” said BIMCO chief shipping analyst Peter Sand.

“Once the production cuts set in, the profitable journey is likely to grind to a halt.

“With oil demand collapsing from one quarter to another, the crude oil tanker market is facing disruption on an unparalleled scale.

“It seems plausible that the market will not return to ordinary supply and demand fundamentals until perhaps the third quarter of 2021.”

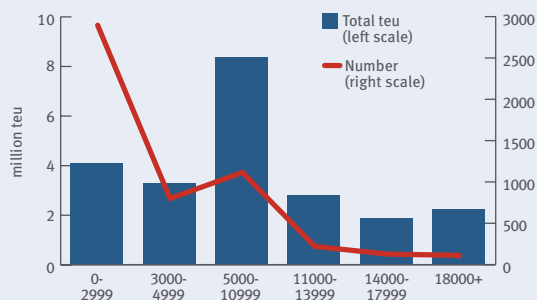
Uncertainty surrounding the container shipping sector at the hands of the coronavirus outbreak has understandably led to a dearth in new vessel orders.

Data from Lloyd's List Intelligence showed that only two newbuilding orders were agreed in March. OOCL signed off on five 23,000 teu units, while Tiger Group ordered a duo of LNG-fuelled vessels at Yangzijiang.

Analysts expect newbuilding orders to remain few and far between in the weeks and months ahead. Demolition activity, too, is anticipated to be of equally low numbers.

HMM was, though, due to welcome the first of its 24,000 teu giants to its fleet in April, which will be followed by a further 11 ships by the middle of September.

World active containership fleet



World boxship fleet update: Fleet in stasis as pandemic curbs activity

Even with a slowdown in deliveries, a frozen demolition market and backed-up scrubber retrofits are pushing up idle fleet capacity, writes **James Baker**

The coronavirus pandemic is affecting all aspects of shipping, with the container segment particularly hard hit.

With trade slowing to a standstill as most of the world remains in some form of lockdown to prevent the spread of the disease, containerised freight — unless it is urgently required food or medical supplies — is low on most people's list of concerns.

The collapse in demand for freight has led to an inevitable suspension of services, with all major carriers and alliances downsizing their networks through blanked sailings.

With more than 200 services now cancelled, large amounts of tonnage are sitting idle with nowhere to go.

Figures from Lloyd's List Intelligence put the idle fleet at the end of March at 356 vessels, comprising more than 1m teu and representing just under 5% of global capacity.

However, analysts at Alphaliner expect this figure to grow rapidly as carriers continue to modify their networks and schedules.

"More than 250 scheduled sailings will be withdrawn in the second quarter alone, as carriers react to rapidly fading demand,"

World containership fleet March 2020*

TEU Size Range	In Service No	In Service TEU	On Order 2020 No	On order 2020 TEU	On Order 2021 No	On Order 2021 TEU	On Order 2022+ No	On Order 2022+ TEU	Total No	Total TEU	%Total Fleet
0-2,999	2,896	4,080,026	214	407,248	36	49,915	1	1,091	251	458,253	11.2%
3,000-4,999	800	3,292,308	19	64,888	0	0	0	0	19	64,888	2.0%
5,000-10,999	1,115	8,353,479	9	48,900	0	0	0	0	9	48,900	0.6%
11,000-13,999	220	2,808,564	27	315,320	15	173,500	2	23,700	44	512,520	18.3%
14,000-17,999	127	1,865,171	18	269,256	15	227,784	12	178,256	45	675,296	36.2%
18,000+	112	2,219,048	30	672,494	6	137,000	8	184,400	44	993,894	44.8%
Total	5,270	22,618,596	317	1,778,106	72	588,199	23	387,447	412	2,753,751	12.2%

*Excluding newbuilding postponements and cancellations under negotiation

Source: Lloyd's List Intelligence

Alphaliner said. This could lead to up to 3m teu of capacity being idled, it added.

"Unlike the earlier round of capacity cuts in February, which only lasted for two to three weeks and which were mainly focused on China-related services, the fresh round of withdrawals will have a larger impact," Alphaliner said.

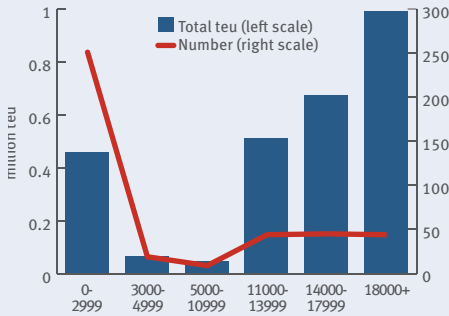
"The service reductions are set to last for two to three months, with several strings to be removed in their entirety in the second quarter. More widespread this time, the new cuts also affect most global trade lanes."

While a certain amount of this tonnage would head to yards for scrubber retrofits during the downtime, there would be "significant involuntary" idling for large parts of the carriers' operated fleet, as up to 30% of capacity was removed from the worst-hit routes, it added.

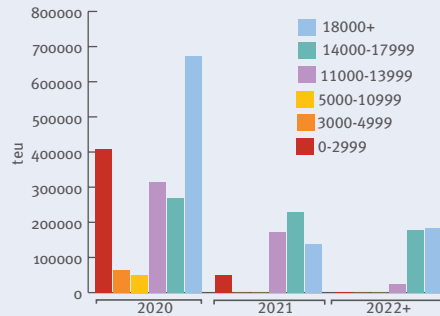
Yet the economics of scrubber installations have been called into question during the crisis, which has coincided with a major slump in the price of oil, as geopolitics has collided with recessionary forces. While this benefits container lines at a time when they are facing falling



Containership orderbook



Containership delivery schedule



Data from:

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revenues, it is eroding the benefit of installing scrubbers.

Consultancy Sea-Intelligence noted this would likely cause carriers to consider whether to forge ahead with their aggressive scrubber installation plans or hold back.

"If we continue to see the premium being eroded, this could well cause more vessels which were otherwise scheduled for scrubber installations to come back into operation," it said.

"During 2019, as well as the outlook for 2020, it is estimated that 1%-2% of the fleet would be de facto out of circulation, due to scrubber installations.

"If the oil price continues to sink, this could well be reduced and — effectively — add to the global capacity in 2020, at a point in time where the global demand is expected to decline."

The impact of the coronavirus pandemic on yards in Asia also needs to be considered. Many were forced to close or reduce output, so there is a heavy backlog of scrubbers to be fitted.

Should the spread between low- and high-sulphur fuel remain narrow, it is likely that many of those vessels will return to service, putting pressure on charter rates for non-operating owners.

However, elsewhere, the closure of yards is slowing the removal of ships at the end of their life cycle as India, Bangladesh and Pakistan have confirmed the closure of their shipbreakers, preventing any demolition sales.

"Very little — if any — tonnage will leave the fleet via scrap sales in the near future, although by

“*Unlike the earlier round of capacity cuts in February, which only lasted for two to three weeks and which were mainly focused on China-related services, the fresh round of withdrawals will have a larger impact*”

the third quarter, we expect an increase in demolitions, assuming restrictions are lifted," said Maritime Strategies International.

"Reductions to the active fleet in the near term will therefore come from vessel idling. This may be offset by vessels returning from repair yards, or increasingly vessels leaving their place in the repair yard queue as scrubber installation contracts are cancelled.

"While oil market developments remain volatile, MSI expects a fuel spread of less than \$100 per tonne on average over 2020, with a much tighter spread for much of the year."

With so much uncertainty facing the sector, orders are likely to remain thin on the ground. Lloyd's List Intelligence reported just two orders in March: a five-ship deal by OOCL for 23,000 teu units and Tiger Group's order for two 14,000 teu LNG-fuelled vessels at Yangzijiang.

"For the next several months, it is reasonable to expect that little will be ordered or demolished," MSI said.

"Deliveries are something of an exception, since HMM is due to receive its first 24,000 teu units in April, with the rest of the 12-vessel series scheduled to join The Alliance's network by the middle of September.

"Beyond these orders, we expect the pace of additions to the fleet would be relatively slow," it added.

"In total, we expect around 164,000 teu of deliveries in the three months to May 2020, followed by 240,000 teu in the three months to August," it said.



Box lines face major losses if rates fall

Carriers risk losing eight years of profits in one year if rate discipline collapses

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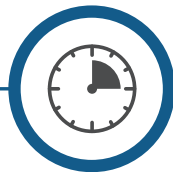
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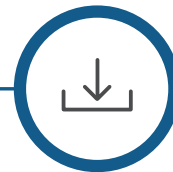
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From the Newsdesk with James Baker

How the world looks from our correspondents covering the news as it breaks

MSC shutdown throws spotlight on cyber-security

Two attacks on shipping companies expose the vulnerability of IT systems

Maritime cyber-security came under the spotlight over the Easter weekend when the website of Mediterranean Shipping Co went out of action.

Although eventually restored, the fact that a leading carrier could be offline for almost a week raises questions of cyber-security at a time when digital operations have become ever more critical.

“We’ve all now turned our businesses effectively inside out,” said Joe Hancock, a partner at Mishcon de Reya, who also heads the law firm’s cyber-security efforts.

Speaking in a webinar before the MSC incident, he added: “This presents some interesting issues. We’re seeing staffing issues across businesses and a reduction in managed service provision. If you outsource monitoring and detection facilities, can that supplier sustain those when their headcount has been reduced?”

With the coronavirus pandemic mitigation measures putting pressure on companies to do business digitally, and office-based staff working remotely, there were additional opportunities for criminals to access systems.

“Cyber-criminals never let a good crisis go to waste and have responded quickly,” said MDR cyber intelligence director Mark Tibbs. “The methods haven’t changed but the ways of enticement have.”

MSC is not the only maritime company to have faced problems. Denmark-based pump manufacturer DESMI also suffered a confirmed cyber-attack in early April and was forced to shut down its systems.

The two incidents are instructive of the different approaches companies take when handling cyber-attacks.

DESMI posted a message from its chief executive Henrik Sørensen announcing that it had been attacked and that all systems were shut down.

A few days later, DESMI followed up with a statement that it had been a



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Digital security could be compromised due to more staff working remotely.

ransomware attack and that criminals were seeking payment for data recovery.

“A ransom we under no circumstances will pay,” Mr Sørensen said. “We do not support criminals. It is most likely that data has been stolen from our systems and we predict that criminals will try to misuse this.”

By contrast, MSC put up a holding page to say its website was down for extended maintenance. Initially the company said msc.com and myMSC were unavailable as it had experienced a network outage in one of its data centres.

MSC later said through its Twitter account that it had had a network outage at its Geneva headquarters and added it could not rule out the possibility of malware being behind the fault.

The company was able to keep its operations under way during the outage and its agency network was fully functional on a separate network.

Kuehne + Nagel head of seafreight Otto Schacht said on Twitter that MSC staff informed the forwarder “within minutes” on

what to do. Others, however, complained of having to wait for more than 12 hours before being informed of any issues.

Questions also remain about the nature of the attack on MSC and what damage was done to its internal systems.

“I imagine they would have had problems with their decision tools, with their vessel deployment plans,” said one expert with experience working in a container line.

“Certainly their operational systems do not seem to be affected but it speaks volumes that they couldn’t get their website up and running in an hour.”

The company is understood to have eschewed any cloud-based systems in favour of a server-based system centralised at its Geneva headquarters.

While this is likely to have protected it from a similar spread of a cyber-attack as that suffered by Maersk in 2017, at a time when cyber-criminality is taking advantage of the current crisis, MSC, along with all in maritime, will need to take a close look at its security to avoid similar events occurring.



Commercial shipping's future could be in the air

Among the many zero-emission propulsion projects under development, Airseas' Seawing appears the most unconventional

The 154-metre ro-ro vessel *Ville de Bordeaux* is scheduled to leave its berth at the French port of St Nazaire by the end of November and head west across the Atlantic for Mobile, on Alabama's Gulf coast.

The vessel is owned by a partnership of Louis Dreyfus Armateurs and Leif Höegh and is under lease to Airbus, the world's largest airliner manufacturer.

At some point en route, an analytical tool on the bridge receiving meteorological and ocean data will identify optimal conditions and deliver a prompt to the bridge team. If the prompt is accepted, the ship's newly installed Seawing will be launched from a mast on the strengthened foredeck.

The Seawing is described as a parafoil kite made from polyester fabric, attached to the ship by a complex cable that can stretch up to 500 m in length. Sensors in a control box close to the kite will gather data of wind speed and direction and send it back through the cable to the ship's bridge system.

The Seawing will initially be installed on bulk carriers and tankers; it will require a reinforced bow because the force is from the deck level. Containerships are another priority target for the solution. The 500 m cable allows a pull angle of 30°, with the kite high enough to exploit faster, more steady winds.

There have been many wind propulsion systems on the market for several years. The challenge has not been the technology so much as changing attitudes to what is often regarded as an outdated concept.

Vincent Bernatets, the founder of Airseas, a company spun off from Airbus but independent of the aircraft manufacturer, is hoping the initial launch of the Seawing on *Ville de Bordeaux* will prove the concept and dispel the myths.

He tells Lloyd's List the parafoil is just one element of the concept. Just as important is the data analytics that will not only calculate the best time to launch and retract the Seawing but will also propose an optimised route that draws on wind conditions and sea state. That route would be the one that gets the ship to its destination at the contractual time using the minimum of fuel.

Mr Bernatets admits the Seawing is not the single solution to zero-carbon shipping — the ship's



The Seawing's 500 m cable allows a pull angle of 30°, with the kite high enough to exploit faster winds.

main engine will be required when the wind is in an adverse direction or when, such as in equatorial regions, there is limited wind. "Our algorithm will minimise fuel consumption. On Pacific Ocean routes, we can cut CO₂ and fuel use by up to 20%," he says.

The link with Airbus — a minority shareholder and lead customer — is significant because Airseas has a foot in both aviation and maritime camps. The calculations draw on decades of work on aircraft wings, bringing in software expertise from offshore racing.

Airseas has already had interest from K Line, which signed a contract in June 2019 to install and service its first Seawing in 2021, with up to 50 others to be considered later. Other shipowners have expressed interest, Mr Bernatets says, along with banking and insurance players.

"There is a belief that the status quo [regarding consumption of fossil fuels] is no longer possible. The Seawing will come onto the market much earlier than the new fuels and, because the product will reduce the power requirement of the main engine, should work well with those fuels when they come in."

Mr Bernatets adds: "Our main focus was on simplicity of operation and ease of installation." The system can be installed in just two days, and the parafoil can be swapped between ships of an owner's fleet when required. Once installed, operation is fully automated, so will need very little officer training.

"I am passionate about the sea, yet I come from the world of aviation," he says. "We are using the physics of the air."

Lloyd's List

Editor
Linton Nightingale

Lloyd's List Managing Editor
Richard Meade

Contributors
Anastassios Adamopoulos, James Baker, Nidaa Bakhsh, Declan Bush, Richard Clayton, Nigel Lowry, David Osler, Divya Shah, Adam Sharpe, Cichen Shen, Hwee Hwee Tan, Inderpreet Wallia, Eric Watkins, Vincent Wee, Michelle Wiese Bockmann, Fred Williams

Sales Director, Marketing Services
Natasha Dwyer:
natasha.dwyer@informa.com

To advertise please email:
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Classified
Maxwell Harvey

Advertising Production Manager
Mark Leech

Production Editor
Felicity Monckton

Printing
Paragon Customer Communications

Editorial
Lloyd's List,
240 Blackfriars Road,
London SE1 8BF

Tel: +44 (0)20 7017 5000
Email: editorial@lloydslist.com

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