





Half-year outlook



A special report

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Half-year outlook

Our half-year health check on the state of the maritime markets finds shipowners in a better place than they anticipated 12 months ago. While tankers will have to wait for a meaningful vaccine-led recovery, box and bulk are booming, with prospects of earnings stretching well into 2022 for both sectors.



Valentin Valkov/Alamy Stock Photo

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This half-year health check on the state of the market finds shipping in a good place; but after the celebrations comes the hangover.

Enjoy the markets fizz, but beware the hangover

The market leaders have already made their moves, but in the rush that followed, the orderbook has expanded and secondhand inflation has taken hold. Be warned: the bigger the party, the bigger the hangover, **Richard Meade reports**

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

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

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

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

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

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

More than three billion vaccine doses have been administered worldwide as we write this mid-year outlook and the analyst telling tanker owners that they

will be reading about improved rates in the next edition of the outlook will no longer be laughed off the call.

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

Containers boom

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

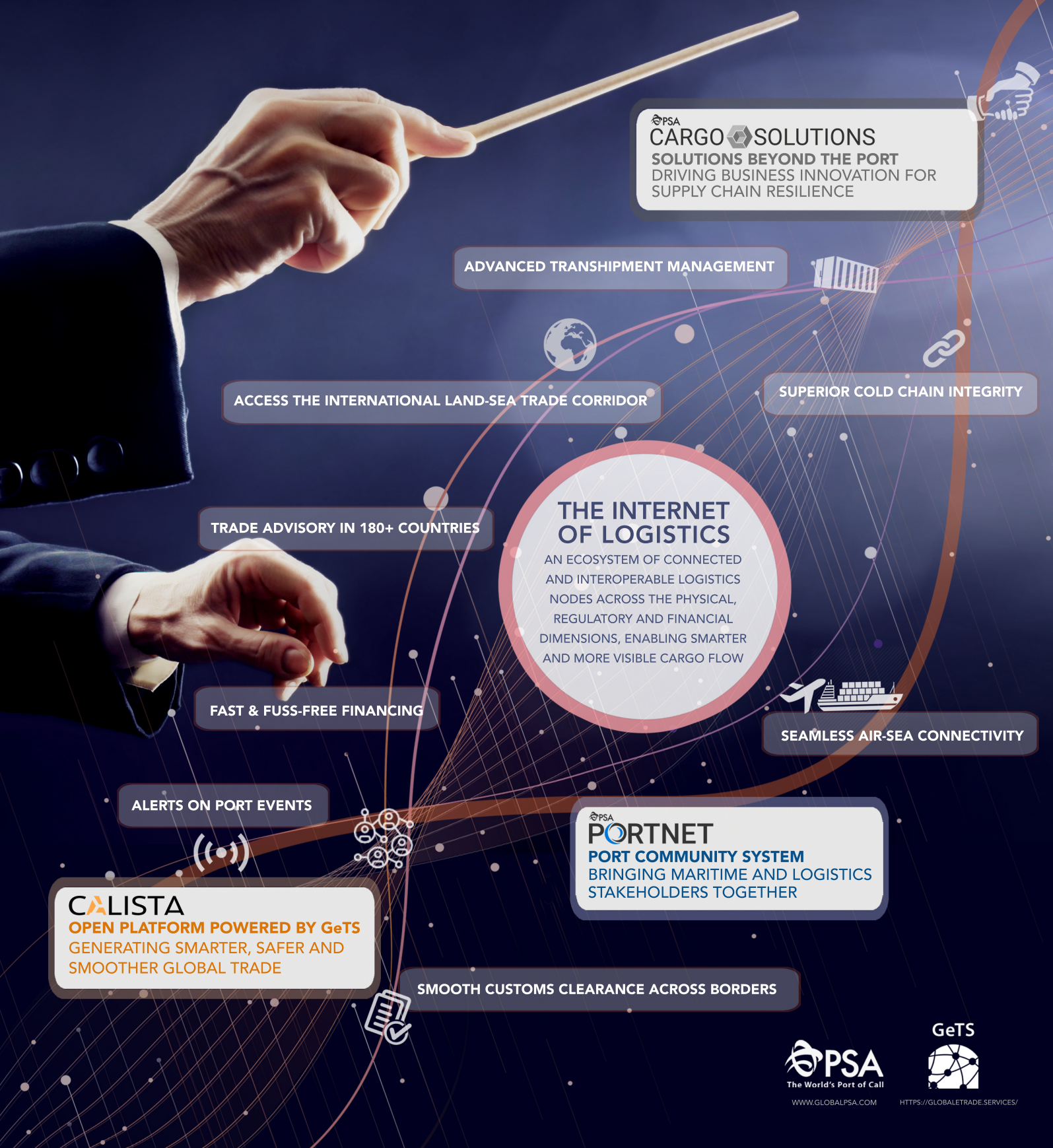
Mediterranean Shipping Co's current strategy of hoovering-up container tonnage on the secondhand market (while also having the largest orderbook of any carrier) speaks volumes about Mr Aponte's view on earnings potential into 2022.

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

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

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

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

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

Panamax preference

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

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

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

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

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

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

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



MSC's current strategy of hoovering-up container tonnage on the secondhand market speaks volumes about Gianluigi Aponte's view on earnings potential into 2022.

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 ”

Dry bulk has a blast

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

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

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

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

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

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

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

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

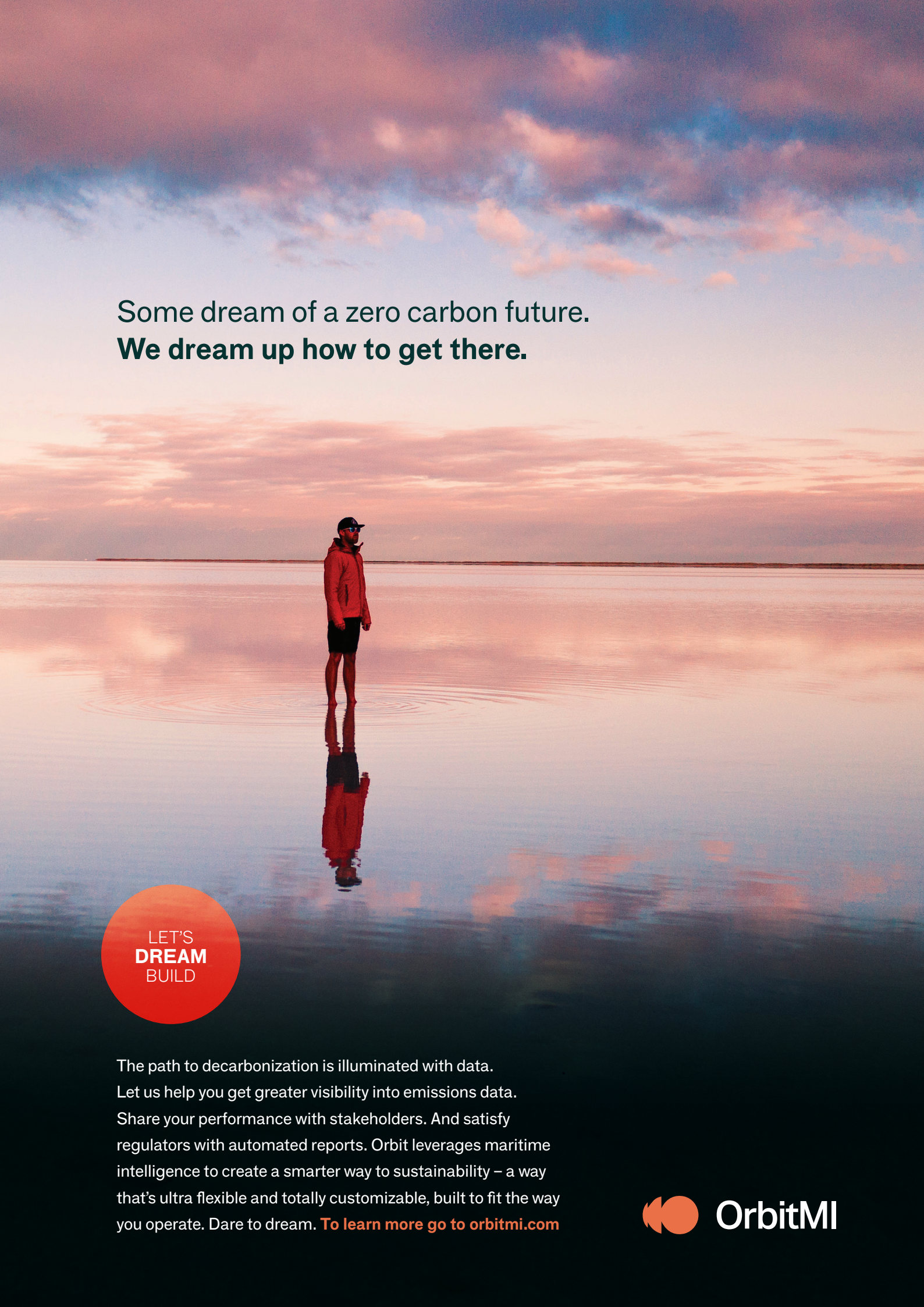
This is one factor keeping the orderbook low for the moment, but the situation will change as the push for greener shipping increases, contracting activity.

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

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

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

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



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

Decarbonisation regulations come to a head

Wide-reaching EU regulatory proposals, COP26 and a new decisive phase in IMO negotiations mean a crucial second half of 2021, **Anastassios Adamopoulos reports**

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

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

After the International Maritime Organization adopted new short-term measures targeting CO₂ intensity in early June — which many believe are too weak

to meaningfully contribute to emissions reductions — the focus turns to those policies that will fundamentally change behaviours and help the development and adoption of low- and zero-emissions fuels.

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

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

And if not entirely new ones, there should certainly be proposals building on the \$100 CO₂ levy proposed by the Marshall Islands and the Solomon Islands.

Still the only concrete MBM tabled at the IMO, the proposal did garner promising words of encouragement during the recent environmental meeting.

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

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

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

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

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

International climate ambitions

The UN's COP26 climate conference, taking place in Glasgow this November, could enhance international climate ambitions, raise expectations for the shipping sector and therefore provide a new impetus — and pressure — for

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delegations at the IMO, much like the Paris Agreement did, resulting in the 2018 initial greenhouse gas strategy.

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

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

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

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

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

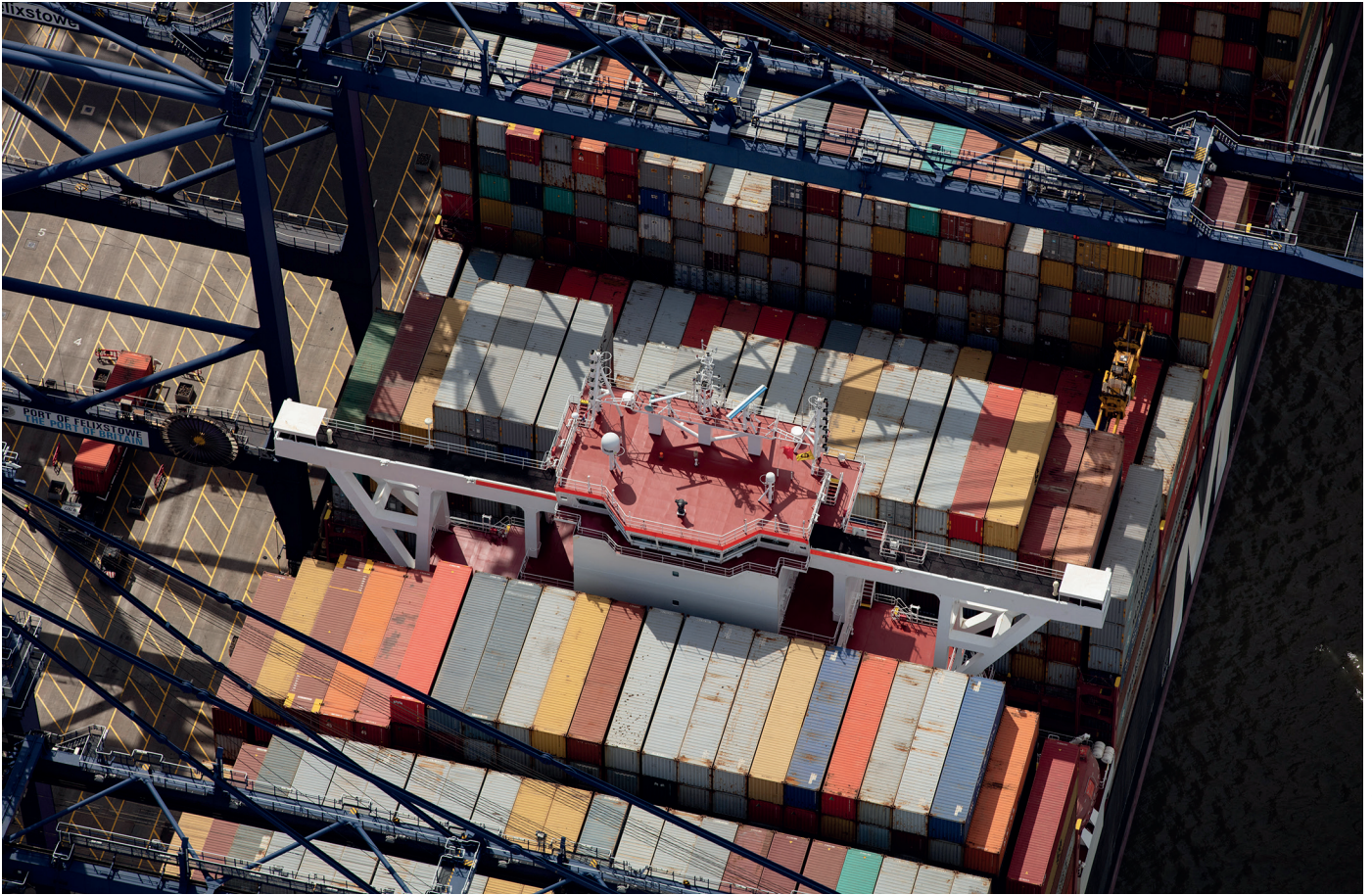
These are only proposals, and they will have to undergo negotiations with EU governments and the European Parliament before taking a final shape that could differ vastly from original plans.

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

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



The UN's COP26 climate conference, taking place in Glasgow this November, could enhance international climate ambitions.



Commission Air/Alamy Stock Photo

On the up: 2021 will likely go down as the most profitable in the sector's history; yet there are continuing supply chain problems.

Container shipping thrives amid the chaos

The box shipping sector has bounced back from the initial phases of the pandemic to record profitability; but the supply chain issues dogging the sector will continue until demand eases, **James Baker** reports

The outlook for container shipping is good. Very good. At least that is the case when seen from the perspective of the shareholders of container lines.

After spending the second decade of this century making little or no money, box carriers have bounced back with a vengeance.

Despite getting off to a rocky start, 2020 was a bonanza year for revenues as the pandemic turned out to be a spur to consumer spending on containerised goods.

That has continued through the first half of 2021 and, in the first quarter alone, the estimated operational earnings of the leading carriers was a record-breaking \$16.2bn.


There were few signs of any change in the second quarter, which has not yet reported, and 2021 will likely go down as the most profitable in the sector's history.

The mad rush to find capacity to ship the high volume demand has been highly beneficial to the owners of charter tonnage, too. Charter periods have increased and rates have skyrocketed. Non-operating owners that last year were contemplating bankruptcy are now raking in earnings.

Yet as anyone with even a passing knowledge of trade will know, not everything is going swimmingly in the world of container shipping.

A surge in demand, particularly in the US, at a time when port operations were restricted by pandemic-driven staff shortages and mediation measures, coupled with a slowdown in the hinterland clearance process, led to a log jam that has spread around the world.

The usually smooth conveyor belt of goods moving out of Asia to the large consumer markets in North America and Europe has come to an abrupt halt.

A man wearing a blue t-shirt, safety glasses, and a camouflage baseball cap is focused on working on a large, complex industrial machine. He is holding a tool or component of the machine. The background is a blurred industrial setting with various pipes and machinery.

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And there are few signs of improvement. Not long after the disruption of the Suez Canal blockage began to ease, another outbreak of the pandemic in southern China threw a further spanner into the works.

The partial closure of Yantian has led to congestion at neighbouring ports as shippers redirect their cargo. A large number of calls to Yantian have been omitted.

Yet as congestion has increased, delays have occurred. At one point, more than 100 ships with an aggregate capacity of more than 600,000 teu were at anchor in the waters surrounding Hong Kong.

The cargo backed up in southern China still needs to be shipped, but removing half a million teu from an already overworked system will only lead to more delays.

Slight breather

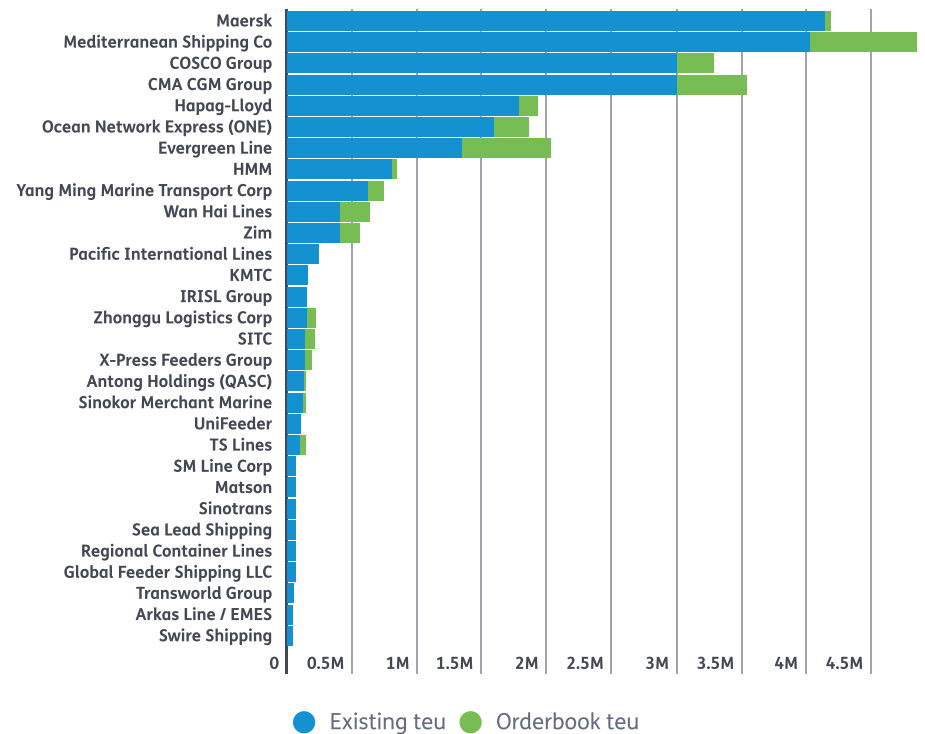
Perhaps the only positive point of the situation in southern China is that the slowdown in export volumes is giving some destination ports a slight breather to process the cargoes already delivered before the onslaught of the peak season begins in earnest.

In San Pedro Bay, for example, the number of boxships at anchor awaiting a berth has fallen from a high point of more than 40 in January to only 10 at the time of writing.

However, equipment remains in short supply. Carriers have added at least 1m teu of capacity to their box fleets, but for every extra day a container is kept waiting outside a port, on a dock or in a distribution yard, more containers are needed. For a large carrier, every day's delay can equate to needing an extra 35,000 containers.

For shippers, this means the

Container shipping lines operating fleet by teu



Source: Alphaliner (June, 2021)

“Carriers have added at least 1m teu of capacity to their box fleets, but for every extra day a container is kept waiting, more containers are needed”

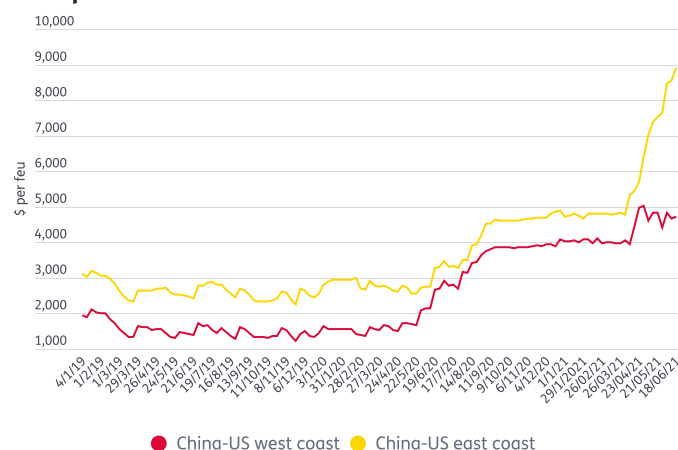
nightmare of a sellers' market at a time of high demand. Competition for access to both equipment and slots is fierce and has driven up rates to extraordinarily high levels.

At the end of last October, rates on the Asia-northern Europe trade lane, as recorded by the Shanghai Containerised Freight Index, tipped over \$1,000 per teu. By the middle of June this year, that rate had risen to more than \$6,300 per teu.

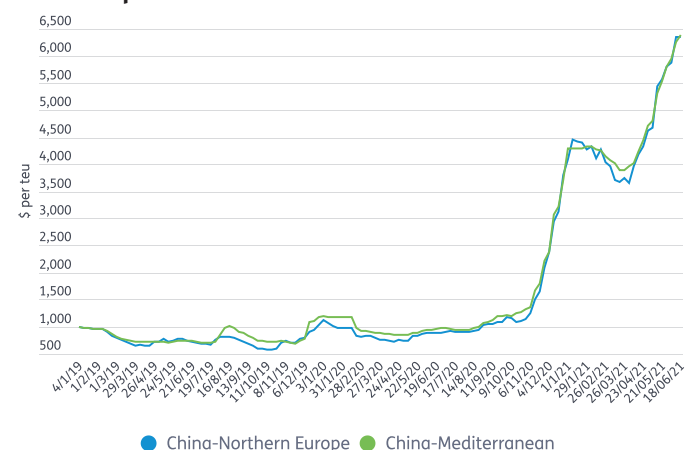
Anecdotal reports from the industry suggest some shippers are paying up to \$20,000 to ship a 40 ft container from Shanghai to Rotterdam.

Shanghai Containerised Freight Index: Transpacific and Asia-Europe spot rates (2019-2021)

Transpacific



Asia-Europe



*Rates are based on an origin port of Shanghai

Source: Shanghai Shipping Exchange

For shippers of high-value goods, that cost, while high, can be accommodated into the profit margin. Yet for many, the cost of container shipping risks putting them out of business. Survival may come down to scale.

The high cost of shipping, along with the delays and disruptions, has left carriers' customers with a bitter taste in the mouth. Lobby groups from across the industry are now agitating for regulators to step in and remedy the situation.

Regulatory burdens

Just what regulators could do to resolve the immediate problems is hard to imagine, but any additional regulatory burdens will be an unwanted distraction.

Carriers claim to be doing all they can to resolve the situation. And much of it remains outside their control.

Despite suggestions that capacity is being managed to maintain freight rates, carriers themselves are paying over the odds to put on every available ship in the market.

The breaking point in the system has not been that there is insufficient capacity to carry box volumes. Globally, those

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Despite suggestions that capacity is being managed to maintain freight rates, carriers themselves are paying over the odds to put on every available ship in the market
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volumes have only increased slightly over the past two years.

What is different is that volumes are being driven by one market growing at breakneck speed as US consumers spend their stimulus cheques faster than retailers can restock their inventories.

A logjam in that one key market has had a ripple effect that has driven the whole system into disarray.

New ships have been ordered. In the first half of this year, more than 1.5m teu of newbuildings have been booked at shipyards.

Yet most of that capacity will not come into the fleet until 2023, by which time it may be a very different market.

The next six months of 2021 are unlikely to give much relief. The traditional peak season this year will just be a continuation of the permanent peak of 2021, and few in the industry see any clear signs of improvement this side of Chinese New Year 2022.

For shipowners and container lines, that will mean the profits continue to roll in for some time yet. For shippers and cargo owners, it will mean holding on tight as the wild ride continues.



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While the market expects a return of higher iron ore volumes, especially from Brazil, MSI asks whether Vale can meet its full-year guidance.

Bullish sentiment prevails in dry bulk market

While the first half of the year surprised on the upside as demand for dry bulk commodities proved rampant, the final six months should be equally strong; some segments, though, will fare better than others, **Nidaa Bakhsh** reports

Most of the participants in the dry bulk market are expecting the strong freight rate sentiment to continue through the year, bar any unexpected black swan events.

Bullish sentiment is being driven predominantly by muted fleet growth — the lowest in decades — combined with an uptick in demand, which is largely expected to track the bounceback in global GDP growth following the pandemic-led lockdowns of 2020.

The rosy prospects, which may even continue beyond 2022, have attracted several new players into the dry bulk arena.

Shipping Strategy, a UK-based consultancy, said high earnings are expected until the arrival of the next wave of newbuildings in 2023.

The market will be buoyed even when stimuli starts to taper off.

“It is benign on the supply side — there is little scope to order vessels for delivery before mid-next year,” said the company’s founder Mark Williams.

“From a demand perspective, world GDP growth of 5.5%, based on manufacturing and infrastructure-led stimulus, should give a boost to freight rates,” along with a weak dollar, he added.

“Our base case is that the strength will continue in 2022 and even into 2023. It’s the best bang since the big one in 2003-2008.”

In the first five months of this year, about 16m dwt out of the 30m dwt of new scheduled capacity was delivered, according to the largest shipping association BIMCO.

Its chief shipping analyst Peter Sand expects full-year fleet growth of 2.4%, down from last year’s 4%, while demolitions are pegged at 9m dwt, the third-lowest level in 11 years.

Demand growth is expected to be “well ahead” of fleet expansion this year.

“Dry bulk surprised on the upside in the first half and the market established itself firmly,” Mr Sand said.

He added that everyone is making money from their ships in the region of \$24,000 per day.

“But it’s not over the moon; it’s not a super-cycle,” he advised.

Maritime Strategies International is forecasting spot rates for all segments to be stronger in the third quarter of this year than the fourth.

The London-based consultancy estimates capesizes to average \$35,000 per day, before falling to about \$29,000 per day, while panamaxs are forecast to drop from about \$23,000 per day to just above \$19,000 per day.

Supramaxes are seen averaging \$22,600 per day in the third quarter, falling to about \$18,000 per day, while handysizes should face a similar trend, declining from \$20,000 per day to just above \$17,000 per day, MSI estimates show.

Oslo-based Cleaves Securities expects to see the second half broadly in line with the unusually very strong first six months.

The investment bank's head of research Joakim Hannisdahl is predicting declines in earnings for panamax-sized vessels and below through the rest of the year – albeit still at firm levels.

However, he is more bullish on the larger sizes, anticipating very large ore carriers to earn almost \$50,000 per day in the fourth quarter from \$43,000 per day in the prior three months, while capesizes were pegged at \$38,000 per day, up from the \$33,000 per day mark.

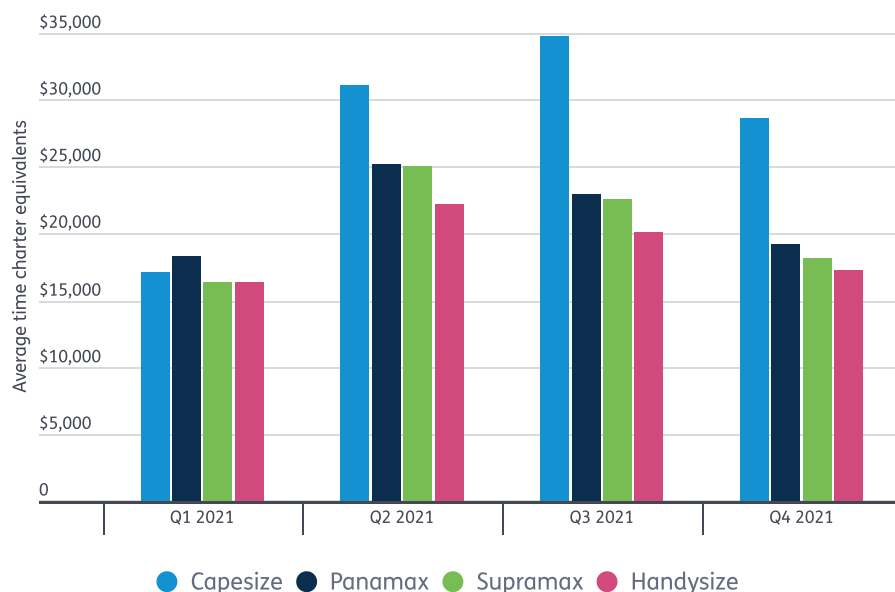
“By themselves, the fundamentals of trade volumes and fleet capacity fail to explain the strength of the market,” MSI's senior analyst Alex Stuart-Grumbar said.

“Other factors lending support (and driving volatility) include changing trade patterns, Covid-19-related inefficiencies, and high commodity prices.”

While the market is expecting a return of higher iron ore volumes, especially from Brazil, MSI questions whether the country's largest miner Vale can meet its full-year guidance of 315m-335m tonnes, given a new dam issue, which will likely remove 15m tonnes in the coming months.

MSI also expects a potential softening in demand from China as profit margins for downstream firms get squeezed, although the timing is difficult to predict.

Dry bulk spot rate forecasts



Source: Maritime Strategies International

China's steel production reached 99.5m tonnes in May, a 6.6% gain from the same month a year earlier, according to the latest statistics from the World Steel Association. In the first five months, it produced 473.1m tonnes, a 14% increase.

The rebound in the rest of the world is also interesting to note, up 33% to 75m tonnes, just shy of a record in March.

Arctic Securities said the fact that crude steel production was running high both inside China and outside of it was “a highly positive backdrop for dry bulk shipping”.

According to MSI, robust steel exports from China will continue to support the dry bulk market, helping handysizes in particular.

Handymaxes should, meanwhile, benefit from higher coal volumes from Indonesia to China due to peak summer demand and ahead of import restrictions

later in the year, it noted. In May, 98 bulkers loaded, up from 53 in April.

Minor bulk trades are also expected to remain strong as infrastructure spend continues, while grains may hit fresh highs in the latter part of the year, based on estimates from the US Department of Agriculture.

According to Braemar ACM, some asset classes will receive more support than others from the grains outlook.

Total grain liftings on bulkers so far this year have surpassed 267.1m tonnes, an 11% increase versus the same period in 2020, with shipments hitting a record 58.7m tonnes in April, its leading dry bulk analyst Nick Ristic said.

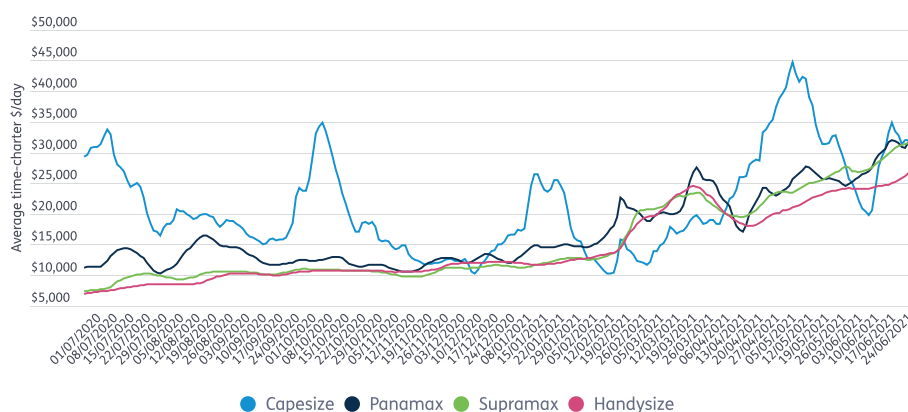
Much of the uplift came from US shipments, while higher volumes from Canada, Australia, Brazil and Argentina were also noted.

“Soyabean trade, which will weaken over the second half of the year, is overwhelmingly serviced by panamaxs (including kamsarmaxes and post-panamaxs), while smaller vessels will not be as exposed to weaker growth,” he said.

“We believe the geared fleet is primed to take advantage of a boost in trade over the next few months, and we expect these vessels to receive the most support from the positive stories in the corn and wheat markets,” Mr Ristic added.

It is clear that the much-awaited recovery in the dry bulk market has taken hold. With low fleet supply growth and steady demand for seaborne volumes, the market should continue on an upward trend for some time yet.

Baltic Dry Indices (June 2020-June 2021)



Source: Baltic Exchange time-charter weighted averages



Sipa US/Alamy Stock Photo

Despite record refinery throughput, with oil prices seeing two-year highs, buying has slowed from China, the biggest crude importer.

The only way is up

A vaccine-led recovery is under way for the crude and product tanker markets but the underlying fundamentals that determine its speed and magnitude have never been so uncertain, **Michelle Wiese Bockmann** reports

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

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

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

So where is the market right

now — and by how much will seaborne flows increase?

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

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

The global trading fleet of some 2,800-plus crude tankers (panamax-sized and larger) is caught between Opec's battle for profits and the Covid-19 outbreaks denting demand across Southeast Asia and Latin America.

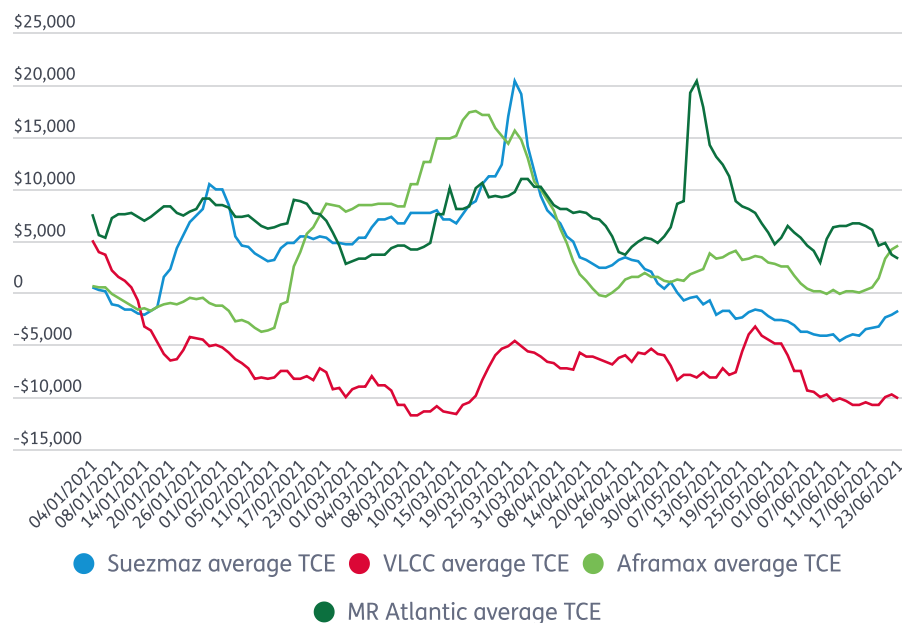
Total tanker tonne-mile demand — which measures volumes carried by distance travelled — in the months from January to April is 12.4% lower than the year-ago period. Tonne-miles are also 9.8% down on 2019 levels, Lloyd's List Intelligence data shows.

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

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

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

Average time charter equivalent rates (\$/day)



Source: Baltic Exchange

Will scrapping of Iran sanctions see more tankers scrapped too?

There are high hopes that any removal of 36-month-old US sanctions on Iran's oil and shipping sector will result in what some analysts are calling 'scrapageddon': the wholesale demolition of the entire elderly fleet of tankers now plying subterfuge trades.

Such a clear-out would go a long way to reducing the oversupply of tankers that is weighed on spot rates for most of 2021.

It is a no-brainer that tankers now involved in sanctioned trading will be scrapped sooner rather than later — but the timing, pace and scale will influence any rates recovery.

There are some 160-plus tankers of 25.8m dwt with an average age of 20 years identified by Lloyd's List that are involved in shipping US-sanctioned Venezuelan and Iranian crude.

Most are 70,000 dwt and above in size and include 44 very large crude carriers (5.6% of the trading fleet of 775 vessels of this type), 21 suezmaxes (3.4% of 591) and 66 aframaxes (6.3% of 1,011), according to Lloyd's List Intelligence data.

A further 70 tankers are either flagged by Iran or owned by its national oil tanker fleet. These are also subject to sanctions and are used either for floating storage or ship-to-ship transfers in tandem with the subterfuge fleet.

Removing these elderly tankers needs to be at a pace that will offset the reintroduction of these National Iranian Tanker Co vessels to normal trading. (The

NITC fleet includes 38 VLCCs and eight suezmax tankers and totals 13.7m dwt.)

Tankers in the subterfuge fleet export about 750,000 to 1m bpd of Iranian crude, and between 400,000-600,000 bpd of Venezuelan crude, Lloyd's List estimates.

Before sanctions were reimposed, Iranian monthly exports were between 2.5m and 3m bpd. This suggests at least 800,000 to 1m bpd will be added to the market once exports resume.

Venezuela is a different story. Under-investment and neglect of its oil assets suggest production is already at 70-year lows. It is unlikely crude exports will return to 2018 levels of 1.3m to 1.5m bpd.

With few exceptions, anonymous, untraceable entities paid cash for these tankers, between late 2019 and early 2021 and they are solely deployed in subterfuge trades.

There would be little cost associated with keeping older tonnage trading — i.e. special surveys and ballast water compliance — unless regulatory scrutiny rises.

Some 75% of the 160-plus tankers are flagged with registries from 19 poor African, Caribbean or Pacific islands or countries, with little maritime oversight and haphazard due diligence. Insurance and class in many cases is already not valid.

Trading patterns suggest port authorities' tacit accept this, given that some but not all tankers frequently call at

Iranian, Emirati, Malaysian or Chinese ports and anchorages.

Sanctioned oil and products are mostly deployed via a hub-and-spoke logistics system based around ship-to-ship transfers. Tankers shuttle to and from these hubs and do not call at ports with the final destination usually China or Syria.

If or when economic incentives and/or regulatory inconsistencies are removed to end trading, what capacity do subcontinental recycling yards have to take these tankers?

Containership and bulk carrier markets are going gangbusters, with highly profitable rates keeping older vessels trading. There are unlikely to be many scrapping candidates of these vessel types competing with tankers.

Volumes and numbers scrapped in the busiest demolition year (858 vessels of 45.5m dwt over 10,000 dwt in 2013), indicate the impossibility for all subterfuge tonnage to be immediately scrapped.

At best, yards' combined capacity is 11.3m dwt each quarter. The subterfuge fleet is 43% larger than this, suggesting tonnage will take at least a year to leave the market. Whether tankers idle or divert to floating storage ahead of any demolition sale or continue trading is unknown.

Iranian tonnage currently accounts for 54% of all 95 tankers identified as storing crude, condensate and refined products for 21 days or more, according to Lloyd's List Intelligence data.

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

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

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

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

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

India crude imports

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

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

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

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

Tanker tonne-mile demand*

	2021	2020	2019
Total bbsl	5,825,170,398	6,351,650,351	6,468,552,085
Total tonnes	787,120,553	861,253,706	874,898,245
Tonne-miles (trillions)	3.46	3.95	3.84
Number of ships	8,168	8,614	9,624

*First four months of the year (Jan-April)

Source: Lloyd's List Intelligence

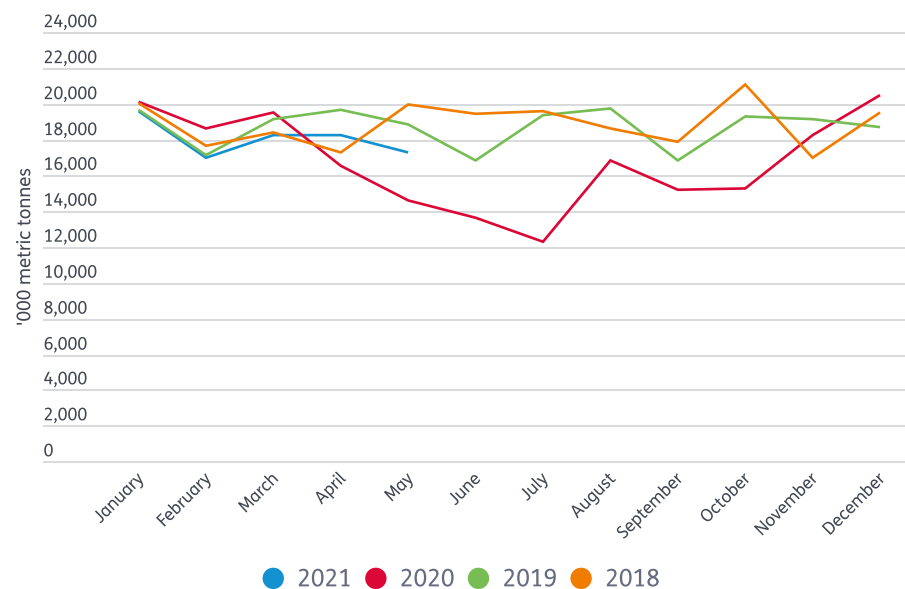
Middle East Gulf tanker tonne-mile demand*

	2021	2020	2019	2018
Total bbsl	2,299,176,742	2,557,417,188	2,632,402,033	2,699,960,010
Total tonnes	308,126,547	344,389,533	353,770,430	363,082,754
Tonne-miles (trillions)	1.43	1.66	1.71	1.84
Number of ships	2,518	2,480	2,810	2,880

*First four months of the year (Jan-April)

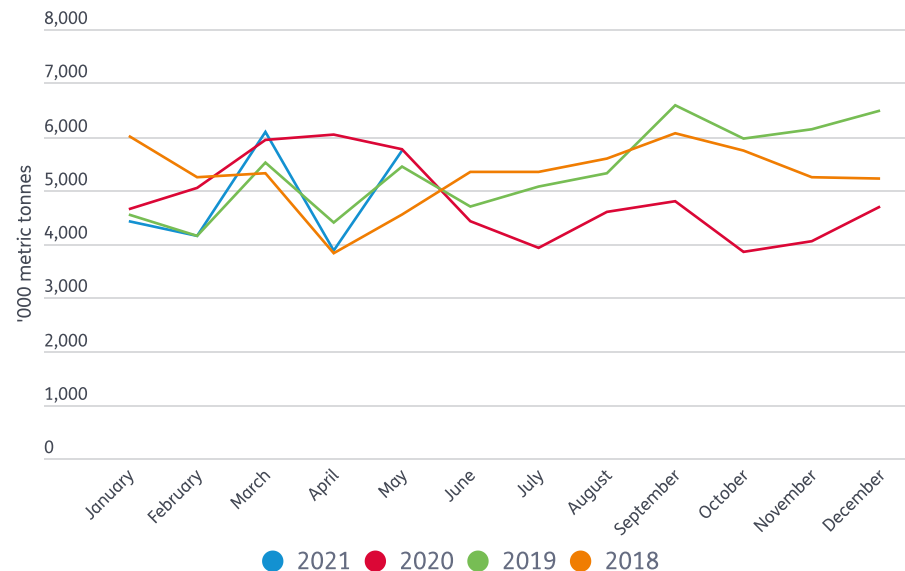
Source: Lloyd's List Intelligence

India crude imports ('000 metric tonnes)



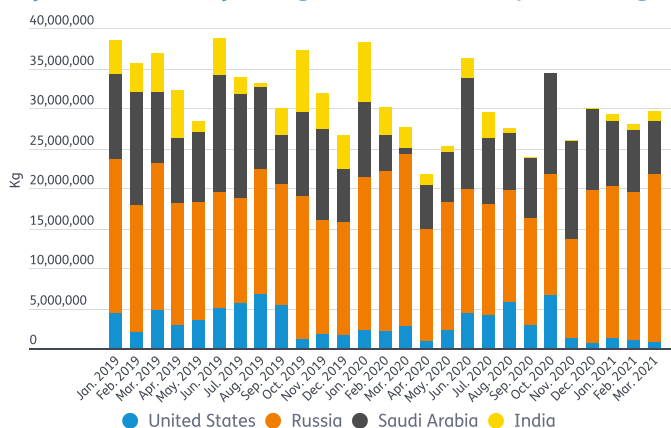
Source: India Petroleum Planning & Analysis

India refined product exports ('000 metric tonnes)

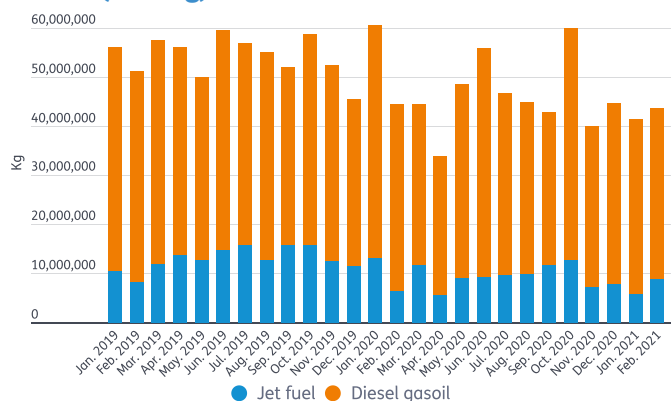


Source: India Petroleum Planning & Analysis

Top four diesel-exporting countries to EU27* ('000 kg)



EU27 imports of middle distillates, jet fuel & 10ppm diesel* ('000 kg)



* Excluding EU27 countries

Source: Eurostat

EU fuel imports

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

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

Instead, Russian imports to the EU27 now dominate, Eurostat figures

show. This market is mostly served by handysize tankers shipping from the Baltic Sea ports, which adds the least to tonne-mile demand.

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

One of the few positives is negative net fleet growth. Shipping analysts MSI forecast the suezmax fleet to contract by 1.6%, and

VLCCs and aframax tankers by 1% this year.

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

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



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Cheniere Energy

Cheniere Energy has snapped up tonnage previously trading on the spot as production starts at its third Corpus Christi liquefaction train.

High carbon prices and unusual weather tighten LNG market

Concerns over replenishing heavily drawn down inventories have pushed buyers in Europe and Asia to snap up spot cargoes after an unusually cold winter, **Hwee Hwee Tan** reports

Neither bizarre weather nor soaring carbon prices have discouraged imports and shipments of liquefied natural gas, contrary to what green lobbyists may have hoped for.

LNG analysts have, in fact, argued that spot cargo demand and charter rates could build on recent momentum in 2021 to outperform even last year.

Europe's carbon prices doubling in May has boosted, rather than dented spot demand for LNG, driving the TTF gas price past \$10 per million British thermal units in early June. The European Council has put in place mechanisms to support the region's emission trading scheme, inadvertently encouraging utilities to switch to gas from coal.

Rystad Energy's senior vice-president Carlos Torres Diaz argued that unless Russia ramps up piped gas supplies to the rest of the region, persistently high ETS carbon prices would continue to stoke competition between Europe and Asia for spot cargoes and other flexible supplies.

Europe also went through an unusually cold April that called for extra gas heating. A scorching summer in Asia, on the other hand, also raised demand for gas-fired power generation to run air-conditioners over longer hours.

By and large, however, Europe lost out in the battle against Asia for spot cargoes, reflected in higher prices seen in trades done on the North Asia JKM benchmark over those tied to the Dutch TTF.

China, as the largest singular growing market, contributed to the surge in Asia spot LNG demand.

Rystad Energy's vice-president Xi Nan noted that China imported 3m tonnes of US LNG during January to May.

That far exceeded the 1.2m tonnes in overall annual supply that Chinese buyers contracted from export projects in the US.

Ms Xi suggested the bulk of trade between the world's two largest economies could have thus far come from portfolio swaps and spot purchases.

She expects this trend to continue,

which would have bolstered shipping tonne-miles going forward.

Spot charter day rates for modern tonnage in the Atlantic Basin, however, have been holding up for weeks above those in the Pacific.

For the month to June 11, shipbrokerage Poten & Partners assessed rates for ships with 160,000 cu m or more capacity at \$65,000 to \$78,500 for westbound trades – higher compared to between \$58,500 and \$72,500 assessed for those heading east.

These are more than doubling troughs of \$20,000 to \$30,000 seen during May to July last year.

Rates have clearly rebounded faster from off-peak lows but what also stood out, as Poten indicated, is the lack of prompt tonnage in the Atlantic over the Pacific Basin.

This situation has evolved from an atypical shoulder season, which saw the inter-basin arbitrage reopening to encourage shipments to Asia instead of Europe.

That has stripped Europe of the breathing room it enjoyed in recent years but now badly needs to restock ahead of another winter hike in gas demand.

By the end of March, Europe's gas inventories had fallen to 10% below their five-year average and 44% below the previous year, following huge drawdowns to meet a sharp spike in gas heating demand during the preceding winter.

Flex LNG chief executive Oeystein Kalleklev warned of volatile gas prices during the second half of 2021, should mercury levels plunge below average once again and Russia fails to boost supplies to the rest of Europe during the coming winter.

These events, timing with a potentially dramatic expansion in global regasification or import capacity, may well fan surges in LNG prices and shipping rates.

Construction bottlenecks during the pandemic-hit 2020 led to delayed start-ups in new regas capacity in 2021 and beyond.

Regas capacity could expand by 73.9m tonnes by the end of this year, almost tripling from the previous year's addition of 26.2 m tonnes, Rystad's projection showed.

Against this backdrop, contracting of term offtake from new export projects has picked up.

US developer Tellurian announced two separate deals with trading firms Gunvor and Vitol for a combined volume of 6m tonnes in LNG supplies over 10 years.

Rystad viewed this uptick in term contracting of LNG supplies as bolstering chances of more export projects being sanctioned in Australia, the US and Russia, this year and next.

The research agency projected about 60m tonnes per year of export capacity may reach final investment decisions from July 2021 through to December 2022.

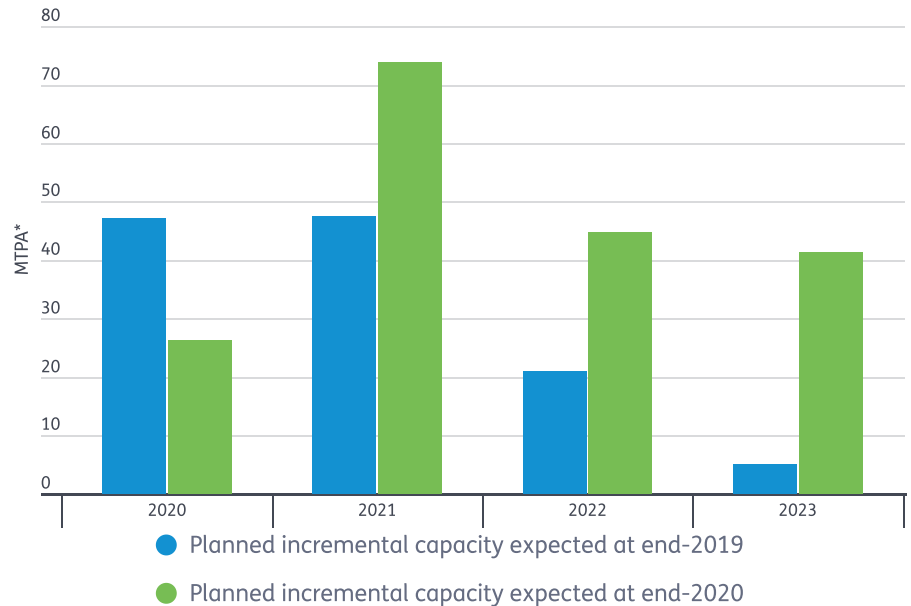
This projection would carry some caveats, including the projects securing financing, but it spells renewed confidence among some market observers who may not share views recently announced by the IEA.

By noting how major economies have swung towards renewables, the IEA basically declared the golden age for gas — for which it previously mooted — is over.

The IEA's statement also followed on from a dismal 2020 for the LNG industry, during which new project FIDs almost dried up after reaching a record 96m tonnes per annum in 2019. One analyst, however, cautioned against equating a rebound in project FIDs with an improving LNG shipbuilding outlook.

The jury is out as to whether the banking sector, still a major source for project financing, would accept the innovative TTF-JKM hybrid pricing structure

Planned incremental regasification capacity (2019 vs 2020)



*Million tonnes per annum

Source: Rystad Energy, Refinitiv

underpinning Tellurian's term offtake with Gunvor and Vitol, as Poten's head of business intelligence Jason Feer suggested. LNG export projects also take years to build and often face delays in their construction.

Repeated militant attacks on Total's Mozambique LNG project in the East African country has forced the supermajor to declare force majeure, casting uncertainty over the fate of 16 LNG newbuilds contracted to the project.

Project owners now also face increasing calls from buyers to offset or sequester carbon dioxide associated with their LNG value chains. Such requirements, evolving out of intensifying climate change concerns, have prompted assessments of carbon credits purchased and retired to offset well against tank emissions.

S&P Global Platts, the pricing agency behind the JKM benchmark, assessed such costs at between 6.9 US cents and 7 US cents from June 16 to June 23, which does not appear significant relative to recent LNG spot prices.

The question, though, is how far emission costs and profiles may shape competitiveness of LNG sourced across producers — and, hence, shipping tonne-miles going forward.

That said, rising emission concerns are not holding back production from sanctioned projects.

US developer Cheniere Energy has gone ahead to fix time charters on several Flex LNG-owned carriers, including one newly delivered unit, following the completion of a third train its Corpus Christi liquefaction terminal.

Cheniere's charters forestalled an

increasing number of tankers being removed from spot trades for term hires.

As a result, many owners of the now limited number of uncommitted two-stroke tonnage are holding off for term requirements and gradually increasing their rate expectations, a research note from Poten said.

Rystad estimated 68 carriers, equating to 11% of the existing global fleet, may come online this year, which could ease tightness in the shipping market.

The agency also forecast an 8% growth in LNG exports this year, comparatively smaller than the fleet expansion.

While that can take some heat off the now surging charter rates, the market may well still favour tonnage providers in the coming months.

"Robust LNG demand in Asia is likely to support shipping demand and tonne-miles, offsetting any downward pressure the newbuild delivery may exert on charter rates," vice-president Sindre Knutsson said.

How mercury levels may move during the winter months is another wild card.

Joakim Hannisdahl of Cleaves Securities pointed to one signal supporting LNG shipping for now.

The National Oceanic Atmospheric Administration in the US recently forecast a 50%-55% chance of another La Niña winter, which could mean another unusually cold season in the offering for North Asia.

"We could potentially see very strong LNG carrier spot rates for the remainder of 2021 and into 2022, exaggerated by the current low natural gas inventories," Mr Hannisdahl remarked.



Australia — a driving force for IMO reform

Australia is pushing for more transparency and a bigger voice for smaller states within the International Maritime Organization

Australia, a key player at the International Maritime Organization, is seeking re-election to category (b) of the IMO Council for the 2022-2023 biennium to secure its place as a significant maritime nation with an optimistic vision for the future of the maritime community.

An island continent, Australia's international trade is 98% seaborne; 1.4bn tonnes of cargo moves through its ports annually, to help build, fuel and feed the world.

As a founding member of the IMO, Australia will continue to champion organisational reform to strengthen the institution, while making it more balanced, fair and inclusive for all members.

Australia wants to see greater transparency, efficiency, and innovation, to ensure the IMO will thrive in the 21st century.

Australian Maritime Safety Authority (AMSA) chief executive Mick Kinley says Australia has contributed to decades of collaborative work at the IMO to achieve the ship safety standards seen today.

However, the way the IMO has worked in the past may not succeed in the face of increasing and rapid change in the maritime industry and rising community expectations.

Australia remains focused on delivering a safe and sustainable future for shipping, which includes delivering significant reductions in carbon emissions and protecting sensitive marine environments, Mr Kinley said.

"We are strongly engaged in the IMO's work programme to reduce greenhouse gas (GHG) emissions from international shipping," he said.

Collectively, IMO member states have agreed a short-term, goal-based technical and operational measure, for implementation by 2023.

"Our aim with this measure is to improve



“Australia wants to see greater transparency, efficiency and innovation to ensure the IMO will thrive in the 21st century”

Mick Kinley
Chief executive
Australian Maritime Safety Authority

the sector's energy efficiency and reduce carbon intensity from international shipping by an average of 40% by 2030, in line with the IMO's Initial GHG Strategy.

"We hope this measure will be adopted at the next meeting of the Marine Environment Protection Committee (MEPC 76), so meaningful emission reductions can start as soon as possible," Mr Kinley said.

"Australia is also keen to begin work on the mid- and long-term carbon emission reduction measures and we have co-sponsored a submission to MEPC 76, proposing a workplan for their development.

"We have co-sponsored another submission calling to establish a Standing Technical Group on GHG because this issue will be a significant challenge for the industry and the IMO for many years to come."

These challenges are perhaps the clearest indicator that it is time for global maritime regulators to modernise, by anticipating and supporting industry innovation and responding to changing community expectations.

As the world's largest bulk commodities exporter, Australia will pursue more effective implementation of IMO instruments.

Mr Kinley said experience shows that safety and environmental outcomes can be improved by strengthening the global network of port state control (PSC) regimes to harmonise implementation of existing standards. Australia actively shares PSC information with its partners in the Asia-Pacific and Indian Ocean regions, and

works hard to maintain its reputation as a transparent, trusted and consistent member of the international maritime community.

"Our participation on Council helps us to drive change and influence the standards for international trade and sea transport — and, importantly, bring a balanced perspective as both a major bulk commodities exporter and a significant coastal state," Mr Kinley said.

"We advocate for a bigger voice for small island developing states (SIDS) and least-developed countries (LDCs) to help the IMO become truly inclusive.

"We also champion increased access to information for member states and better transparency of IMO discussions and decisions, and we remain steadfast in our goal to promote safe, environmentally sustainable and efficient shipping to foster global economic prosperity."

Maintaining the maritime industry's social licence will become more important in the future. The legitimacy of this important work can only be maintained by ensuring that all voices — flag states, coastal states, industry and the community — are heard and respected at the IMO.

• AMSA welcomes community response and provides more information about Australia's IMO Council election campaign through its website: <https://www.amsa.gov.au/australias-candidacy-category-b-imo-council/australias-candidacy-category-b-imo-council>

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ZUMA Press, Inc./Alamy Stock Photo

The LPG market has been benefiting from Asian demand for US LPG, boosting average sailing distances, along with sector inefficiencies.

LPG sector sailing to a profitable second half

The liquefied petroleum gas shipping market is in much better shape than this time last year, with spot rates verging on the strongest levels seen in years as owners hope for a cheerful winter, **Inderpreet Walia** reports

At the halfway stage of 2021, freight rates in the liquefied petroleum gas segment reached their highest level in more than five years — only to drop to the lowest level in two.

The market’s rollercoaster ride has been reflected by indices with the Baltic LPG Index.

On January 11, 44,000-tonne shipments of fully refrigerated LPG from Middle East Gulf to Japan climbed to \$119 per tonne, just to fall to their lowest level at nearly \$27 per tonne come March.

Healthy market fundamentals are setting up high expectations for the next six months.

Norwegian brokerage Fearnleys expects LPG trade to grow by 5%-7% annually, even as alignment of available capacity and cargo supply appear shaky in the second half due to continued delivery of new tonnage.

“There are a number of variables on the demand side that are expected to offset the supply side,” said its senior analyst Martin Kjendlie.

Drewry expects spot rates to edge down marginally over the third quarter of the year but to register a correction in the final quarter. Its lead gas shipping analyst Aman Sud forecasts very large

gas carrier spot rates to reach around \$53.3 per tonne for 2021.

In terms of charter rates, MSI projects VLGC rates — which are increasingly dominating tonnage and contracting in the LPG market — to average around \$34,600 per day this year, and rise to \$33,900 per day in 2022.

The LPG market has been benefiting from Asian demand for US LPG, boosting average sailing distances, coupled with continued inefficiencies in the sector, including a heavy drydocking schedule.

For the momentum to continue amid the deluge of newbuilds hitting the market in the coming years, shipowners will hope several factors swing in their favour — such as vessel delays and arbitrage play from regional imbalances.

Demand prospects

LPG is still a growing market, with new importing nations emerging, while prospects of Chinese and Indian demand remain promising.

According to Poten & Partner’s LPG consultant Shantanu Bhushan: “Demand growth is expected to be strong in Asia, driven by both the petrochemical and retail sectors and also in northwest Europe.

“Recovery in the oil market would mean LPG becoming more competitive relative to naphtha as a feedstock,” he said.

This dynamic should support better arbitrage economics between the US and northwest Europe and the Mediterranean.

Meanwhile, new terminal projects are being constructed on both the supply and demand side of the spectrum, resulting in new trade routes for LPG carriers.

Navigator Gas expects demand for more vessels to cater for the Repauno terminal in New Jersey and the Pembina terminal in Prince Rupert, western Canada, when they come online.

In China, the construction of a series of propane dehydrogenation plants, designed to process propane into plastics, will continue to boost LPG flows into the country.

China imported 5.6m tonnes of LPG in the first quarter this year, 49% higher when compared to the year before, Poten data shows.

Chinese LPG imports are expected to increase by 19% this year, mostly driven by propane shipments, Mr Bhushan conceded.

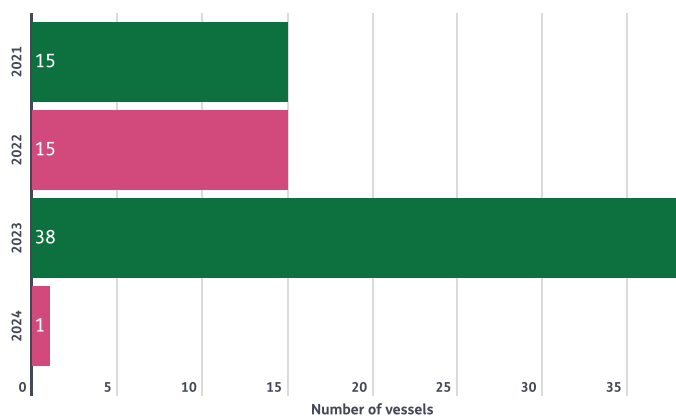
Although US exports are capturing a mounting share of the incremental demand for LPG, Mr Sud estimates production to grow by 0.8% in 2021 and by approximately 3.2% in 2022.

LPG supply from the Middle East, on the other hand, is expected to rise by 4.5% in 2021 and another 6% in 2022 to 39m tonnes, he said.

Mr Sud added that “the development will be slightly negative on tonne-mile demand as it diverts vessels from the longer US-Asia route”.

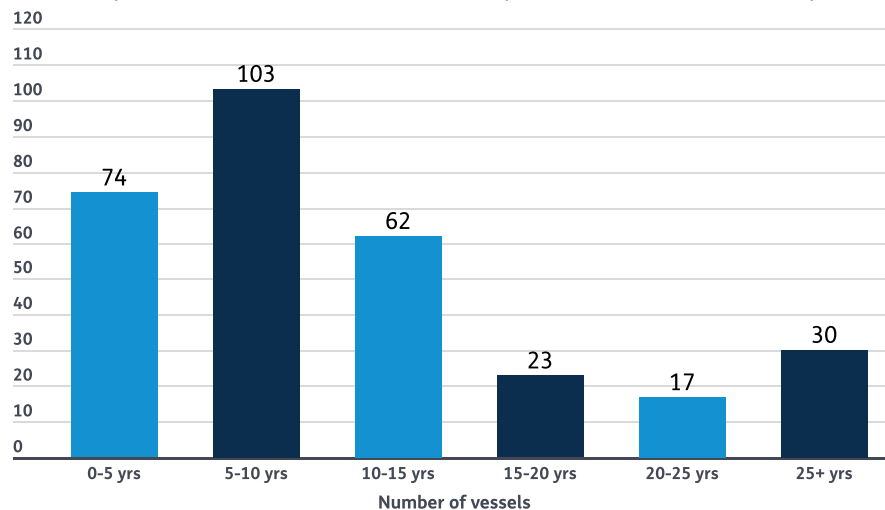
Very large gas carriers

Newbuild delivery schedule



Very large gas carrier fleet: age profile

The VLGC fleet has a significant number of vessels entering the final years of their lifecycle, with 10% of the fleet over 25 years old and 15% over 20 years old



Source: Poten & Partners

Supply dynamics

The LPG carrier fleet will continue to post strong growth in 2021, according to most projections, even as surplus tonnage is likely to be absorbed by rising vessel demand.

Investments in LPG-fuelled VLGCs and medium range gas carriers has pushed the orderbook-to-fleet ratio to its highest level in four years.

Around 65 new VLGCs were placed as of early June this year, compared with 34 for the same period last year.

The large number of newbuilding contracts, however, is necessary in order to replace ships that will be older than 25 years.

Around 10% of the VLGC fleet is more than 25 years of age and requires replacement, said Mr Bhushan.

MSI gas shipping analyst Stuart

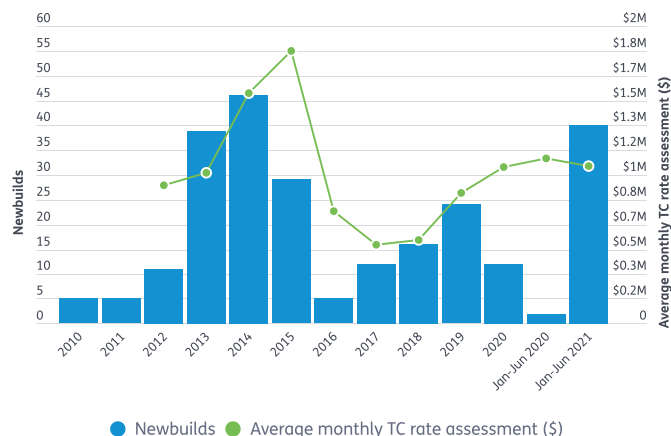
Nicoll argued that a key driver for the new orders remains a focus on LPG-fuelled vessels and believes that a corollary will be the removal of older, less-efficient vessels.

According to Poten, around 91% of the vessels in the latest orderbook will be dual-fuel LPG VLGCs, indicating preparations for the expected mandate of CO2 emission reduction on average by at least 40% by 2030.

“We currently forecast a surge in scrapping of VLGCs to 0.8m cubic metres per annum in the middle of the decade, compared with an average of 0.21m cubic metres per annum over the past five years,” he said.

He argued that decarbonisation regulations can bring forward scrapping numbers to offset the current newbuilding bonanza.

Newbuild activity vs average time charter rate assessment



Source: Poten & Partners



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Ever Given has generated what will almost certainly be the most spectacular general average case the world has yet seen.

Marine insurance outlook in three words: more expensive still

The current year has seen some major claims, not least *Ever Given*, but the secular trend towards better safety overall continues, **David Osler** reports

Six months ago, Lloyd's List published an article under the headline 'Marine insurance outlook in two words: more expensive'.

This time the outlook can basically be summarised in three words: 'more expensive still'.

The reasons why have been set out in recent interviews by senior executives in both hull and machinery and P&I.

Big-picture developments include the coronavirus pandemic and ongoing natural catastrophe losses, both of which have hit the insurance market as a whole.

However, there are also marine-specific factors, the most important of which is what insurers regard as perennial underpricing.

Despite two renewal rounds characterised by rate hikes, International Group affiliates are still losing money on underwriting.

Aggregate technical losses may have hit \$500m last year, on one chief financial officer's back-of-an-envelope calculation.

Many clubs are reporting combined ratios of more than 120% and up to almost 150% and, as the noted aphorism from economists puts it, if something can't go on forever, it won't.

Yes, they are mutuals rather than for-profit companies, and can eat up the deficits to some extent, especially when making healthy investment returns. Yet over the long run, they need to at least break even to stay in the game.

Investment returns in 2021 will likely fall far short of the stellar performance of 2020, leaving little alternative but to ask members to put their hands in their pockets.

In addition, the IG pool scheme has hit a record high, which is another \$500m strain on the clubs, thanks to some massive casualties, including *Wakashio*, *Hoegh Xiamen* and *New Diamond*.

Prospects are not getting any brighter. There has been significant deterioration in the 2019 policy year.

While it is obviously still too early to call the current policy year — which commenced on February 20 — things are off to an unpromising start with *Ever Given* and *X-Press Pearl*.

Hull insurance rates are written commercially rather than on a mutual basis, and thus tend to be more volatile than P&I rates. They are already up around 9% in the first half of this year and are expected to rise a further 5%-10% by the end of the year.

Hardening in hull market

Part of this is down to a general hardening in the hull market after decades of losses, with the Lloyd's market Decile 10 crackdown on underperformers one of the obvious catalysts here.

However, another driver has been high steel prices, which have doubled over the past 12 months. As a result, shiprepair yards are asking for more money to do the jobs insurers pay them to do after a ship has had a prang.

On a brighter note, there has been no increase in casualty frequency — and, if anything, the trend has been benign.

Very much the main event in cargo insurance has been *Ever Given*, which has generated what will almost certainly be the most spectacular general average case the world has yet seen, with thousands of parties involved. Extensive litigation is taken as read.

After months of wrangling, the boxship's P&I insurer UK Club and its Japanese market H&M insurers have reached a settlement that should have enabled the vessel to continue its ill-fated voyage by the time this is in print.

Just what that equates to in dollar terms has not been publicly disclosed, but \$150m, give or take some tens of millions either way, is the approximate ball park.

Reinsurance markets in general are up about 10%, largely thanks to deliberate attempts to firm rates, although things seem to have been easing up a bit in recent weeks. That adds to the pressure on primary writers.



The fire on board the containership *X-Press Pearl* has been another major casualty of 2021.

“ Investment returns in 2021 will likely fall far short of the stellar performance of 2020, leaving little alternative but to ask members to put their hands in their pockets ”

Moreover, the massive publicity for the *Ever Given* grounding and the subsequent six-day closure of the Suez Canal will inevitably make reinsurance underwriters more circumspect about shipping risk.

The IG pool excess contract is negotiated on a two-year basis, and renewal this year will see two years of accumulated rises come through in one go.

Another trend identified by brokers is increasing differentiation by loss records, especially at P&I clubs that have dispensed with the notion of general increases and have moved to pricing on a ship-by-ship basis instead.

Owners whose records are deemed adverse are likely to find themselves asked for increases even higher than those set out earlier.

Conversely, those with the best safety records will still be asked for more, but not as much as some of their counterparts.

It is also the case that negotiating insurance contracts is a two-way process, especially for those whose fleet size gives them bargaining muscle.

Lending from traditional banks may be down but the industry is learning to live with a wider array of funding sources than in the past, **Nigel Lowry** reports

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

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

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

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

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

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

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

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

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

"When you ask why there isn't more capital despite shipping performing rather well in recent years, one of the factors is that for many large lenders in the US or Europe, shipping was not a core financing product and so has been relatively easy



Studio 52 film/Alamy Stock Photo

The combined lending portfolio of the top 20 banks in the sector has shrunk by about \$120bn over the past decade, to about \$250bn.

Finding new ways to stay afloat

to cut out for some institutions. Many banks have also retreated to support mainly local businesses."

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

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

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

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

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

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

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

Sentiment is shifting

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

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

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

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

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

“The percentage of lending they are advancing is not keeping up with the price increases we are seeing for



Peedhaya Tanomsup/Aamy Stock Photo

Banks as well as owners face challenges from the growing emphasis on sustainability.

vessels. If you want better than 50%, you will need a period charter with a first-class charterer.”

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

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

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

Facing challenges

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

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

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

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

“*The percentage of lending [banks] are advancing is not keeping up with the price increases we are seeing for vessels*”



Ted Petropoulos
 Founder and head of research
 Petrofin



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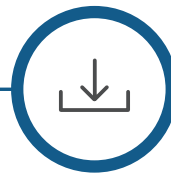
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