

Outlook 2023



A special report



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Outlook 2023

Optimism is a rare commodity in European boardrooms right now, amid an energy crisis, high inflation and slowing growth — but there is a global case for a more positive view of opportunities ahead as we prepare to enter 2023.



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Reading the runes: while optimism is a rare commodity in European boardrooms right now, it is not all doom and gloom for shipping.

The case for optimism amid turbulent times

The long-term consequences of the geopolitical, energy and economic shocks of 2022 are hard to foresee — but for shipping, there is at least the possibility of a more optimistic reading of the runes, **Richard Meade reports**

Doom-mongering is a growth business right now. Ask a European chief executive for an outlook and, sooner or later, you will hear the opinion that geopolitical risk has not been this high since the Second World War.

Vladimir Putin’s invasion of Ukraine has led to the biggest land war in Europe since 1945, the biggest commodity shock since the 1970s — and the most far-reaching sanctions regime since the 1930s.

A rapid reshaping of the global energy system has knocked macroeconomic stability, and a global recession for the majority of 2023 is now inevitable.

The risk is real. The long-term consequences of the geopolitical, energy and economic shocks of 2022 are hard to foresee — but for shipping, there is at least

the possibility of a more optimistic reading of the runes.

Turmoil is not necessarily all bad news for shipping. That may sound callous, but if the past few years have proved anything, it is that those glitches in the global system routinely throw up lucrative opportunities for maritime businesses.

Parking the prospects for 2023 for just a moment, it is worth reminding ourselves that the shipping industry has once again earned a record amount of money in 2022.

Earnings may not have seen the historic peaks, but they have been consistently high.

Granted, market conditions are generally expected to deteriorate in 2023, but a low orderbook with a short runway supports a medium-term outlook that is — in historical terms — not too bad.

Clearly, the world economy is going through a reset of some kind.

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Yet the top-level take-away from the recent supply chain crunch and a global redrawing of energy trades in response to war, is that shipping has once again proved itself to be infinitely resilient and adaptable.

Shipping may revel in its apolitical status as the servants of the world economy, but global trade has always been – and will always be – highly politicised.

Trade will continue to evolve, even if the world is moving towards more-fragmented blocs focused on Europe, US and Asia.

We got used to a 30-year expansion in global trade running from the 1980s until the end of the 2000s, where growth in volumes was two or three times that of global GDP.

Yet that rapid pace of trade liberalisation is over, and the container trades are growing in line with GDP, rather than ahead of it.

That is unlikely to change and is simply a sign that the industry has matured. No box shipping chief executive is currently expecting a significant reversal of that position.

So, yes, as congestion eases, container carriers will need to address how to manage the vast amounts of tonnage ordered during the boom years of the pandemic; as economies cool, they will need to call on the reserves of cash made during peak earnings.

However, we are not looking at anything more fundamental than a period of more modest growth.

All this has been seen before; we will no doubt see it again.

Energy transition, not a switch

When it comes to the energy crisis, it is perhaps harder to inject optimism into the forecast – at least for Europe, where reliance on Russia has exposed obvious vulnerabilities.

Shipping’s resilience and adaptability are worth noting at this point – although it should also be acknowledged that the full impact of Europe’s embargoes on Russian crude and product supplies remains to be seen.

Yet there is a wider point to consider regarding the energy crisis that will have implications for industrial production in Europe, unless politicians carefully balance the immediate need to source gas from outside Russia with the longer-term question of renewable energy transition.

In the US, at the heart of President Biden’s Inflation Reduction Act, is a bold attempt to turbocharge America’s



Søren Skou
Chief executive
Maersk

“It’s really hard to see a situation where it would make sense for China to isolate itself and not focus on its trade”

clean-energy transformation via subsidies and incentives.

Some estimates suggest that the Act will boost total spending on renewables by \$300bn by 2035 compared with current policies, to \$1.2trn.

The US approach differs significantly from the European approach, which eschews the carrot for a series of very large sticks.

Ultimately, this means that Europe’s energy dilemma does not stop at Russia.

Fatih Birol, the head of the International Energy Agency, has called it “a turning point in the history of energy” that “will accelerate the clean-energy transition”.

Yet the energy shocks have also made clear to those in Europe that this is an energy transition, not a switch – and energy security cannot be taken for granted.

While the crisis may catalyse some aspects of the green transition, it will likely also encourage greater realism about the ongoing role of fossil fuels and the length of time they will be intrinsic to economic survival.

As we depend on China, China depends on us

Elsewhere on the geopolitical risk register, China looms larger than ever.

President Xi himself warned of “dangerous storms” ahead at the five-year party congress in October, where the recently dialled-up nationalist rhetoric – especially over Taiwan – has left many concerned that he has moved from logical to ideological at an alarming pace.

However, as Maersk’s outgoing chief executive Søren Skou put it to Lloyd’s List when we asked him for a view on looming risks, the longer-term view leaves room for optimism.

“As we depend on China, China depends on us,” was how he described it.

China’s economy will enter 2023 enfeebled by the impact of its zero-Covid strategy and a significant property crisis – but that only means the export part of the Chinese economy will have to play a bigger role in the coming years.

“It’s really hard to see a situation where it would make sense for China to isolate itself and not focus on its trade,” said Mr Skou.

Granted, such optimism is a rare commodity in European boardrooms right now.

Amid an energy crisis, high inflation, slowing growth and the likelihood that higher interest rates will slow growth even more, it is understandable that executives of a certain age are getting flashbacks to the 1970s.

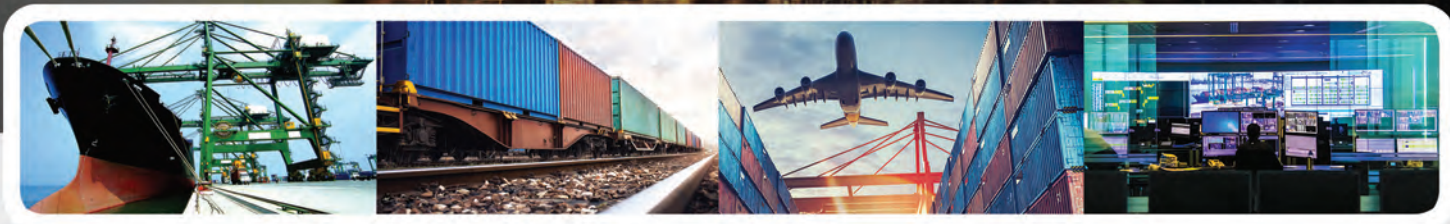
Even those not old enough to have flared trousers at the back of their wardrobes will be keenly aware that until an off-ramp is in sight on the road to ending war in Ukraine, the outlook is not going to improve significantly.

However, that is a distinctly European view – and shipping’s global nature allows us to at least take solace in the optimism that is perhaps, on balance, going to ultimately pull us through elsewhere.

“I have to say if you’re travelling the rest of the world as I have been recently, people are very optimistic – and they have good reasons to be,” said Mr Skou.

“I haven’t been to China, for obvious reasons, but I have travelled across Asia, I’ve been to India and many other places in the past six months and economies are growing, people are optimistic, the future opportunities in Africa are huge.

“So, yes, it’s a difficult time – but there’s also a case for a better future.”



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Global recession risk looms large for shipping in 2023

The annual view of market sentiment finds the shipping industry divided over decarbonisation strategy, risk and opportunities, **Richard Meade** reports

A global recession is the biggest risk to shipping over the next two years, according to an annual poll of industry sentiment conducted by Lloyd's List.

Close to 50% of respondents drawn from Lloyd's List readers cited recession as the dominant risk affecting business prospects in 2023.

The poll results echo a growing consensus among analysts that now anticipates at least three straight quarters of negative per capita world GDP growth in 2023, following a year roiled by the Ukraine conflict and soaring inflation, which triggered one of the fastest monetary policy-tightening cycles in recent times.

While regulatory uncertainty and an oversupply of vessels were also cited as risk factors affecting strategy, the most significant macro factor impacting businesses over the next two years will be inflationary pressure (34%), followed by slowing growth in China (33%), according to the poll.

Elsewhere, decarbonisation concerns dominated the responses to the annual poll, which revealed a sector divided on how to respond to the challenges posed by a rapidly evolving regulatory and commercial landscape.

More than 50% of respondents said they viewed the global energy transition as a strategic opportunity, but 29% described it as a strategic and operational risk.

Reflecting the timing of regulatory changes and the investment required to reduce emissions, the priority ranking of concerns saw availability of new fuels as the biggest challenge over the next five years, closely followed by the cost of new



Lloyd's List's annual poll reveals the most significant macro factor worrying businesses about the next two years is inflationary pressure.

“*The poll results echo a growing consensus among analysts that now anticipates at least three straight quarters of negative per capita world GDP growth in 2023, following a year roiled by the Ukraine conflict and soaring inflation*”

fuels (26%) and the ability to source trained crews to handle the new fuels (20%).

The cost of decarbonising shipping unsurprisingly topped the list of worries most often keeping the industry awake at night. Given that Vladimir Putin's incursion into Ukraine has led to the most far-reaching sanctions regime since the 1930s, it is perhaps not surprising that the cost of compliance followed closely behind in the poll.

With the controversial Carbon Intensity Indicator looming large in the industry's list of operational concerns, the poll revealed an exact 50/50 split in the audience's view of how effective the measure will ultimately be.

While most agree that the CII is well-intentioned, a growing chorus of industry complaints directed at the International Maritime Organization have recently been pointing out the flawed methodology and arguing that enforcement may even prove counterproductive when it comes to reducing carbon emissions for some sectors and trades.

Such concerns, however, will have to be put to one side as the pace of regulatory requirements around efficiency continues to tighten, requiring substantive investments over the next few years.

Efficiency retrofits narrowly topped the list of best investment opportunities for companies in 2023, with digital optimisation and zero-carbon research and development both scoring 24% of the vote.

Poll results are based on Twitter and online responses surveyed by Lloyd's List between November 28-December 6, 2022



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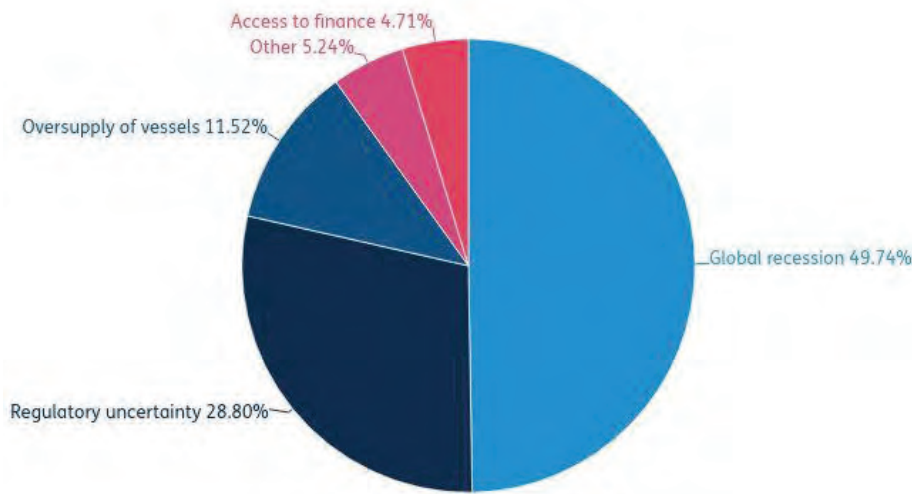


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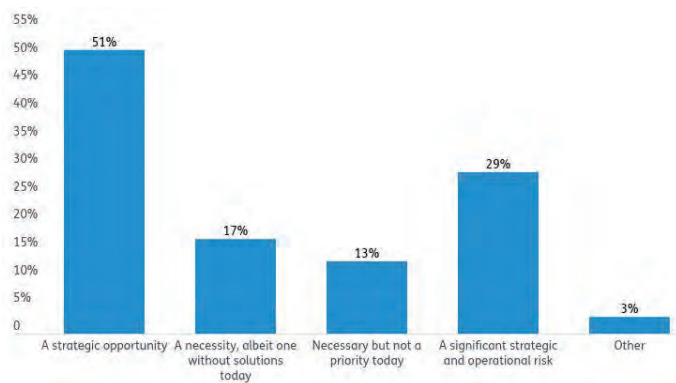
Q1: What do you see as the greatest risk to shipping businesses over the next two years?



Based on Twitter and online responses surveyed between November 28 and December 6, 2022

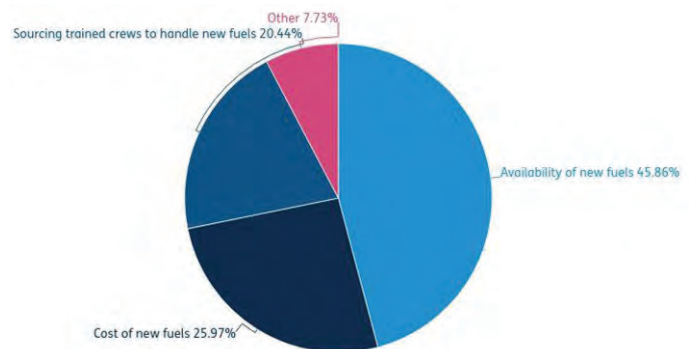
“ Given that Vladimir Putin’s incursion into Ukraine has led to the most far-reaching sanctions regime since the 1930s, it is perhaps not surprising that the cost of compliance followed closely behind [the cost of decarbonisation] in the list of worries keeping the industry awake at night ”

Q2: For my business, the global energy transition is primarily...



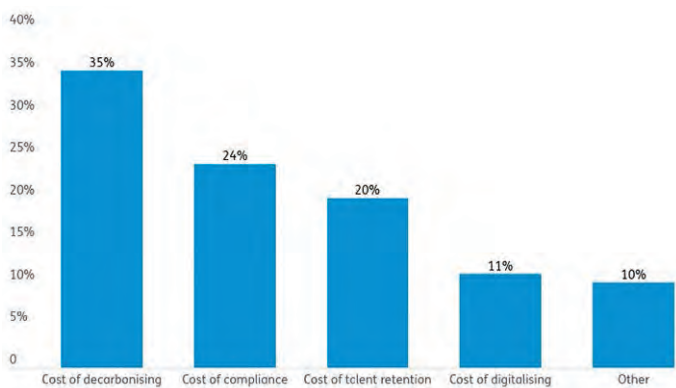
Based on Twitter and online responses surveyed between November 28 and December 6, 2022

Q3: What is the biggest challenge for the industry over the next five years?



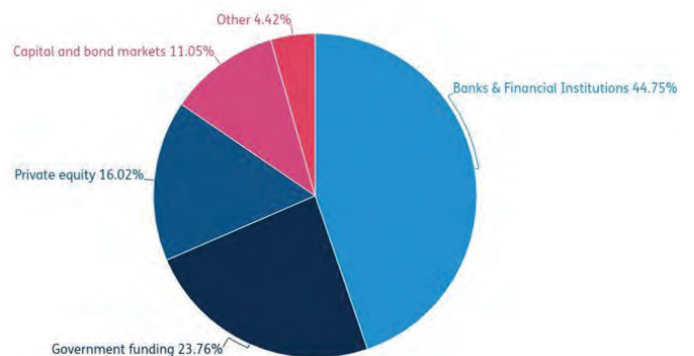
Based on Twitter and online responses surveyed between November 28 and December 6, 2022

Q4: What keeps you awake at night most often?



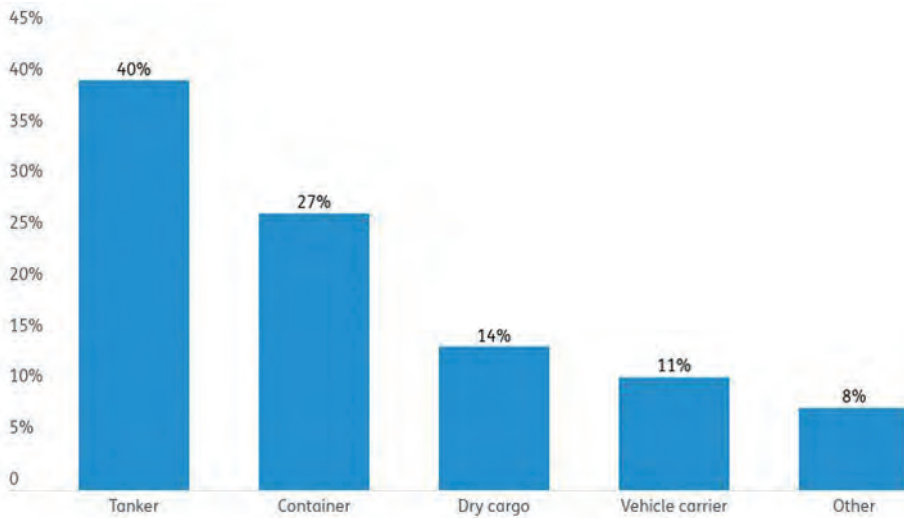
Based on Twitter and online responses surveyed between November 28 and December 6, 2022

Q5: Where will the main financing for decarbonisation of the industry come from?



Based on Twitter and online responses surveyed between November 28 and December 6, 2022

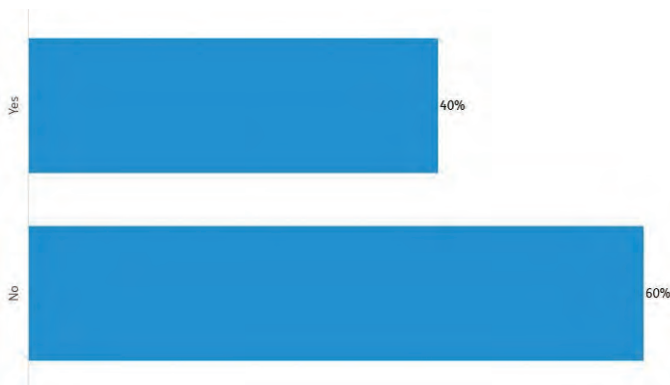
Q6: Which shipping sector will perform best in 2023?



Based on Twitter and online responses surveyed between November 28 and December 6, 2022

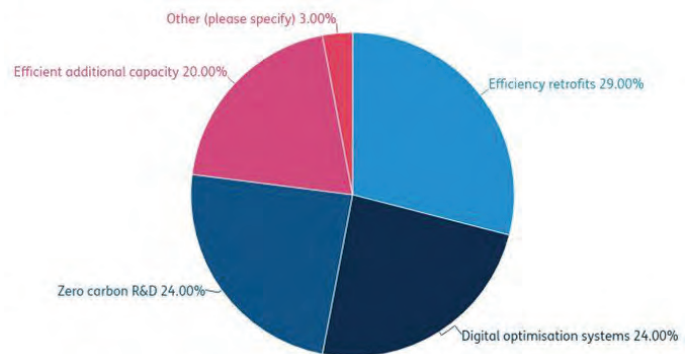
“*Decarbonisation concerns dominated the responses to this year’s poll, which revealed a sector divided on how to respond to the challenges posed by a rapidly evolving regulatory and commercial landscape*”

Q7: Is the IMO doing enough to reduce shipping’s emissions?



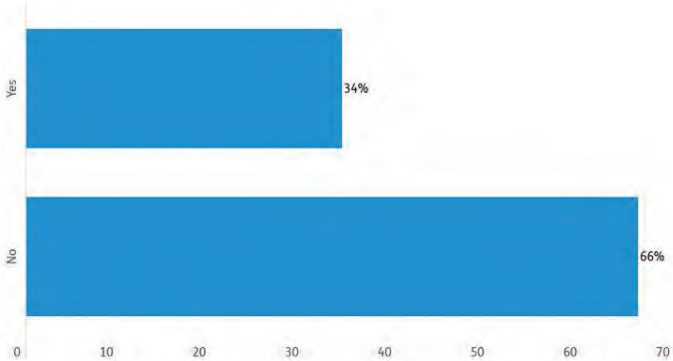
Based on Twitter and online responses surveyed between November 28 and December 6, 2022

Q8: What is the best investment opportunity for the shipping industry in 2023?



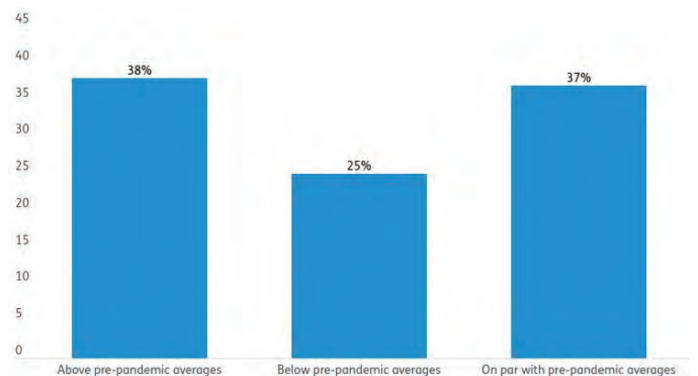
Based on Twitter and online responses surveyed between November 28 and December 6, 2022

Q9: Has shipping taken its eye off the ball when it comes to safety?



Based on Twitter and online responses surveyed between November 28 and December 6, 2022

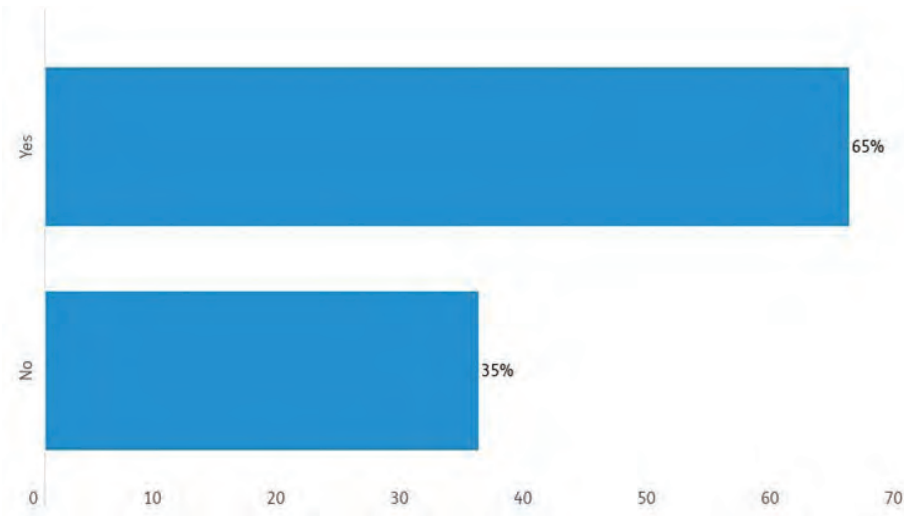
Q10: Where will falling container freight rates stabilise?



Based on Twitter and online responses surveyed between November 28 and December 6, 2022

Q11: Will the small, private shipowner be an endangered species within the next decade?

“
Efficiency retrofits narrowly topped the list of best investment opportunities for companies in 2023, with digital optimisation and zero-carbon research and development both scoring 24% of the vote
”



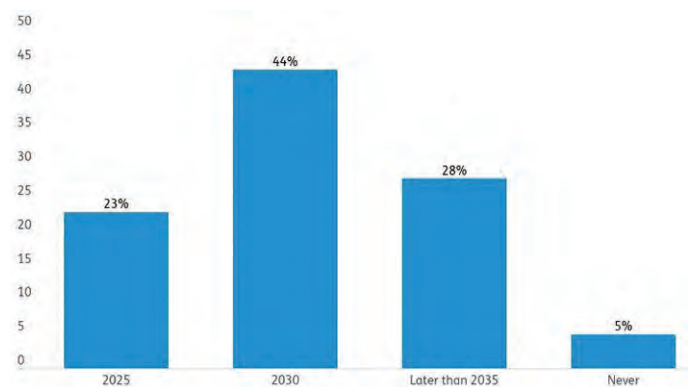
Based on Twitter and online responses surveyed between November 28 and December 6, 2022

Q12: Will CII and EEXI materially reduce the shipping industry’s overall greenhouse gas emissions?

Q13: When do you expect to see a carbon levy imposed on shipping?



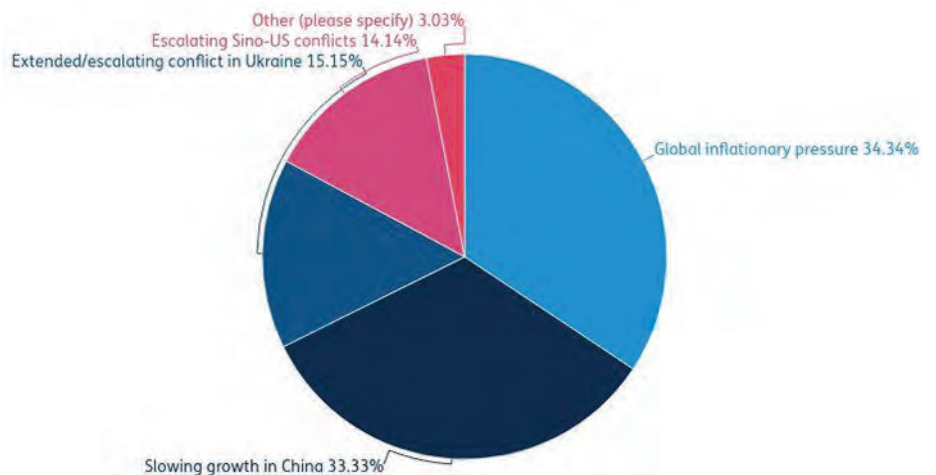
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“
With the controversial Carbon Intensity Indicator looming large in the industry’s list of operational concerns, the poll revealed an exact 50/50 split in the audience’s view of how effective the measure will ultimately be
”

Q14: The most significant macro factor affecting the shipping markets’ outlook over the next two years will be...



Based on Twitter and online responses surveyed between November 28 and December 6, 2022



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The current schedule at the IMO requires a revision of the existing ambitions to reduce greenhouse gas emissions by 50% by 2050.

2023 will be agenda-setting year for shipping

The IMO's revised climate ambitions, the roll-out of CII and the details of what emerges from the European Union's emissions regulations will be the headline regulatory issues for the year ahead, **Richard Meade and Rob Willmington** report

Regulatory uncertainty was only surpassed by the looming prospect of a global recession in 2022's annual Lloyd's List poll of risks shaping shipping strategy.

The fact that one-third of Lloyd's List subscribers remain unclear on what lies ahead is inevitable, given the current geopolitical divisions that have continued to hamper progress at a supranational level on climate change.

However, 2023 promises to be a pivotal year in shipping's regulatory landscape.

The challenge is obvious. The shipping industry urgently needs clear market and regulatory signals to reduce the investment risk currently surrounding alternative energy sources and technologies.

The current schedule at the International Maritime Organization requires a revision of the existing paltry climate ambitions to reduce greenhouse gas emissions by 50% by 2050.

Yet with only a couple of intersessional working groups between now and the July 2023 deadline, propelling the notoriously glacial pace of change within the IMO is going to be an uphill struggle.

Based on the signals issued during December's Marine Environment Protection Committee, an optimist's reading of the current demographics suggests a majority support among countries to decarbonise shipping by 2050 — and to set interim emission-reduction targets for 2030 and 2040.

However, the devil resides within the detail at the IMO — and, given that the real power in this debate is found within the lower-profile intersessional working groups, the MEPC plenary floor is not always the most accurate litmus test of progress.

Politics aside, it is clear that the only way to decarbonise shipping in line with the Intergovernmental Panel on Climate Change science and 1.5°C pathway is by halving emissions by 2030 and reaching zero by 2040.

Yet politics cannot be put aside within a political body, so the end result will inevitably be a compromise of some description.

The details of what that ultimate ‘zero’ for shipping actually means matter a great deal. It is vital that the proposals work — and to secure that aim, they must be more than a leaky offsetting exercise.

Most people assume that the aviation industry’s equivalent promise to hit net zero by 2050 will be little more than an imperative to plant more trees.

Shipping has to go one better — especially because what follows the ambition will determine whether measures like carbon pricing and a market-based mechanism, be it a levy or a trading scheme, will ultimately work.

Unless you have a 1.5°C-aligned set of numbers in the revision to be agreed in 2023 — particularly in the level of the ambition — then the IMO may well adopt carbon pricing, but it will adopt it without the stringency that businesses need to justify investment.

The focus, therefore, is not on the eventual zero pledges for 2050 in the increased ambition, but the policies that start to cut emissions before 2030 and lock in longer-term investments required to make rapidly significant reductions in the 2030s and 2040s.

Without that detail, a carbon price may emerge by 2025 — but it will be at around \$20-\$30, when what the industry really needs is something closer to \$200-\$300.

The Carbon Intensity Indicator rules — which will also dominate regulatory discussions in 2023 as implementation kicks in — are a step in the right direction. Yet many commentators are hurling brickbats at CII precisely because the underlying agreements at the IMO are so weak.

The danger is that shipowners will view CII as just another tedious box-ticking compliance exercise, rather than a meaningful tool to improve the efficiency of their fleets.

The need is for implementation, not circumvention — but the enforcement of the rules will be the big open question of 2023.



As the real power in this debate is found within the lower-profile intersessional working groups, the MEPC plenary floor is not always the most accurate litmus test of progress.

Enforcement of CII will be left to recognised organisations to carry out on behalf of flag states, with most shipowners aiming for the midpoint ‘C’ score in the ‘A to E’ rating system it imposes on ships.

Criticism of the flawed methodology has become increasingly vociferous over recent months and that is a trend that will only carry over into 2023, given that — as one shipowner representative body recently confided in its members — “many of them are not entirely sure what it is they have to do”.

At the very least, the clamour for an IMO update to address the teething issues will be a focal point for 2023.

Clearer mechanisms

Yet there is a growing consensus within the industry that the rules need clearer enforcement mechanisms, such as a specific consequence for vessels that fail to comply after implementing a plan of corrective action.

Outside of the IMO, however, the big regulatory focus for 2023 will be the detail that emerges from the European Union.

The EU, of course, struck a preliminary deal in 2022 to include shipping in its Emissions Trading System, beginning with 2024 emissions — but the specifics will matter in 2023.

As it stands, this deal would cover roughly 90m tonnes of greenhouse gases from ships if applied today and will include half of the emissions from all international voyages to and from the European Economic Area.

It would force EU-trading ships to pay an additional €280 (\$296) per tonne of high-sulphur fuel oil under a scenario where EU emissions allowances trade at €90 per tonne of CO₂ equivalent. (For reference, one tonne of HSFO equals 3.114 tonnes of CO₂.)

This marks the most aggressive measure against maritime GHG emissions while breaking two long-held taboos: regional control over some international emissions; and, essentially, the taxation of international shipping.

The positive point to be considered here is that this once unthinkable action within the EU could be the catalyst that finally shifts the global debate into action in 2023.

As one of the key architects of the plan told Lloyd’s List in a recent Outlook Forum: “The hope is that it will demonstrate very clearly that carbon pricing in shipping can work.”

Action at the EU level does not preclude progress at an IMO level — and, based on discussions that have happened in December, there is now strong evidence emerging that a convergence of EU strategy towards a global levy might be sufficient to forge a lasting international solution.

It will not happen in 2023, but even hardened sceptics within the industry who have consistently argued that progress would be impossible are now, in December 2022, finally conceding that a global market-based mechanism under the auspices of the IMO might, possibly, just about be feasible within the next few years.

Watch this space...



Naturfoto-Online/Alamy Stock Photo

Carriers will deploy an extra 1.7m teu of newbuilding capacity in 2023.

Box shipping looks to life after the goldrush

As the exceptional conditions of the past two years unwind, container lines face a reversion to normal conditions of overcapacity and low freight rates, **James Baker** reports

There was never any doubt that the extraordinary conditions witnessed in the container shipping sector over the past two years would, eventually, unwind.

Pandemics, fortunately, come along only once a century and Covid-19 was the first to occur in the age of containerisation.

Initial concerns that it might crush the sector were quickly overturned, as locked-down consumers went on a spending spree for containerised goods.

Workforce shortages and Covid mitigation policies exacerbated the situation, leading to congestion throughout the supply chain, which was most visibly represented by the 109 ships awaiting a berth at Long Beach or Los Angeles.

It is symbolic of the recovery that by

mid-November 2022, that number had fallen back to zero.

While much of that has been caused by a move to US east coast ports — and congestion is by no means over entirely — it is safe to say that the worst is over.

Yet while it lasted, congestion drove a shortage in capacity — which, matched with high demand, drove up freight rates to eye-watering levels.

However, what goes up must come down, and spot freight rates — which peaked during the first week of 2022 — have been on the slide ever since.

The speed of that decline has recently accelerated, with the Shanghai Shipping Exchange reporting falls averaging around 8% a week since the end of August — and the index falling 75% since the start of 2022.

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Freight rates have also been driven down by lower demand, with global volumes in October down 9.3% on 2021, including steep declines on the headhaul Far East-Europe and transpacific trades of 25.9% and 23.9%, respectively.

The downturn in demand is being driven by global economic headwinds that are leading to slower economic growth.

“Retail sales have plateaued, and US retailers are predicting a slower-than-normal holiday season at the end of the year,” said BIMCO chief shipping analyst Niels Rasmussen.

“At the same time, it appears that businesses have also begun to reduce inventories that have seen record growth during the past 12 months in both the EU and US, where employment is holding up but purchasing power is falling as wages are not keeping pace with inflation.”

Other warning signs included the personal savings rate dropping below the pre-Covid level in the US.

“The excess savings amassed during 2020 and 2021 are diminishing quickly, while credit card debts have reached the second-highest level on record,” Mr Rasmussen said.

“Consumers and businesses in the rest of the world are dealing with similar concerns, and many countries are also battling additional import price increases due to devalued local currencies against the US dollar.”

Yet just as demand is slowing, supply is growing. A frenzy of ordering over the past two years is about to manifest itself in terms of vessel deliveries, with 1.7m teu of capacity due during 2023 alone.

Global container fleet capacity is set to grow by 7.8% in 2023, with demand growth only reaching 3.5%. In 2024, capacity will increase by another 8.3%, while demand grows by only 3.5% again.

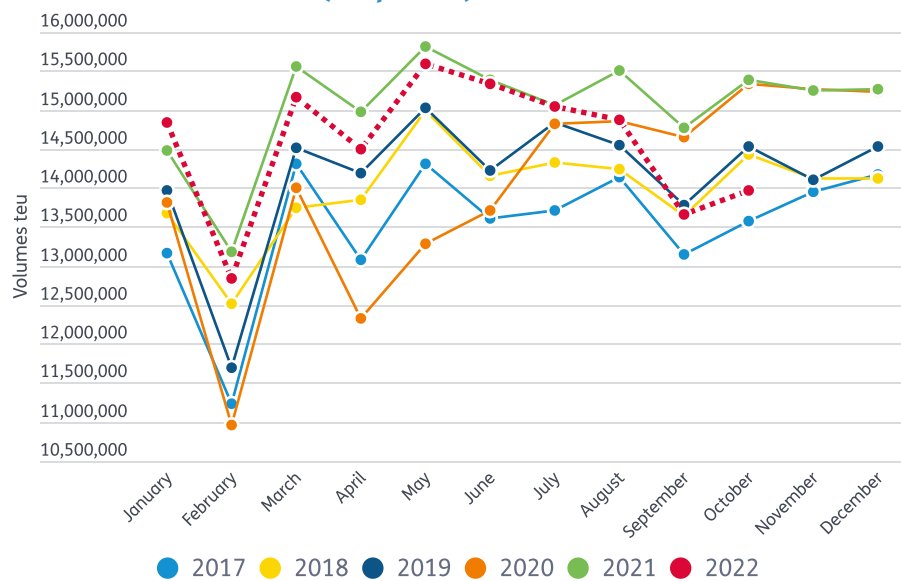
This leaves the market with upwards of 1m teu of overcapacity – and, where there is spare capacity, there is pressure on rates. As spot rates decline, so too will the long-term contract rates that have supported carrier finances over the past year.

Figures from Xeneta indicate the contract market fell by 5.7% in November 2022, the third month in a row that rates had declined.

“A drop in long-term rates is no surprise, but the scale of this demonstrates the challenges facing the industry at present,” said Xeneta chief executive Patrik Berglund.

More worrying for carriers is that 85% of Xeneta’s shipper customers expect their spend to decline, while only 42% expect volumes will be the same as in 2022.

Container trade volumes (2017-2022)



Source: Container Trade Statistics

“Retail sales have plateaued, and US retailers are predicting a slower-than-normal holiday season at the end of the year”

Niels Rasmussen
Chief shipping analyst
BIMCO



“A drop in long-term rates is no surprise, but the scale of this demonstrates the challenges facing the industry at present”

Patrik Berglund
Chief executive
Xeneta



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According to analysts at Linerlytica, contract rates for the new 2023 season “appear certain to fall by as much as 80%” as they mirror the decline in spot rates.

Carriers are already showing signs of weakness. Third-quarter 2022 revenues were down on the previous years in some cases, and the fourth quarter looks worse.

“Indications for the remaining months of the year show carriers are likely to book steeply lower profits in the final quarter, with some potentially falling by up to 70% versus the previous three-month period,” said analysts at Alphaliner.

In 2023, the collective profits of major liner companies are expected to fall to \$100bn from \$275bn in 2022, according to Drewry. It is not the carriers alone that will feel the pain. Charter earnings are also set to decline as demand falls.

In a move that reflects the pandemic bubble in container shipping, Chinese operator CU Lines, which used the high freight rates to expand beyond its regional roots, is at risk of defaulting on a charterparty involving more than 10 containerships.

For carriers with their own tonnage, life is not going to be much easier for a while. As well as the cost of transitioning to greener fuels, their operating costs are rising sharply, even as rates slump.

“With overall global unit cost levels for the carriers being some 50% higher than pre-pandemic levels, this in essence implies that we are now past a rate-normalisation and into the phase of rates under-shooting as we experience the market take a hard landing,” said Vespucci Maritime chief executive Lars Jensen.

The huge earnings of the past two years will insulate carriers from the worst of the fallout, however — except perhaps a couple of smaller lines that overextended off the back of the boom. There is no fear of another Hanjin Shipping collapse on the horizon any time soon

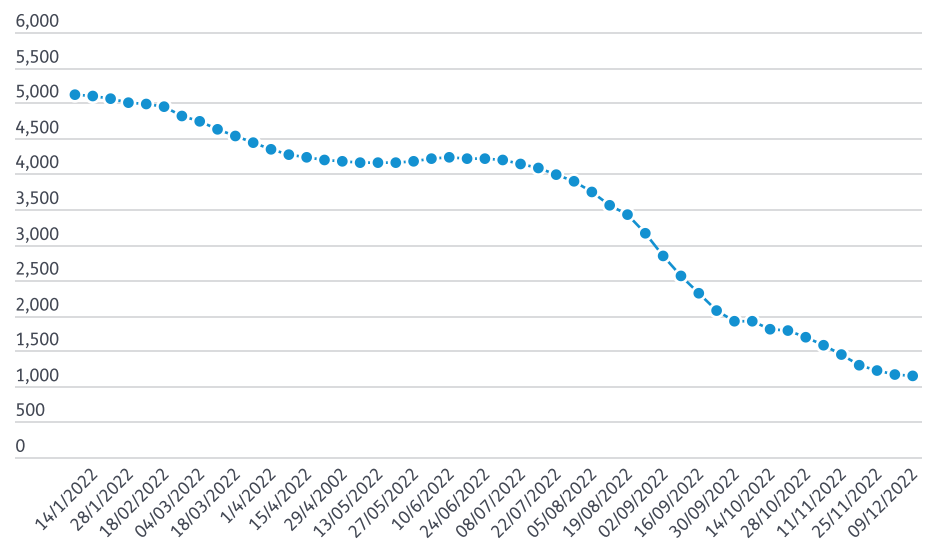
Those strong bank balances could well see carriers through to the next upturn, which may come sooner than expected.

In an interview with Lloyd’s List, Søren Toft, chief executive of the largest carrier, Mediterranean Shipping Co, was cautiously optimistic.

“I would say that the world normally recovers after two or three quarters of weaker demand, which is what we have been seeing since late summer,” he said.

“So I would not be surprised if the world also recovers sometime during 2023. That’s normally the case if you look into the history books. After three or four quarters, the world recovers and then we get back to probably some more modest growth.”

Shanghai Containerised Freight Index January 2022 - December 2022



*Rates are based on an origin port of Shanghai

Source: Shanghai Shipping Exchange



“...we are now past a rate-normalisation and into the phase of rates under-shooting as we experience the market take a hard landing”

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Chief executive
Vespucci Maritime

“I would say that the world normally recovers after two or three quarters of weaker demand, which is what we have been seeing since late summer”

Søren Toft
Chief executive
MSC





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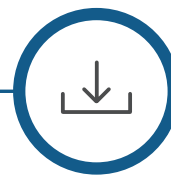
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While iron ore is expected to have limited growth in volumes and tonne-miles in 2023, capesizes will be supported by bauxite and coal.

Softening of rates expected amid uncertain economic backdrop

Overall, a weaker market is expected in 2023 in terms of annual averages, due to economic headwinds, despite continued low fleet growth, **Nidaa Bakhsh** reports

A softening in rates is largely expected in 2023 across all segments of the dry bulk market, with an embedded mix of uncertainty over demand, and volatility.

While China’s economy should stabilise, given a relaxation in its zero-Covid policy, recessionary fears are becoming ever more real for the rest of the world, which may stifle demand for commodities — especially those related to industrial production.

Annual average rates will inevitably be lower in 2023 than 2022, due to what is expected to be a challenging first half, said Braemar’s senior analyst Alexandra Alatari.

“The market needs China to come back — and the easing of [Covid] restrictions is a step in the right direction, with the government offering more tangible support for infrastructure

projects. After the Chinese New Year, construction activity should improve, but it will take time,” she said.

According to Moody’s, China’s economy is expected to grow 4% in 2023 versus 3% in 2022.

“Our current assumption is that we’ll see an ongoing easing of {China’s Covid} policy into 2023, as long as mortality rates remain moderate, but there remains the potential for reversals if mortality rates increase appreciably,” said senior credit officer Martin Petch.

“Depending on the sustainability of the easing policy, we do see potential for an improvement in demand for housing,” he said, adding that infrastructure investment should also support growth.

Global economic growth, meanwhile, is pegged at 2.7% in the International Monetary Fund’s last base case, with 1.2% estimated in a worst-case scenario.

With those figures, seaborne trade volumes are forecast to be flat to about 1% growth, compared with a fleet expansion of 2% or more, according to a range by analysts polled by Lloyd's List.

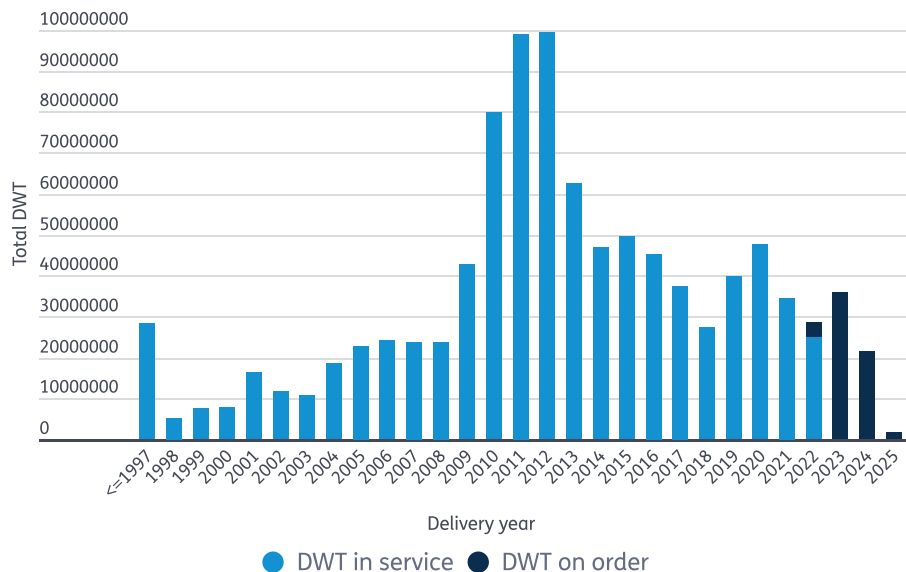
Forced speed reductions in light of the new efficiency regulations by the International Maritime Organization, due from January 1, could support the market, as effective fleet supply will shrink — as well as scrapping, which is expected to accelerate.

However, an easing of congestion could release more tonnage into the market at a time when demand is slowing.

Lloyd's List Intelligence data shows that the orderbook — at 6.7% of the trading fleet — is the lowest in decades.

While newbuilding orders have started to increase, given a freeing up of space at shipyards, deliveries will only enter the market by 2026 or thereabouts.

Bulk carrier fleet age profile (by dwt)



Note: Includes vessels of 10,000 dwt and above

Source: Lloyd's List/Lloyd's List Intelligence

Tightly balanced market

This will leave the market tightly balanced, without much fleet elasticity, for the next few years, according to Torvald Klavness, a Norwegian owner.

On the demand side, iron ore is expected to have limited growth in outright volumes and tonne-miles, due to supply constraints, with most major miners such as Brazil's Vale and Australia's Rio Tinto pointing to flat output in 2023.

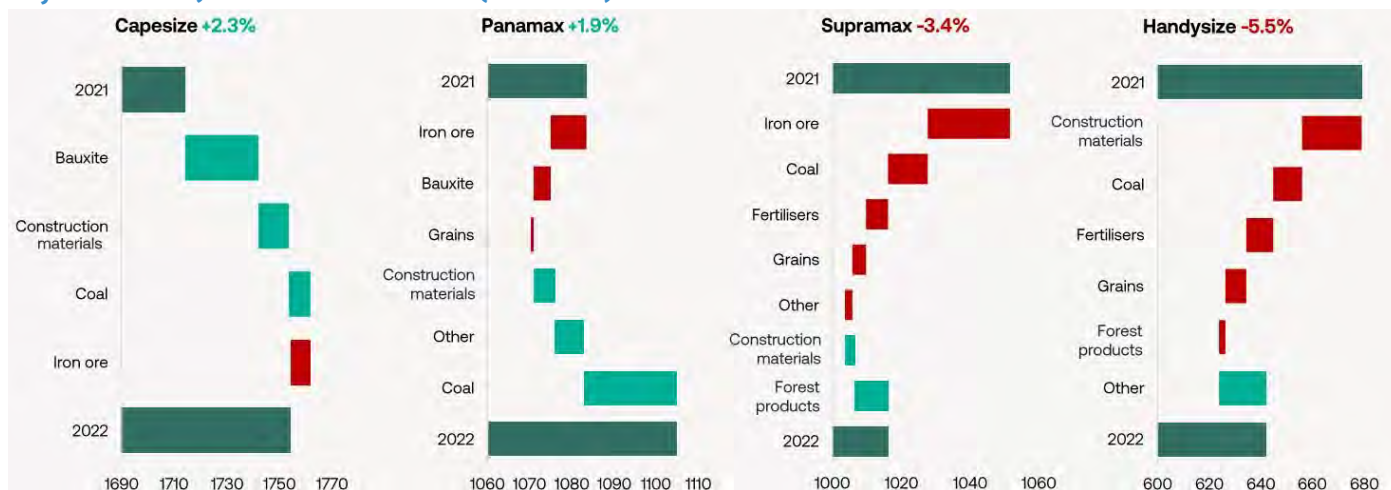
While that scenario will impact capesizes the most, the segment should see support from bauxite, which is believed to have a positive growth story, as well as coal, due to the disruption in trade flows as a result of Russia's invasion of Ukraine earlier in 2022 and resultant sanctions imposed by the European Union.



“The market needs China to come back — and the easing of [Covid] restrictions is a step in the right direction, with the government offering more tangible support for infrastructure projects”

Alexandra Alatari
Senior analyst
Braemar

Dry bulk trade Jan-Nov 2021 vs 2022 (m tonnes)



Sources: Braemar/vessel tracking, December 2022

According to Torvald Klaveness’s head of research Peter Lindström, there is a buyer for every tonne of coal available, but the market is supply-restricted.

Russian Atlantic coal being diverted to Indian and Pacific destinations, combined with Pacific/South African coal shipped to the EU, increases the tonne-miles “tremendously”, he said, adding that the tonne-duration of global coal can easily grow by 4%-5%-plus in 2023.

While no specific estimate was given, Mr Lindström does expect increased demand for grains to exceed nominal fleet supply growth, as China is seen buying more soyabeans and corn from Brazil for animal feed.

Panamaxes should benefit the most from the coal and grains trades, despite this segment having the highest fleet growth, he said.

Minor bulks in general will be the “weak point”, as they are the commodities most linked to global industrial output, making the supramaxes and handysizes “the most challenged”, Mr Lindström added.

Global steel production declined by about 5% from January to October 2022, after growing by 13% in 2021 as China contracted due to its Covid policy.

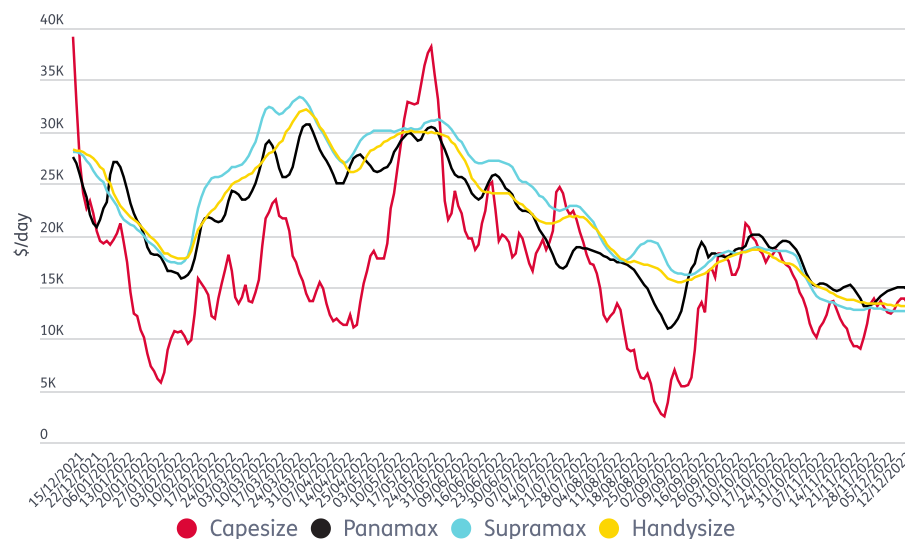
During 2022, the smaller-sized carriers, which started the year strong, showed stable earnings, outperforming the larger sizes, but this trend could be reversed in 2023.

Supramaxes have led the charge, earning an average of \$22,519 per day in the year to December 12, followed by handysizes at \$21,670 per day, panamaxes at \$20,970 per day, and capesizes generating \$16,097 per day, Baltic Exchange data shows.

However, the rates are well below 2021 levels, when capesizes led the earnings table with \$33,333, followed by panamaxes

Bulker weighted time-charter averages

Dry bulk rates have weakened in the second half of 2022 amid uncertainty related to China and the global economy, which has hit some volumes, combined with congestion unwinding



Source: Baltic Exchange



“Our current assumption is that we’ll see an ongoing easing of [China’s-Covid] policy into 2023, as long as mortality rates remain moderate”

Martin Petch
Senior credit officer
Moody’s

at \$26,898, supramaxes at \$26,770, and handysizes at \$25,701.

At the time of writing, spot rates were hovering in the \$12,000-\$15,000 per day

range, with the forward curve in some serious backwardation for the capesizes most notably, while more or less flat for the other segments.

According to Mr Lindström, the whole curve looks undervalued, as, in his opinion, core inflation should moderate in the second half of 2023.

He sees the starkest difference occurring between the two halves, with a weak first half giving way to a strong second half, based on assumptions of a bounce-back in Chinese demand.

“The further out one moves, the greater the confidence that the dry bulk market will be on a stable footing,” he said.

Shipping association BIMCO shared similar views, expecting 2024 to be a more favourable year for the dry bulk market, with 2023 more sensitive to shocks, whether positive or negative, due to finely balanced supply and demand fundamentals.

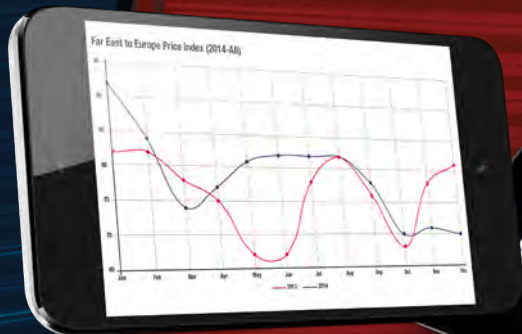


“The further out one moves, the greater the confidence that the dry bulk market will be on a stable footing”

Peter Lindström
Head of research
Torvald Klaveness

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South East Asia to West Med & North Africa - Tier 4 - 2014 December (All)

South East Asia	Agms	Capacity	France MED	Germany	Spain MED	Tunisia	Other West	Total
Korea	770	0	0	0	0	0	0	770
Japan	0	0	0	0	0	0	0	0
Philippines	0	0	0	0	0	0	0	0
Indonesia	0	0	0	0	0	0	0	0
Malaysia	0	0	0	0	0	0	0	0
Thailand	0	0	0	0	0	0	0	0
Vietnam	0	0	0	0	0	0	0	0
South East Asia Total	3,000	0	0	0	0	0	0	3,000

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Sundia Nagai/Alamy Stock Photo

The dark fleet has increased in size as vessels coalesce at offshore hubs — like those around West Africa — for ship-to-ship transfers.

West African waters evolve as tanker spoofing centre

The epicentre of deceptive shipping practices is now found in the waters off Angola, **Michelle Wiese Bockmann** reports

Nothing illustrates the enormous upheaval to global tanker markets in 2022 better than the international waters off Angola, which have morphed into the world’s centre of spoofing for the so-called ‘dark fleet’ of tankers.

This is where 20 tankers — including 16 very large crude carriers — are falsely signalling their location, or have switched off their transponders, in a practice known as ‘going dark’.

All use an array of deceptive shipping practices that allow them to spoof, or manipulate, their automatic identification system — a tactic widely used in US-sanctioned oil trades.

Spoofing AIS signals allows vessels to disguise their presence when at ports in Venezuela loading oil cargoes, while appearing to be in international waters near Angola.

Twelve months ago, Lloyd’s List tracked only one tanker spoofing its signal from the region: the then-Sierra Leone-flagged VLCC *Beyond*, which has since been reflagged to Gabon and renamed *Vieira*.

However, Russia’s war on Ukraine and the consequent sanctions on oil and shipping brought the dark fleet out into the open.

At least 40 tankers have switched from Iran and Venezuela to load Urals grades from the Black Sea and Baltic over the past four months. Some are now tracked off Angola.

The dark fleet has increased in size and notoriety to become a significant and market-moving sub-sector, as vessels coalesce at offshore hubs — like those around West Africa — for ship-to-ship transfers.



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The global ‘dark fleet’ of tankers (2021 vs 2022)



Source: Lloyd's List Intelligence (Seasearcher)

There are now more than 300 anonymously owned, largely unregulated elderly crude and product tankers engaged in shipping between 2.5m barrels per day and 2.8m bpd of sanctioned oil from Iran, Venezuela and now Russia, according to Lloyd's List analysis.

That is nearly 6% of seaborne crude and compares with 220 tankers at the beginning of 2022.

The disruptive and escalating geopolitical turmoil has redrawn trade routes, with Russian crude diverted to Asia from Europe since February, amid a rise in evasive shipping practices to keep oil revenues flowing.

What a difference a year makes

The post-pandemic recovery in oil demand coincided with longer-haul shipments from Russia. This ended the prolonged downturn in rates across the entire tanker sector.

The global tanker fleet is set for a resilient 2023, despite a host of contradictory economic signals and a looming global recession.

China has ended its zero-Covid policy, which will likely offset any inflation-led dent to oil demand.

Further EU sanctions on Russian refined product imports that begin on February 5, 2023 will further recalibrate global diesel flows. This will be to the

benefit of product tankers, particularly the medium range segment.

“We had quite positive views on 2022 when we set the budget a year ago, but no-one expected it to be as good as it has been,” Erik Hånell, president and chief executive of Sweden-based tanker owner Stena Bulk, told Lloyd's List during a December meeting in London.

Like most tanker owners and operators, privately owned Stena has used 2022 windfall profits to refinance debt, while the accompanying rise in tanker secondhand values also boosted balance sheets.

Results from public companies provide visibility into how swift and steep the wider recovery has been.

Ten of the largest listed shipping companies reported combined third-quarter 2022 profits exceeding \$1bn, while they collectively made \$1.5bn for the first nine months of the year.

That contrasted with nearly \$1.4bn in losses reported in 2021. Fourth-quarter 2022 results are expected to be even higher.

“2023 looks good — and my only fear factor is that everybody says so,” said Mr Hånell.

“2024 I am still positive about. Then, by 2025, we would have had three good years — and traditionally, it does not last that long in tankers.”

Russia formerly supplied Europe with about 40% of its crude, but the December 5 ban on seaborne crude imports has shifted nearly 2.5m bpd to new markets, with the biggest buyers now China, India and Turkey. (About 1.1m bpd in diesel imports to Europe is banned from February 5.)

Third-quarter 2022 tanker owner earnings (\$m)

Company	Q3 2022	Q2 2022	Q1 2022	Total losses 2021	Fleet composition (no.)
Ardmore Shipping	61.80	29.76	-7.20	-36.37	25 owned, 6 chartered in (31)
DHT Holdings	7.46	9.96	-17.30	-11.50	26 VLCCs (26)
Euronav	16.45	-4.90	-43.37	-338.78	48 VLCCs, 30 suezmaxes, 2 FSOs, 2 ULCCs (82)
Frontline	154.40	78.25	31.15	-11.15	19 VLCCs, 29 suezmax, 22 aframax (70)
Hafnia	280.30	186.20	21.30	-55.50	133 of which 85 owned product tankers (133)
International Seaways	113.40	69.04	-13.00	-133.50	13 VLCCs, 14 suezmax, 64 product tankers (90)
Nordic American Tankers	10.00	-3.94	-29.99	-171.33	24 suezmaxes (24)
Scorpio Tankers	266.17	191.13	-14.86	-234.44	131 owned, financed, bb produc tankers (131)
Teekay Tankers	57.99	28.55	-13.94	-242.37	1 VLCC, 26 suezmaxes, 23 aframax (51)
Tsakos Energy Navigation	51.34	46.20	5.52	-151.40	69 including 2 LNG carriers (71)
Total profit or loss	1019.30	630.23	-81.69	-1386.33	

Source: Tanker Quarterly Financials

Most crude exports tracked in the first half of December were loaded on Russian-owned tankers, or those from the 'dark fleet' — particularly those owned by anonymous Chinese buyers.

A series of hubs around Greece, West Africa, Malaysia and the Black Sea have evolved, from where ship-to-ship transfers are undertaken, adding to logistical inefficiencies that support tanker utilisation.

The US, UK and EU bans prevent marine service providers — including insurers — from exporting crude from Russia to third countries unless they comply with an oil price cap of \$60 per barrel.

This has sidelined private Greek owners from their most profitable routes in 2022, while European flag registries lost business to open registries that are not subject to the EU sanctions.

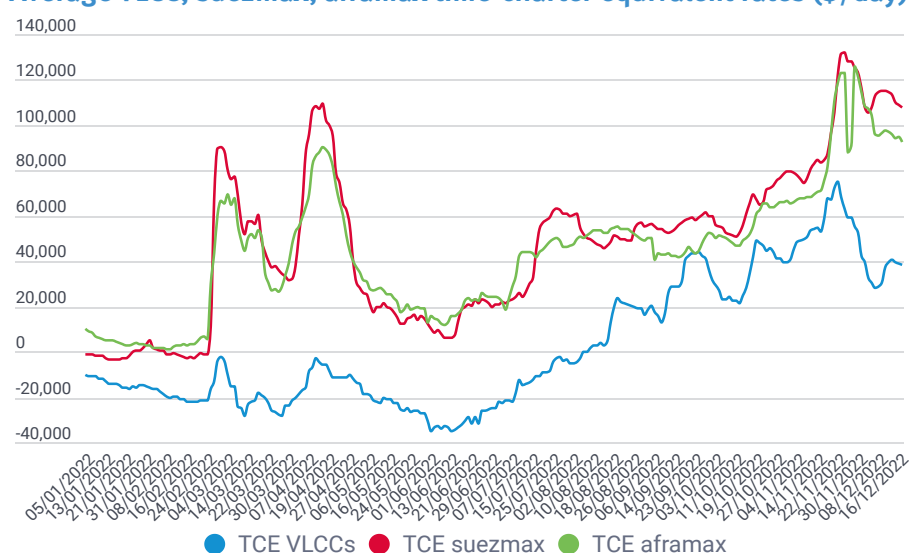
Greek owners had increased their market share in Russian crude oil trades to more than 53% by November, from 30% in January.

Impending sanctions also ignited the secondhand tanker market for elderly tonnage during 2022, in preparation for moving sanctioned oil.

There were 84 secondhand VLCC sales alone during the first 11 months of 2022, according to VesselsValue, with the price of 20-year-old tonnage — normally sold for scrap — up 51%.

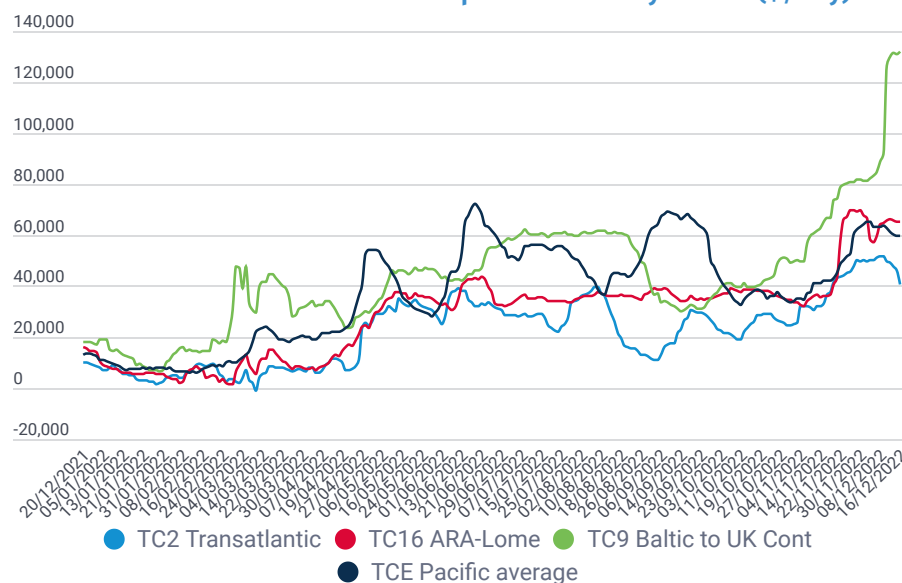
Most of the VLCCs sold that were more than 15 years old were deployed in sanctioned trades; some are now spoofing AIS signals outside Angola.

Average VLCC, suezmax, aframax time-charter equivalent rates (\$/day)



Source: Baltic Exchange

Clean tanker market time-charter equivalent on key routes (\$/day)



Source: Baltic Exchange

China's bounce-back to lift VLCCs

China's anticipated economic bounce-back is another positive, alongside the switching of further Russian crude and product volumes to longer-haul voyages, which has tightened supply.

Oil demand growth for the world's biggest crude importer was set to contract during 2022 for the first time this century, according to the International Energy Agency.

The IEA's latest forecast for Chinese demand, measured by product, was 15m bpd in 2022, down from 15.4m bpd in 2021 but higher than 14.2m bpd in 2020.

In 2023, the IEA forecasts global oil demand to rise by 1.7m bpd to 101.6m bpd. In 2022, growth rose by 2.3m bpd.

The relaxation of China's zero-Covid policy will lift demand for the fleet of

VLCCs, which transport most oil to China, and have been the slowest size and type to return to profitability.

VLCC rates were also the first to lose ground over December as aframax and suezmax rates gained from a pre-sanctions fixing rush that elevated earnings to 2022 highs. Even so, one-year time-charter rates for a modern VLCC (with a scrubber fitted to allow it to use cheaper, higher-sulphur fuel oil) still doubled over the year.

New York investment bank Evercore ISI assessed the one-year VLCC rate at \$57,000 daily on December 9. One-year charter rates for a suezmax tanker with the same profile are now at \$35,000 per day, compared with the average of \$14,500 daily in 2021.

Aframaxes are in higher demand. One-year time-charter rates were at \$48,500 per day, according to Evercore, compared with \$18,400 in 2021. There are other positive fundamentals. The tanker fleet-to-orderbook ratio is at the lowest level in 30 years for some segments. And 2022's rebound was independent of China, with India, now the third-largest crude consumer, doing much of the heavy lifting. Other drivers, such as the biggest-ever release of products and crude from Strategic Petroleum Reserves over a six-month period, and record US crude exports, added to buoyancy.

Diesel will be the next pain point for the oil market, according to the IEA, as the February 5 ban ignites fierce competition within Europe for non-Russian cargoes.

Future scenarios include higher volumes of east-of-Suez middle distillate shipments to Europe — a positive for longhaul product tankers — and more Russian cargoes heading to Latin America instead of Europe, benefiting the medium range sector.

Strong demand for alternative fuel-capable ships has allowed shipbuilding majors to hike up newbuilding contract prices to more profitable levels, Rob Willmington reports

Global merchant shipbuilding production output in 2023 looks set to reach its highest level since 2017, following heavy newbuilding contracting during 2021 and 2022.

At the same time, the shipbuilding majors appear set to return to profitability as high-value orders from the containership and gas sectors start to get delivered in abundance.

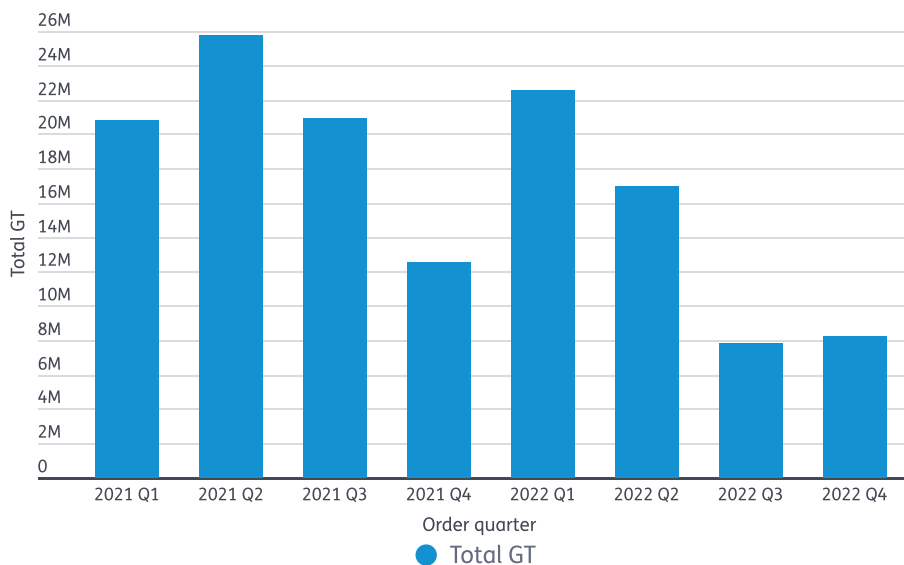
During 2022, some 42% of all newbuilding contracts were contributed by containerships, with orders being driven by record-high freight rates up to the third quarter of the year.

While containership freight and charter rates took a nosedive in the fourth quarter, the appetite for ordering new, mostly alternative-fuelled boxships, remains strong.

New orders expected to be placed by the first quarter of 2023 include at least 10 boxships of 17,000 teu capacity for Taiwan's Evergreen, while its compatriot liner operator Yang Ming has confirmed that it plans to contract between five and 10 dual-fuel LNG 15,000 teu capacity vessels.

In addition, CMA CGM is said to be considering adding a further six 15,000 teu capacity, dual-fuel methanol ships to six vessels it ordered in mid-2022 from

Newbuilding orders by quarter



Note: Includes vessels of 10,000 dwt and above

Source: Lloyd's List

Full orderbooks but labour shortages threaten deliveries

China's Dalian Shipbuilding Industry. The containership sector currently makes up 41.2%, in gross tonnage terms, of the total global newbuilding orderbook. In container capacity terms, the boxship orderbook represents a staggering 31% of the existing fleet in service.

Heavy ordering of LNG tankers during 2022 is expected to continue through to 2023. Some 25% of all orders placed in 2022, in

terms of gross tonnes, were for LNG tankers. The chief drivers for this were very strong freight rates due to market disruption caused by the Ukraine war and new vessel requirements from producer Qatar Energy.

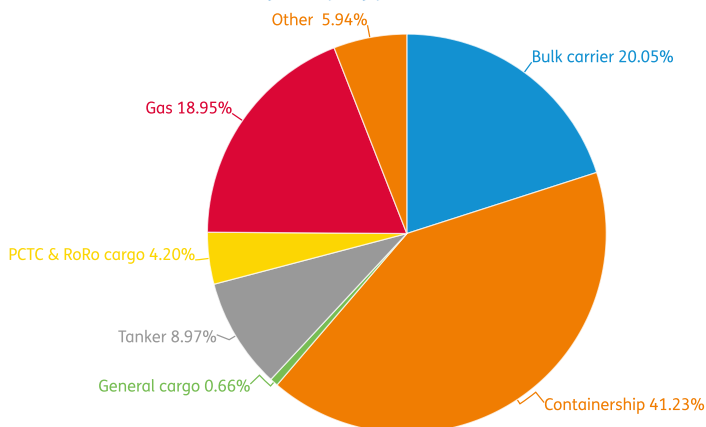
Long-term charter agreements, involving deals with several shipowners, from Qatar LNG has led to the ordering of 67 conventional, 174,000 cu m capacity vessels since 2021.

However, it has a requirement for at least another 33 ships, with newbuilding contracts for these expected to be firmed up, at South Korean yards, during 2023.

The vehicle carrier sector is also expected to provide new business for shipbuilders during 2023. Major operators and tonnage providers undertook a significant buying spree for alternative-fuel pure car and truck carriers during 2022, with around 90 ships being ordered, as the sector seeks to decarbonise due to demands from major car manufacturers.

The world's largest operator of PCTCs, Wallenius Wilhelmsen, is expected to order a new series of advanced ships, possibly fitted with wind-assistance equipment in an effort to reduce fuel consumption.

Newbuilding orderbook by ship type/% of gt



Note: Includes vessels of 10,000 dwt and above

Source: Lloyd's List

Furthermore, the Chinese car-manufacturing industry is pushing for more of its export production to move on domestically owned tonnage.

This is expected to lead to new orders for large PCTCs during 2023, exclusively with Chinese shipbuilders, which now dominate PCTC construction.

New orders from the crude oil and product tanker sectors were limited in 2022 and contributed only 6.6% to ordering activity.

Few shipbuilders were marketing berths for tanker construction during the year and those that did were quoting prices that were up by 30% since early 2021. As such, few shipowners were willing to take the plunge to order new ships during a volatile freight market.

With freight markets beginning to strengthen during the fourth quarter of 2022, driven by sanctions against Russia, interest in ordering large tankers has made a comeback.

As newbuilding orders for large containerships are expected to reduce in 2023, shipbuilders intend to start increasing tanker construction capabilities; demand for new tankers is expected to increase in the near term, during a period of the lowest tanker orderbook seen since the mid-1990s.

Meanwhile, orders from the dry cargo sector were also relatively thin during 2022, due to generally low freight rates and high newbuilding prices.

Only 15.7% of all newbuilding orders in 2022 were contributed by bulk carriers, compared to an average of between 30%-40% in the previous 10 years.

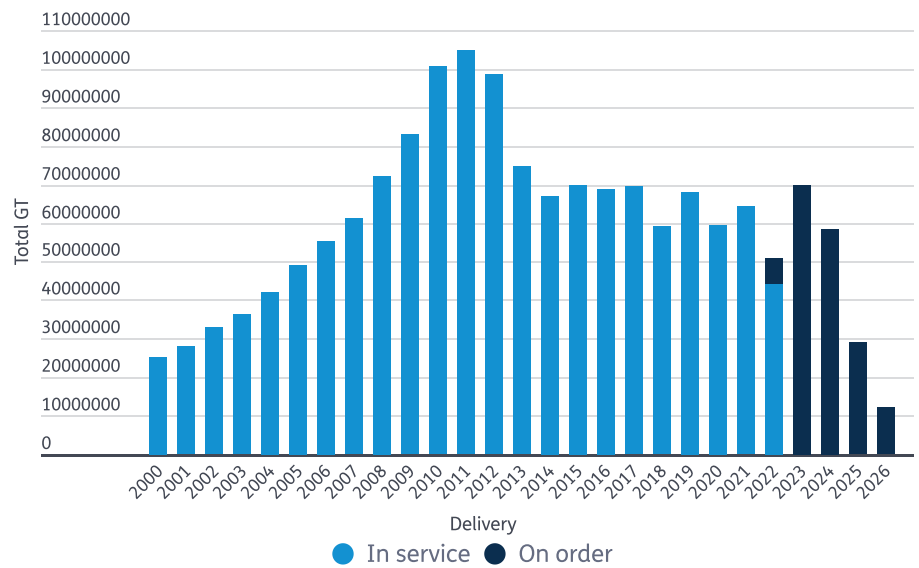
Given that prospects for dry cargo markets are not expected to improve until at least 2024, orders for new bulk carriers will likely be limited during 2023, though interest in new alternative-fuel ships appears to be on the rise from major dry cargoship owners.

As shipbuilders benefit from full orderbooks — biased towards high-value LNG tankers and boxships, chiefly secured in 2021 and 2022 at pricing levels some 30% higher than in 2020 — the industry is expected to return to profitability during 2023, after two years of hefty losses at most of the big shipbuilding groups.

Analysts are forecasting that South Korea's Korea Shipbuilding & Offshore Engineering — which controls Hyundai Heavy Industries, the world's largest shipbuilder — will produce a \$660m operating profit for its full-year 2023 financial results.

This will be the first time it has turned

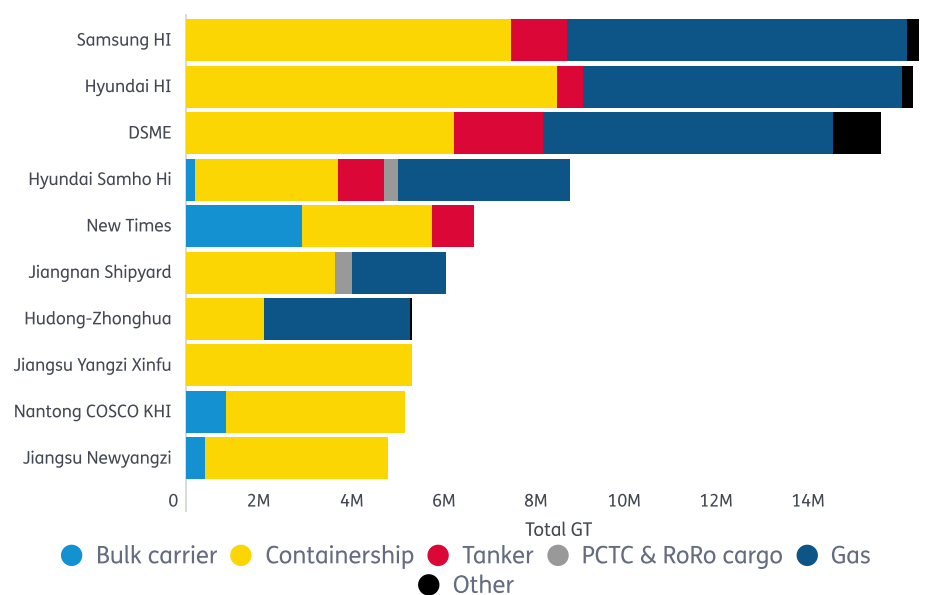
Shipbuilding production since 2000



Note: Includes vessels of 10,000 dwt and above

Source: Lloyd's List/Lloyd's List Intelligence

Top 10 shipbuilders by orderbook



Note: Includes vessels of 10,000 dwt and above

Source: Lloyd's List

in a positive result since the fourth quarter of 2020.

However, sources in South Korea estimate a burgeoning labour shortage of up to 10,000 local shipyard workers by the middle of 2023.

To prevent potential delays to ship deliveries caused by this shortage, South Korea's government has said it will pay for training to encourage young people to join the industry.

In the short term, it has allowed foreign workers — mostly from Vietnam — to apply for temporary skilled jobs in shipyards.

Meanwhile, trade unions representing workers at KSOE were preparing for

strikes in December 2022, following a long-running dispute over working conditions and wages.

As shipbuilding prospects appear positive for 2023, trade unions are, quite rightly, demanding that their shipyard worker members benefit more from this favourable outlook.

For the first time in many years, they look to be in a good position to win demands for improved wages and working conditions, given that shipyards will be under pressure to increase production levels to keep up with their large backlogs — not to mention to ensure ships are delivered on time to avoid financially damaging delivery delay penalties.



Jouni Niskakoski/Alamy Stock Photo

Assuming no scrappage, fleet capacity is expected to expand by 6.3%, with 41 vessels scheduled for delivery in 2023.

Tight LNG market to support strong carrier rates

A spate of newbuilding deliveries can easily be absorbed, with more long-term charters being inked to secure tonnage in a tight, disrupted market, **Nidaa Bakhsh** reports

Spot rates for liquefied natural gas carriers are expected to remain strong in 2023, although the heat that led to unprecedented high levels in 2022 may begin to cool.

“After an extraordinary 2022, where we have seen record charter rates and record orders for new LNG ships (despite rapidly rising newbuilding prices), I’m expecting a calmer LNG shipping market in 2023,” said Maritime Strategies International senior analyst Andrew Buckland.

“Fleet growth should be slightly higher in 2023 than in 2022, but modest by recent standards — and well below the levels we will see between 2024 and 2026,” he said.

Assuming no scrappage, fleet capacity is expected to expand by 6.3%, with 41 vessels scheduled for delivery in 2023, the London-based analyst said. However, with some slippage — especially of vessels associated with Russian projects — and some scrapping, Mr Buckland expects actual growth to be closer to 5.5%.

Meanwhile, LNG trade could grow by 5.8%, with supplies mainly from better performance at existing plants, such as the 15m tonnes per year Freeport LNG facility that was closed between June and December 2022 due to an outage.

Demand growth from new facilities will, however, be limited. Only three are due to come onstream and start exporting in the year ahead, Mr Buckland said.

These are the 3.4m tonnes per year Tangguh expansion in Indonesia; the 2.5m tonnes per year Greater Tortue in Senegal/Mauritania; and the first 6.6m tonnes per year train from Arctic LNG 2 in Russia.

As production lagged demand in 2022, Mr Buckland will be watching how many final investment decisions on new capacity will be taken in 2023.

According to Poten & Partners, Europe will need to keep importing LNG as it continues to shun Russian gas due to the invasion of its neighbour Ukraine.

Russia supplied 110m tonnes of gas – or 42% of total supply – to Europe before the outbreak of war, and the region saw increased imports of 46m tonnes in 2022 into Spain, the UK, France, The Netherlands and other countries highly dependent on pipeline gas, said head of business intelligence Jason Feer.

He does not expect any pipeline gas to flow to the bloc in the years ahead, as Europe will be reluctant to rely on Russia again – even if there were some resolution to the conflict – which means the region will have to find permanent replacements.

“So, the increased imports we are seeing now will most likely be sustained – at least for the next decade,” said Mr Feer.

Europe was able to draw in the increased supplies as Asia-Pacific buyers withdrew from the market, he said, adding that this region may re-enter at some point through 2023. Mr Feer therefore expects the strength in spot freight rates to continue in 2023.

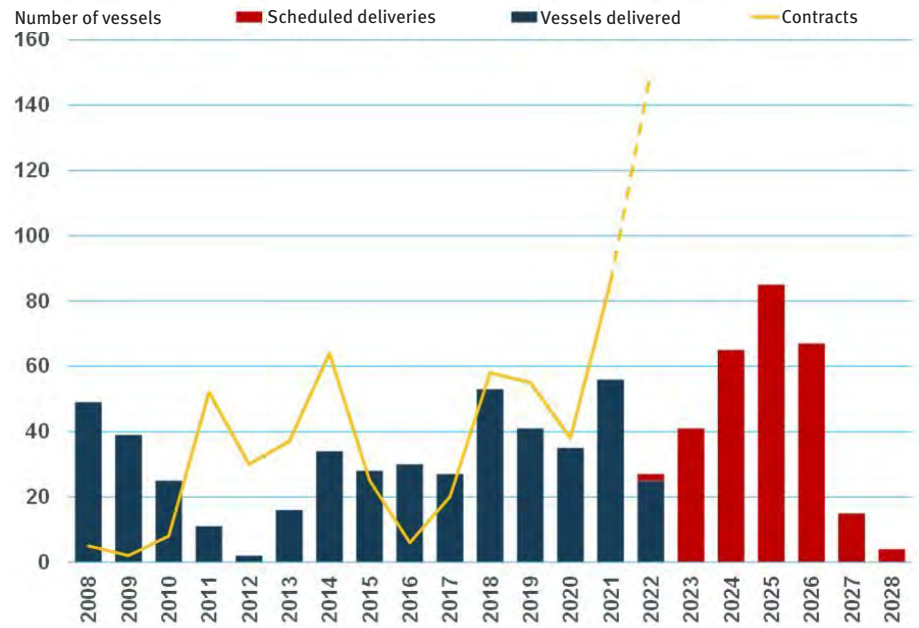
With the surge in demand and shake-up in trade flows, spot rates hit record highs during 2022, with the BLNG2 route from the US Gulf to northwest Europe reaching \$509,908 per day on November 11, according to Baltic Exchange data.

Meanwhile, the BLNG3 route from the US Gulf to Japan hit \$497,937 per day on November 4, and the BLNG1 route from Australia to Japan saw \$466,524 per day on November 15, the data revealed.

As of December 13, the average daily rates had eased to \$171,320, \$192,977 and \$167,000, respectively, the data showed.

Meanwhile, the freight market has had “odd dynamics” this year, Mr Feer said, with more long-term charters being inked,

LNG vessels orderbook and delivery schedule



Source : Maritime Strategies International

effectively taking tonnage out of the spot market, which has contributed to the high spot rates.

“With uncertainty amid high prices and market volatility, charterers have gone long term on freight so that they have control over capacity. There has also been a reluctance to sub-let,” he said.

Jefferies equity analyst Omar Nokta shared similar sentiments.

He said the LNG shipping market was poised for strong earnings in 2023 and, although spot rates had eased in recent weeks from their all-time highs, long-term charter demand remained robust.

“We are heading into the third consecutive winter period of high LNG prices and this time, charterers have taken an aggressive approach to securing ships on a multi-year basis,” Mr Nokta said in an outlook report.

Ships with immediate availability over the next few quarters are garnering significant premiums, with three-year deals being struck at more than \$175,000 per day, he said, citing broker reports.

The LNG shipping sector is also set for high growth in coming years, said Mr Nokta, with the US poised to become the biggest exporter in 2023.

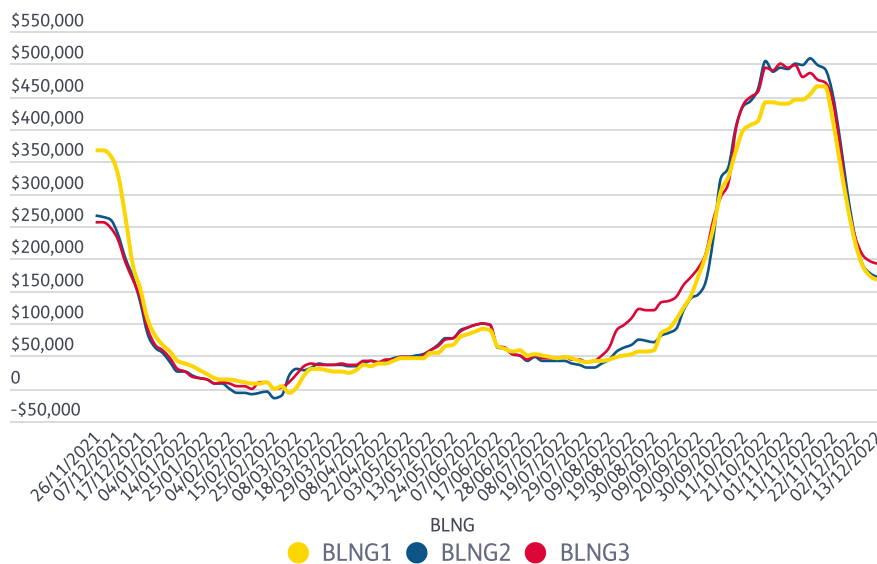
LNG trade, currently at 400m tonnes annually, is expected to reach 600m tonnes later this decade, as new projects – mainly from the US, Qatar and Mozambique – boost liquefaction capacity.

About 160m tonnes of liquefaction capacity is expected to come onstream during the 2023-2026 period, which will require at least 200 newbuildings to come into service, Mr Nokta estimates.

There are currently 250 LNG carriers under construction delivering over that period, which suggests ample vessel capacity. However, a further 175m tonnes are expected from the US alone from projects at the feasibility stage, which are likely to be fast-tracked to support Europe’s demand, he said, adding that these projects would require at least 225 additional newbuildings.

“Accordingly, we see the LNG shipping outlook as very positive, with substantial growth and long-term contract opportunities,” Mr Nokta added.

Baltic Exchange: LNG carrier spot rates



NOTES: BLNG1 - Australia to Japan round voyage; BLNG2 - US Gulf to continent; BLNG3 - US Gulf to Japan

Source: Baltic Exchange as of November 22, 2022



dp picture alliance / Alamy Stock Photo

Fires on board large containerships continue to impact hull, cargo and P&I insurance and result in loss of life and environmental damage.

Marine insurance: no respite for owners on hardening rates

The alibi for the increases is inflation, with rocketing costs for both labour and steel making it more and more expensive to foot the bills for repair yard work, **David Osler reports**

Marine insurance is continuing to get more expensive across the board, with almost all owners facing double-digit percentage point increases when renewing P&I in February 2023 — and rate hikes of the same order when buying hull and machinery cover.

Frankly, that paragraph could have opened any article summarising the perspective for premiums in marine classes for at least the past three or four years — and shipowners can be forgiven for wondering for how long this situation will drag on.

Insurers can no longer invoke ‘rate restoration’ on the basis of long-term underpricing with quite the same degree of justification.

Thanks to earlier increases, loss ratios have fallen sharply, and the claims climate has widely been hailed as exceptionally benign right now, after two years of record pool claims.

Major casualties have been few and far between, although the worst weeks of the northern hemisphere winter are now immediately ahead of us.

This time the alibi is inflation, which is on the up in most economies at present.

That directly hits insurers — like all businesses — on overheads such as office rents, stationery supplies and staff costs.

Yet the real complaints are sector-specific inflation, especially when it comes to repair yard bills, which sees them footing the costs of rocketing labour and replacement steel.

Fires on board large containerships continue to impact hull, cargo and P&I insurance and have resulted in loss of life and environmental damage. The main cause appears to be misdeclaration or non-declaration of dangerous cargoes.

Meanwhile, decarbonisation measures have prompted uncertainty and hesitation from both owners and insurers, due to the lack of regulation and market-based incentives.

All affiliates of the International Group of P&I clubs have declared their general increases or target increases for the coming renewal, which will be marked by the merger of North and Standard to form the world's largest club.

Nine of the 13 members have opted for 10%, firmly establishing that figure as the going rate.

To list them by name and in alphabetical order, they are: American Club, Britannia, Japan Club, North, Skuld, Standard, Swedish Club, UK Club and the West of England.

Modal average increases

The figure follows modal average general increases of 7.5% in 2020, 10% in 2021 and 12.5% in 2022. That is in sharp contrast with 2017, 2018 and 2019, with just one single club publicly raising prices in any of those years.

Steamship is lowballing with 7.5%, while current market leader Gard has told members they can expect to pay 5%-7% more.

Small craft specialist Shipowners' Club has frozen most premiums, although bulk carrier operators will be asked for more. London Club is pricing on record, although expected to seek higher target rates.

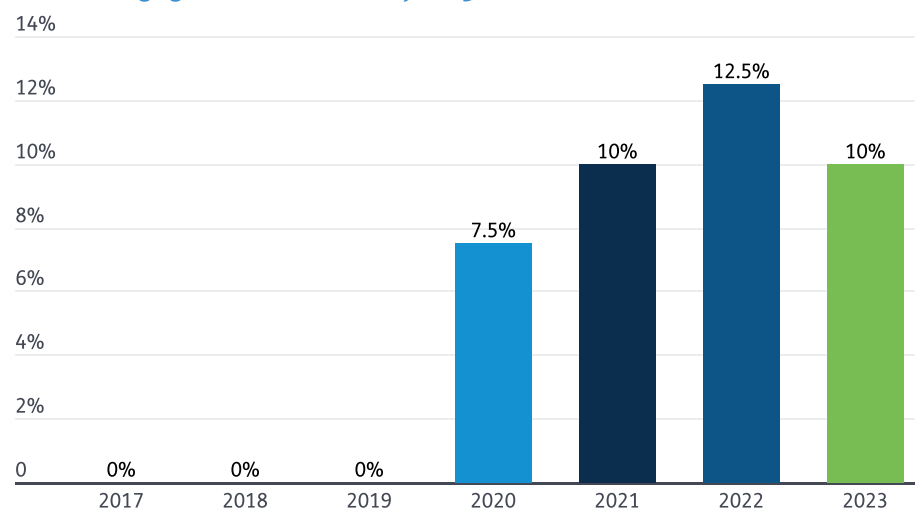
Hull and machinery rates are also predicted to harden, according to analysis produced by marine brokers, with key concerns again including inflation, as well as the knock-on effects of the pandemic and Russia's invasion of Ukraine.

H&M has become more expensive over the last period anyway, as a result of the Lloyd's crackdown on underperforming classes in 2019 and 2020.

However, many owners will be well-placed to pay, in light of the current upturns in many shipping segments. Making lump-sum payments upfront is

International Group of P&I clubs

Modal average general increases: 2017-2023



Source: Lloyd's List (data accumulated from individual club announcements)

“Many owners will be well-placed to pay, in light of the current upturns in many shipping segments. Making lump-sum payments upfront is likely the best available pain-mitigation strategy, brokers advise”



likely the best available pain-mitigation strategy, brokers advise.

By contrast, there has so far been no sustained inflationary pressure from the reinsurance market.

Most marine and energy programmes are purchased on an excess of loss basis, so reinsurers have — in theory — less concern around inflation than those paying attritional claims on direct policies.

However, the Ukraine conflict has left reinsurers suffering large potential losses on aviation war and war on land policies.

These classes are typically written in combined programmes with marine and energy, so reinsurers are expected to demand rate increases and larger net

retentions — and may even separate some classes from existing combined towers.

Lloyd's of London reported an improved first-half underwriting result on the back of better rates, notwithstanding the pressures generated by the invasion of Ukraine, natural catastrophes and inflation.

However, the market fell to an overall loss after accountancy rules dictated the revaluation of unrealised investments.

Aggregate first-half gross written premiums reached £24bn (\$29.1bn), up from £20.5bn at the same stage in 2021, while underwriting profit grew from £960,000 to \$1.2bn.

The collective combined ratio improved from 92.2% to 91.4%, and the underlying combined ratio from 85.4% to 81.5%. The attritional loss ratio dropped from 50.5% to 48.9%.

New capacity is entering the market, and Everest Re Group is set to join up in 2023, along with a handful of managing general agents specialising in hull business.

Additionally, Amphitrite and Navium have established a strong foothold over the past few years.

The key question for 2023 will be whether all this new capacity neutralises the pressure for increases to meet claims inflation and higher re costs.

For the minority of shipowners who trade in additional premium areas — and mostly that means Russia and Ukraine right now — war risk premiums are set to remain volatile.

They could even spike if the anniversary date of the Ukraine invasion triggers the predicted \$1bn-worth of constructive total losses.

More ship finance options amid sea of uncertainties

Smaller and medium-sized owners are still very much provided for, but wider upheavals are taking a toll on deals, Nigel Lowry reports

As is the case for the industry it serves, ship finance is not for the faint-hearted. Admittedly, it may be more faint-hearted than in days of yore, when bankers' feckless readiness to provide oceans of debt finance contributed to the busts of the 1980s and 2000s.

Nowadays, shipping bankers have little option but to be more risk-averse. As if historic precedent were not reason enough, they have to compete harder for capital internally and face tougher grillings by credit committees.

In plenty of cases, there is a dash of environmental, social and governance score-carding thrown into the mix.

Yet when it comes to facing the wider world beyond their meeting rooms, lenders, leasing institutions and equity providers for shipping are all having to grapple with the same, virtually unprecedented swirl of uncertainties that are confronting shipowners themselves.

Whether it is the tragically unfathomable longer-term consequences of Ukraine's unwanted war with Russia, or the technological challenges engendered by the need to cut industry emissions, demand uncertainty in China, or a potential recession in the US, shipping — and, by extension, its financiers — certainly have a lot to ponder.

That said, the old cliché that shipping thrives most in times of turbulence does not seem entirely amiss. No matter the scale of the challenges facing today's players — and the darker edge to some of the issues — a sense of opportunity also appears alive and well across the industry.

"I have seen optionality growing in the past few years, despite the departure of some major banks. That's very helpful



As if historic precedent were not reason enough, shipping bankers have to compete harder for capital internally and face tougher grillings by credit committees.

“No matter the scale of the challenges facing today’s players — and the darker edge to some of the issues — a sense of opportunity also appears alive and well across the industry”

to owners,” said Stefanos Fragos, managing director of Braemar Corporate Finance in Athens.

“We have had an abundance of financing options for three years and there are plenty of choices, even for smaller and medium-sized shipowners.”

Mr Fragos, who recently joined the shipbroker's international financing advisory network after a career with DVB Bank and a stint with alternative financier YieldStreet, observes that the greater choice of financing options has not led to a higher number of transactions — at least not in 2022.

The wider fog of war, climate concern and other factors are taking a toll.



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“Are there more deals happening? Not really at the moment and the reason for that is all the uncertainty in the market that has been having an impact on shipowners’ ability to make major investment decisions,” he said.

“That in itself pulls back the need for major financing.”

Among the trends that have been positive for the vast swathe of shipping companies seeking finance has been greater access to Asian leasing markets.

Leasing is an important component of Chinese ship finance that some estimates put as representing close to the global total.

Although rattled by internal regulatory pressure, Chinese leasing companies have broadened their horizons steadily over the past decade — first of all to shed the necessity for direct Chinese ties and latterly to widen their scope to medium-sized independent owners.

“Leasing is not for everyone, but the inclusion of some medium-sized owners was not the case even a few years ago,” said Mr Fragos.

Japanese leases

Another example is the widening appeal of Japanese operating leases, or Jolcos, in the market.

These have also begun to be used by Western owners and have lost their requirement for a Japanese flavour in the transaction, such as a Japanese-built asset, or a long-term charter to a Japanese entity.

According to Mr Fragos, the general rise in alternative non-bank lending has been “extremely useful, especially for smaller owners”. Compared with traditional bank finance, it often offers more flexibility, higher advances, and less-stringent security.

“We have had an abundance of financing options for three years and there are plenty of choices, even for smaller and medium-sized shipowners”

Stefanos Fragos
 Managing director
 Braemar Corporate Finance, Athens



Klaus Ohlenschlaeger/Alamy Stock Photo

Japanese operating leases have begun to be used by Western owners and have lost their requirement for a Japanese flavour in the transaction.

“A lot of the time, it enables the shipowner to deploy less capital — but of course all the advantages come at a higher cost,” Mr Fragos pointed out.

ESG demands — in particular for the environmental pillar — are continually becoming more important for financing.

The most glaring illustration of that is that the Poseidon Principles — the voluntary collective of shipping lenders that commit to align their portfolios with climate targets — has gained its 30th signatory and now covers more than 65% of global ship finance.

With the majority of the banks lagging alignment targets in the latest reporting year (2021) and targets set to

be ramped up in 2023, expect signatory lenders to become more rather than less assertive about the types of vessel they will bankroll.

Poseidon members recently committed themselves to align with the Paris Agreement ambition to limit global temperature rises to 1.5°C.

Environmental aspects

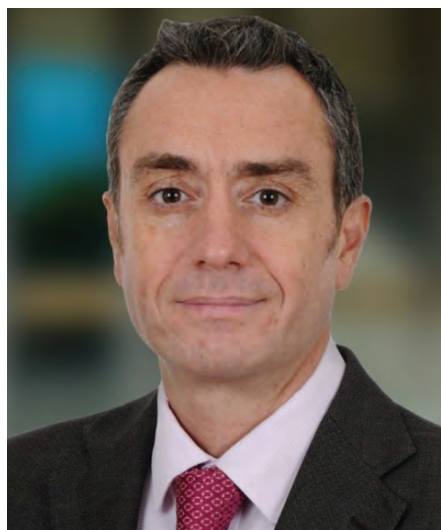
“Big banks are highly sensitive to environmental aspects and there are different pockets of funds that only target green shipping,” Mr Fragos commented.

“But as there are so many different financing options today, I don’t see them all becoming so sensitive that it will prevent owners from doing business in the foreseeable future.

“It is impossible to know what will be happening in 20 years from now, but I believe that at least for the next five years, small shipowners will absolutely have financing options — even if they have middle-aged or older fleets.”

Despite wider competition among today’s greater mix of ship finance providers, it seems inevitable that greater regulation and the need for new decarbonised solutions for the industry can only make building and running ships more expensive in the future.

In that respect, the need for a strong array of ship financing alternatives is unlikely to diminish.





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