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A good winter lies ahead for product tankers

PRODUCT TANKER MARKETS are poised for a seasonal rebound this coming winter, with demand for fuels such as gasoline and diesel already appearing stronger than usual so far this year.

A combination of strong demand, higher fuel production and declining fuel inventories is bullish for clean product tankers, including both the medium range and long range segments, because demand for seaborne transportation will increase significantly.

"The long and painful wait for a recovery in refined product tanker rates may finally be coming to a close," Stifel said in report.

It said MR product tanker rates were bullish overall recently and earnings in the Pacific have been materially higher than those in the Atlantic, although following Hurricane Harvey there was also a short-lived rally in the Atlantic market.

The strength in fuel markets has been unexpected and is one of the key supports that helped oil prices cross the $55 per barrel mark in September.

It has also resulted in fuel stockpiles coming down counter seasonally, barrels now percolating through the system and making their effect felt on economies, according to senior executives at an oil conference in Singapore.

The strength of oil demand has arguably been the key highlight of the oil market this year, and this is more clearly visible in the product markets for middle distillates such as diesel, jet fuel and heating oil, Morgan Stanley said. "Usually, middle distillate demand strengthens

500,000 barrels per day from the third quarter to the fourth quarter, relative to a global market of 27m bpd. Winter is coming, middle distillates look tight but the balance could get even tighter if demand follows its seasonal pattern," the bank said.

The strong fuel markets have boosted oil refining margins, resulting in oil refiners stepping up crude processing rates. Observable refinery run rates have averaged more than 1m bpd above last year's levels so far this year, and were more than 1.4m bpd higher in August, Morgan Stanley said.

"Where refineries can run, they appear to be running flat out," it said.
In swing regions, where oil refineries respond to economic factors quickly, utilisation rates were already at 87% in 2016, and have risen further in developed countries to more than 93% by mid-2017.

Morgan Stanley said that despite these high production levels, petroleum product inventories continued to ease, signalling strong consumption levels from end users.

NEWS

Chinese coal imports have just been dealt another regulatory blow

SCARCELY a day goes by without some new announcement from Beijing likely to dampen sentiment for dry bulk vessel owners with tonnage in the Pacific. Chinese authorities have announced plans to lower power tariffs for heating purposes in the rural and suburban areas in the northern part of the country during the upcoming winter season.

Coupled with the earlier restriction on the number of ports that can accept coal shipments in China, there are very little opportunities for sustained high coal demand from the country in the final quarter of year.

The National Development and Reform Commission of the People's Republic of China has encouraged regional government authorities and power grid companies to lower retail power tariffs for heating use during periods of low electricity demand.

This would discourage people from burning coal during winter months, which normally leads to an increase in coal-related emissions, and substitute it with hot water pipes or electric heaters.

The new initiative is also a part of China's efforts to reduce coal imports and encourage regional authorities to use more non-thermal power sources.

The Chinese government has also been pushing local authorities in Beijing and Tianjin municipalities to shut down small coal-fired heating boilers and replace them with gas-fired heaters.

According to government data, Hebei province permanently closed 20,379 small coal-fired boilers since January this year and replaced about 1,530 coal-fired boilers with electric or gas-fired heaters.

Beijing has also closed four coal-fired plants and installed three gas-fired plants over the past five years. There is one more gas plant that is likely to become operational this year.

However, gas still only comprises about 5% of China's power generation, with solar and wind about 2%.

Faced with very low coal inventories in the recent months and the upcoming Golden Week holidays along with the Communist Party's National Congress in October, it will be interesting to see how China manages.

The US has waived Jones Act for Puerto Rico

THE US government waived the Jones Act for Puerto Rico on Wednesday with immediate effect, according to White House Press Secretary Sarah Sanders.

The US Department of Homeland Securitysaid in an email that the waiver would last for 10 days after it was signed and would cover all products shipped to Puerto Rico.

OPINION

Connecting ships, ports and people — a message from the IMO secretary-general

SHIPPING and ports can play a significant role in helping to create conditions for increased employment, prosperity and stability through promoting maritime trade. The port and maritime sectors can be wealth creators, both on land and at sea. To highlight this potential, our theme at the International Maritime Organization for this year is Connecting Ships, Ports and People. It will enable us to shine a spotlight on the existing co-operation between ports and ships to maintain and enhance a safe, secure and efficient maritime transportation system

Throughout the year, we will highlight the importance of 'joined-up' maritime development across all sectors, both from a policy and a practical perspective. The benefits of a free and efficient flow of goods and trade extend far beyond the ships and ports themselves — and we will show how an effective interface between them can improve the lives of people everywhere, especially in the context of the sustainable development goals.

IMO's role as the global regulator of the shipping industry can enhance this integration — as consistent, uniform regulation facilitates the free flow of commerce.

Jones Act will keep hammering Puerto Rico long after Maria

HURRICANE Maria hit Puerto Rico hard and has caused a humanitarian crisis on the island. But blaming an archaic protectionist law for lack of relief efforts would be wrong, *writes Lambros Papaeconomou.*

Blame it instead for permanently higher consumer prices on the nation's poorest economy.

The Jones Act, also known as the Merchant Marine Act of 1920, has been around for almost a century, even longer than the 1933 Securities Act that regulates the interstate offer and sale of securities. Its stated purpose is to regulate maritime commerce between contiguous US ports.

The goal is to protect the interests of the domestic shipbuilding and merchant marine industries from foreign competition, and with them thousands of jobs for steelworkers and seafarers. The extra bonus, and perhaps the reason the act has survived for so long, is that a viable US merchant marine has been deemed essential for the nation's defence at times of war and peace.

One can argue about how successful the Jones Act has been in maintaining a viable US merchant marine given that the "blue-water" Jones Act fleet has shrunk considerably and today counts fewer than 100 vessels.

The real problem with the Jones Act, however, is that it comes with a heavy price. Building an oceangoing vessel at a US shipyard costs several times more than building the same vessel at an Asian yard.

Crew wages and insurance are also higher compared with foreign flag vessels.

A vessel that has a higher construction cost and a higher operating cost also requires a higher freight to break even.

And guess who's paying the higher freight, which comes in the form of higher consumer prices. Not the shipbuilder, not the seafarer, not the shipping company. It's the residents of Puerto Rico, Alaska, Hawaii and Guam, where the Jones Act vessels primarily ply their trade.

The effect of higher consumer prices is particularly austere on residents of Puerto Rico, who have among the lowest income per capita among the US and its territories.

The Trump administration waived the provisions of Jones Act early on Thursday, to allow for theimmediate flow of fuel and other essential supplies to the island.

The decision, which takes effect immediately, reversed an earlier position by the Department of Homeland Security, that had argued that the flow of provisions to Puerto Rico had not been gravely affected.

The Jones Act had been suspended briefly after hurricanes Harvey and Irma too, to assist with shipments of petroleum products on the US east coast and Florida.

This is great news for residents of Puerto Rico, many of whom have lost their homes and livelihoods, even if only briefly. Unfortunately for them, unless the Jones Act is permanently waived, they will resume paying higher prices for their bare necessities once the effects of Hurricane Maria are gone.

You can call this the law of unintended consequences.

ANALYSIS

Nicolas Sartini: The turnaround man

SINGAPORE-based APL was considered something of a basket case when French container shipping giant CMA CGM announced its takeover in late 2015.

The former American President Lines had been losing money for years and shareholders, including sovereign wealth fund Temasek, were growing impatient with its poor performance. The $2.4bn CMA CGM paid for the line was thought to be a good price for a carrier that really only had a strong presence on the transpacific trade.

Two years on, and nearly 18 months since the acquisition was completed, APL has achieved an impressive turnaround, returning to the black and making a sizeable contribution to its new parent's financial wellbeing.

Leading that turnaround has been industry veteran and long-time senior CMA CGM executive Nicolas Sartini, who was appointed as chief executive of APL when the French group took ownership.

In an interview with Lloyd's List Containers' editor James Baker shortly before APL was presented with the Containership Operator of the Year Award by Lloyd's List, Mr Sartini spoke about the line's transformation, maintaining one of the best known brands in the business, and winning the trust of staff.

MARKETS

Capes drop below $20,000 per day on mixed sentiment

AVERAGE capesize earnings dropped 9% on the Baltic Exchange this week on softer sentiment in the Atlantic, having reached a three-year high last week. As Lloyd's List reported earlier this week, China's clampdown on pollution during this coming winter is casting a cloud over the capesize market as the world's second-largest economy halts major construction works. Coupled with that, Chinese imports of coal may be interrupted in the fourth quarter because of new lower power tariffs for heating purposes, a policy that could reduce the direct burning of coal.

Further ahead, though, BHP believes that China's appetite for high-quality iron ore will continue as steel production climbs, reaching a peak only in the middle of the next decade, thanks to its Belt and Road Initiative.

NEWS IN BRIEF

Hapag-Lloyd is looking to raise $414m from a share sale

HAPAG-Lloyd has announced the implementation of a capital increase that is expected to raise about €352m ($414m) in gross proceeds to pay off debt and to use for general corporate purposes. The move was one of the conditions set down as the company merged with United Arab Shipping Co in May this year with approval from its shareholders. It will increase its share capital to about €175.8m from €164m via the issuance of about 11.7m new shares for cash.

France and Italy have agreed to Fincantieri takeover of STX France

THE long drawn-out negotiations over the acquisition of STX France by Fincantieri appear to be coming to a close, with the French and Italian authorities jointly agreeing to the sale.

As part of the agreement, the Italian cruiseship builder will become the industrial operator of the Saint-Nazaire based shipyard. Fincantieri will hold a 50% stake in STX France, the French authorities will have a 34% stake, Naval Group (formerly DCNS) will have a 10% stake, STX employees will hold 2% of the shares, and its local suppliers will take a 4% stake.

North Korea sanctions are likely to affect maritime trade, P&I Club warns

US president Donald Trump's latest executive order against North Korea is expected to affect maritime trade and shipowners have been advised to exercise extreme caution in dealing with the pariah state. The effect on maritime trade is likely to be significant because any entity that owns or operates a port in North Korea could be blacklisted, the West of England P&I Club said in an advisory.

It said the imposition of a 180-day rule on ships is similar to the one the US put into effect against Cuba for many years. The rule bars any vessel that calls at a North Korean port or engages in a ship-to-ship transfer of cargo with a North Korean vessel from trading in US waters for the following six months.

Trøim has formally become chair of Golar LNG

TOR Olav Trøim has taken over the chairmanship of Golar LNG, the Nasdaq-listed company seen by many as his brainchild after John Fredriksen's withdrawal in 2014. After the annual general meeting, Golar announced in a statement that Mr Trøim had succeeded Dan Rabun as chairman with effect from Wednesday. Mr Rabun, a former oil executive with a legal background who had served as chairman since September 2015, has continued to serve as a board director.

The change has come after Golar appointed Iain Ross as its new chief executive earlier in September after Oscar Spieler stepped down following the delivery of the floating natural gas liquefaction unit Hilli Episeyo.

Korean bourse is considering restarting DSME share trading

KOREA Exchange has begun to review Daewoo Shipbuilding & Marine Engineering to decide whether the shipbuilder's stock can restart trading on the bourse. The final decision is expected to be made in 15 days, an official at KRX told Lloyd's List. This is one of the goals set by DSME's key stakeholder Korea Development Bank before it decides to offload its shares in the shipbuilder and allow it to be privatised.

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