Tuesday November 26, 2019

Lloyd's List
Maritime intelligence | informa

Daily Briefing
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Global tanker tonne-mile demand falls on US energy independence

THE US IS POISED to become a net oil exporter for the first time in its history, though tonne-mile data suggests this may not positively benefit crude tanker trades as often suggested.

Analysis of crude tanker tonne-mile demand, which measures volumes carried over distance travelled, reveals rising exports from the US Gulf are failing to compensate for US refiners importing less crude, especially from the Middle East.

Tonne-mile demand is a key demand indicator for the crude tanker fleet.

These changing US Gulf crude flows led a global downturn in tonne-mile demand seen in the first 10 months of 2019.

Total tonne miles measured from January through to October are 5.2% lower than the same period a year earlier, at 9.1trn miles, Lloyd's List Intelligence data shows. Last year's figure was 9.6trn miles, nearly 500bn miles more.

US crude exports are 35% higher, at nearly 2.9m barrels per day, but tonne-mile demand export growth is measured 21% higher, Lloyd's List Intelligence data shows. That does not come close to offsetting the 46% fall in tonne-miles measured for US Gulf crude imports.

Lloyd's List Intelligence data shows US Gulf/Caribbean imports generated 760bn tonne miles in the first 10 months of 2018. This year that figure stood at 410bn tonne miles over the same period.

These figures have implications for aframax, suezmax and very large crude carrier tanker sizes, which have gained the most from new markets generated by rising sales of American shale oil from the Permian basin now shipped to refineries in Asia and Europe.

Shale production has tripled US exports in just three years, with forecasts that the US will reach its goal of energy independence this quarter, when exports outpace imports. US exports are 35% higher year on year, at nearly 2.9m bpd.

The next biggest loss in tonne-mile demand seen in 2018 is for Iranian exports. Tonne-mile demand is down 67%, or 278bn miles lower, compared with 2018, as US unilateral sanctions applied throughout 2019 severely restrict exports.

Iraq has boosted exports, helping offset reductions in tonne miles on the Middle East to Asia routes, where declines are not as steep.

But in Europe, refineries have instead turned to Libya and West Africa to replace lost Iranian crude. Libya has strongly boosted exports in the past six months, further curbing tonne-mile demand for larger tankers, as ships travel shorter distances within the Mediterranean.

Venezuela's contribution to lower tonne-mile demand growth is not as great as expected. US restrictions on Venezuelan exports have left volumes shipped 40% lower year on year. However, tonne miles fell by only 7.9% over the same period. This reflects the greater volumes sailing east now sanctions prevent US Gulf refiners — formerly the biggest buyer — from importing oil from the government of Nicolás Maduro.

Factors that have reduced the impact of falling tonne-mile demand growth at a time of accelerating supply include those Iranian tankers used as floating storage. As many as 30 of the 56-ship fleet of Iranian tankers is mostly relegated to floating storage thanks to US sanctions, removing them from the market.

Earlier this year, many newbuilding VLCCs also conducted their first voyage shipping clean products from Asia to the Atlantic basin, again reflecting oversupply in the first three quarters of 2019. And since the third quarter of the year many larger tankers have been temporarily removed from trading for retrofitting of scrubbers.

International Maritime Organization lower-sulphur marine fuel regulations, which come into force on January 1, have also boosted refinery runs.

But with volumes shipped in 2019 lower than 2018 levels refiners may be drawing stocks to partly meet this demand. Some 50m bpd is being shipped on the water, Lloyd's List Intelligence data shows, compared with 53m bpd over the same period of 2018.

WHAT TO WATCH

CMA CGM to raise $2bn in asset sales

CMA CGM says it plans to raise more than $2bn by disposing of port assets and vessel sale-and-leaseback deals.

The French container shipping giant said the funds will help finance the acquisition of logistics operator CEVA Logistics, which it bought earlier this year.

It will raise $968m through the sale of its stake in 10 port terminals to Terminal Link, its joint venture with China Merchant Port (CM Port).

Hong Kong-listed CM Port said in an exchange filing that the two parties have signed a memorandum of agreement on the proposed acquisition, which consists of 10 container terminals located in Asia, Europe, Middle-East and the Caribbean that are owned by CMA CGM or its affiliates.

To finance the deal, the state-owned port giant has agreed to subscribe mandatory convertible bonds of of up to $468m to be issued by Terminal Link, and at the same time, to provide the joint venture an eight-year loan of up to $500m. Both facilities carry an annual interest rate of 6%.

The loan will be paid mainly through a capital increase of Terminal Link to be subscribed by CMA CGM upon maturity, while the bonds will be converted into the issuer's equity, according to the filing.

The French line said it expected the deal to close in spring 2020, subject to regulatory approval.

CMA CGM has already raked in $650m in the third quarter through vessel sale-and-leaseback transactions and $210m more are set to close “over the coming weeks”.

“The proceeds will primarily be used to pay down the loan contracted to acquire CEVA Logistics, with the balance currently standing at $200m,” it said in a statement.

Another $100m is expected by beefing up CEVA Logistics’ receivables securitisation programme and $93m from selling a 50% stake in a logistics hub in India, which is set for completion in the first quarter of 2020.

CMA CGM said revenue in the three months to September 30 grew by 25.8% to $7.6bn compared with the year-earlier period.

“This growth comes primarily from the growth of the Group short sea business (integration of Containerships) and a push to rebalance our trades to help reduce our OPEX,” it said. It also increased the container volumes it carried by 5.1% to 5.53m teus.

CMA CGM said the integration plan for CEVA is moving according to plan.

“However, CEVA Logistics’ exposure to the automotive and technologies industries is continuing to dampen demand in both the Freight and the Contract Logistics services segments,” CMA CGM said. “In addition, significant investments were made to transform CEVA Logistics are also weighing on margins in the short term.”

The company said the International Maritime Organization low sulphur rules being introduced on January 1 will require all shipping companies to reduce their sulphur emissions by 85%.

“This new regulation aims to reduce the environmental impact of the industry and significantly improve air quality, an initiative in which the CMA CGM Group has been involved for more than 15 years,” it said.

“In this context, CMA CGM has decided to favour the use of 0.5% fuel oil for its fleet and to invest significantly by using LNG to power some of its future container ships (14 ships on order), notably resulting in a 99% reduction in sulphur emissions and by ordering several scrubbers for its ships.”

Maersk finance chief quits to join General Electric

MAERSK’s chief financial officer Carolina Dybeck Happe is to leave the company to join US industrial giant General Electric Company.

The shipping company said Ms Dybeck Happe has accepted another opportunity outside of the company and will leave in the next 12 months. She was appointed as chief financial officer in June 2018.

The announcement on Monday came days after chief operating officer Søren Toft left Maersk to become chief executive of arch rival Mediterranean Shipping Company.

“With a reinforced financial foundation, we are well positioned for future growth,” said Maersk chief executive Søren Skou. “I would like to thank Carolina for her short, but productive time. She is committed to building on the progress that has been made and ensuring a smooth and orderly handover.”

Ms Dybeck Happe will join GE as chief financial officer in early 2020, he US company said in a statement.

“Carolina is a proven global CFO with a superior track record of delivering results and creating value,” said GE chief executive H. Lawrence Culp, Jr. “After a rigorous global search process, I’m excited to welcome Carolina to GE. She is a high-impact executive who brings a compelling blend of strategic and capital allocation discipline, well-honed operating skills, and transformational leadership abilities.”

Ms Dybeck Happe joined Maersk from Assa Abloy where she spent 16 years, including seven years as was CFO. She held a similar position at engineering company Trelleborg, from 2011 to 2012.

At Maersk she was instrumental in driving strategic and structural change amid significant market disruption, including executing a substantial deleveraging plan and reshaping the company’s portfolio to deliver more profitable growth.

With a strong track record of leadership, transformation and results, she won the CFO of the year award in Sweden in 2015.

"I've admired GE's team, technology, and global network and brand, and I am excited to join at a time of significant opportunity for the company and its stakeholders," she said.

"I look forward to working with Larry and the team to move GE forward on its financial, operational and cultural transformation."

OPINION

CMA CGM eyeing shortsea expansion, says finance chief

CMA CGM plans to expand its scope further into the shortsea sector, building on recent acquisitions Containerships and Mercosul Line, according to chief financial officer *Michel Sirat*.

He said expanding the French company's regional presence is core to a twofold strategy.

First, he explained how, with growth in the deepsea sector somewhat tepid or non-existent on certain trades, shortsea business is growing exponentially and offers significant opportunity to increase volumes.

"We also think there are significant potential synergies between shortsea and our logistics business. Shortsea is normally door-to-door, and so too is logistics," said Mr Sirat.

Earlier, this year CMA CGM completed the takeover of Switzerland-listed logistics operator CEVA, which has a significant global presence.

Any move to expand its shortsea portfolio would be targeted by CMA CGM with CEVA in mind, according to Mr Sirat, who also did not rule out further investments in the logistics space.

"Again, nothing is cooking right now, so our target right now is to make sure CEVA is profitable," he told Lloyd's List.

Mr Sirat was speaking to Lloyd's List after CMA CGM published its third quarter results.

Despite almost tripling its earnings before interest, taxation, depreciation and amortisation to $1.01bn, year-on-year, the company's overall profit took a hit in during.

While profit from ship operations grew from $103.1m to $158.9m compared with last year's third quarter, overall consolidated net revenue dropped from $103.1m to $45.4m.

Much of these changes were due to the arrival of a new accounting standard for leases, IFRS 16, which meant a $69.1m profit drop for the group. CEVA lost the group $44.4m over the quarter from its operations.

CMA CGM also announced plans to raise more than $2bn by disposing of port assets and vessel sale-and-lease back deals. This will include the nearly $1bn from the sale of port interests to Terminal Link, its joint venture with China Merchant Port (CM Port), which, in part, will be used to help finance the CEVA takeover.

Mr Sirat said that the deal with Terminal Link is "very good".

"We will continue to have a 51%-49% joint venture," he said. "We won't lose control, so altogether we maximise what we can make out of those terminals. By raising more than $2bn cash it will reduce debt by more than $900m. We are totally in line with our strategy, and we get financial flexibility back on our balance sheet."

Ensuring the group is on a firm financial footing is even more crucial given the impending sulphur cap. The regulation will incur a significant cost burden on the industry, one which will require shippers to help foot the bill.

Mr Sirat said CMA CGM has maintained a dialogue with customers, who have been well versed on the new regulation and how surcharges will be implemented into contracts.

The company is one of a number of major carriers who will introduce transitional fuel charges in December, which Mr Sirad said is essential given too that ships will soon be filling up with complaint fuel.

"So far feedback from customers has been okay, and they have said 'okay we're going to take it'. But what you should keep in mind is that if you look at bunker prices since 2013, there has been a tremendous fall," he said. "Even if we add a surcharge to the current bunker price in 2020, it is still below what customers used to pay in 2013.

"So, it is not a revolution, customers are used to paying this kind of level of freight rates. I'm not saying their happy with it, but they're used to it."

ANALYSIS

A diversified portfolio keeps the tariffs at bay in Florida's Port of Jacksonville

DIVERSIFICATION is a key word that arises when talking with Eric Green, chief executive officer of the Port of Jacksonville, also known as Jaxport. Diversification applies in particular to recent concerns about the negative effects of the current trade war between China and the US.

Mr Green has no hesitation in saying that, according to the credit ratings agencies Moody's and Fitch, Jaxport is considered to be "if not the most diverse port" then number two, led only by Houston. "And what we enjoy," he says, "is the diversification of our cargo".

Diversity of cargo is a crucial point in the current trade war between the US and China, especially since some commodities have been targeted with tariffs much more than others by the two nations. A port that depends on imports or exports of a targeted commodity will be hit the hardest.

Not so with Jacksonville, according to Mr Green. "Our business model is not all stuck in a system where, if one particular mode has a downturn, that we suffer very much.

"During the recession, we barely felt a prick where a lot of other ports were really hurting because they were more geared towards a particular industry," he says.

He tells Lloyd's List that Jaxport's "financial people" have analysed the potential impact if "100% of tariffs were imposed" and they have determined it would mean a loss of just 8% in business for the port.

"What does 8% mean to us? That does not mean we are closing doors. As a matter of fact, it probably means we're still going to grow. So we have really looked at our financial model, we've looked at our commodities, we continue to grow in all those sectors. So, we're pretty comfortable."

Still, he says "we don't want to see 8% we don't want to see 2%. However, we're comfortable enough to say that we're diversified to the point where we are surviving and tomorrow we will be fine".

Mr Green feels especially comfortable with the amount of container traffic now reaching Jaxport from Asia, even if it means the "migration" of that cargo eastward from competing US west coast ports.

"If you look at the migration of cargo from the west coast to the east coast, I think it's somewhat of a natural trend," he says. It's really about east coast ports making themselves "a little bit more attractive" to the beneficial cargo owners by ensuring that their cargo reaches its destination "in a timely manner".

He doesn't view Jaxport as "taking boxes" from the west coast. Instead, he says, "we're taking advantage of the opportunity on the east coast and the growth in the east coast".

Mr Green cites the example of Florida itself when explaining the growth in the east coast contributing to the migration of cargo, noting that "we're the third most populous state in the country and we continue to grow".

Not least, he says, Florida sees "roughly" about 116m visitors a year, a lot of that due to "Disney" in central Florida. So, he says, "we sit in an opportune place to take advantage of that natural growth".

Then, too, he notes, the west coast has problems — especially with union labour — that drives cargo to new eastern destinations.

"As you know, they've had their share of issues and their problems and union issues and strikes and things of that nature." He says it has been recorded that "probably about every 10 years or so" something negative is going to happen on the west coast.

As a result, he says, "the beneficial cargo owners and the shipping lines are preparing themselves to make the adjustments".

Jaxport is also making its adjustments, with expansion of its facilities for container handling along with a harbour deepening project that will take the port's 13-mile shipping channel to a depth of 47 ft.

Port officials are not hesitant to say those improvements will bring them even more business from northeast Asia.

Just last week, the port got a huge $20m boost from the federal government towards those developments. Mr Green says the money is timely and will get things moving even faster.

"What this grant allows us to do is speed up the construction side... which means now they can order those cranes a lot quicker." And that means "we'll begin to see some of those larger ships a lot sooner".

The port's numbers already are impressive. In October, the port said it moved more than 1.38m teu, a 5% increase over 2018 — the fourth year in a row that the port has set container volume records.

But Jaxport, already Florida's number one gateway, is bound to see even greater numbers as time moves on and as development continues. One can easily imagine, though, that diversification will remain central to the port's development plan.

MARKETS

Second wave of US LNG projects receive regulatory approvals

CHENIERE Energy has won regulatory approval for the Corpus Christi Stage 3 expansion, which has been linked to the troubled US-China trade talks.

The US Federal Energy Regulatory Commission last week approved the seven-train Corpus Christi expansion and three other second wave, greenfield liquefied natural gas export projects in Brownsville, Texas.

The four projects boast 46.5m tonnes per annum in combined capacity slated to come online in either 2023 or 2024.

The approvals came weeks after renewed speculation regarding US LNG exports being included in the recent round of trade talks with China.

Cheniere Energy's Corpus Christi Stage 3 was once seen as a likely beneficiary to land $18bn in LNG sales with Sinopec when hopes were high back in the first half of this year, of a breakthrough US-China trade pact.

But that did not pan out as expected and Cheniere Energy has subsequently played up its efforts to market LNG to markets outside China.

Three other projects in Brownsville, the 27m tonnes per annum Rio Grande LNG, the mid-scale 6m tonnes per annum Annova LNG and 4m tonnes per annum Texas LNG have also won FERC approvals.

NextDecade's Rio Grande LNG is backed by equity investment from Abu Dhabi-based Mubadala. Touted as one of the largest US LNG export projects, Rio Grande is slated to start commercial operations in late 2023.

Annova LNG, in which contracting groups, Black & Veatch and Kiewit Corp hold equity interests, is looking to secure customers buying in increments from 1m tonnes per annum onwards. Its project owners aim to bring it onstream in 2024.

Texas LNG, which has attracted a minority equity investment from Samsung Engineering, also aims to start pumping LNG in 2024.

All four projects were granted FERC approvals at a juncture when producing projects in the US are facing uncertainty about existing offtake arrangements with buyers in Asia.

Singapore-based Pavilion Energy reportedly cancelled the loading of a cargo from the Cameron LNG plant in the Louisiana State.

IN OTHER NEWS

Crew abducted from vessel off Equatorial Guinea

SWIRE Pacific Offshore confirmed seven crew on board its anchor handling tug supply vessel, Pacific Warden, were abducted during offshore field operations in Equatorial Guinea.

The Singapore-based, offshore support vessel owner-operator said that the attack on the 2002-built anchor handler took place last Wednesday at about 5am local time.

Fifteen crew were on board the vessel at the time of the incident. Seven crew members were taken by the assailants and are missing but eight others are safely onshore and unharmed, the statement said.

Livestock carrier capsizes in Romania with more than 14,000 sheep on board

THE lives of thousands of sheep are at stake as a vessel with 14,750 sheep livestock and 22 crew upon completion of unberthing manoeuvres, lost stability, listed to its starboard side and partly capsized in the inner breakwater area of Romania's Midia port on Sunday.

According to Lloyd's List Intelligence, all crew members were subsequently rescued by rescue boats, while news reports said some 32 sheep were also found swimming and rescued.

Lloyd's List Intelligence said Queen Hind, which is listed as a vehicle carrier, listed heavily to starboard and water ingress was noted in the accommodations block, livestock carriage compartments and the engine room.

Port of Jacksonville starts construction of new container terminal

FLORIDA'S Port of Jacksonville has broken ground on a new $239m container terminal project that will allow the facility operated by SSA Marine to accommodate even more containers than the current record-breaking numbers.

The SSA Jacksonville Container Terminal is due to be finished in 2023 to coincide with the completion of a US government project to deepen the 13-mile Jacksonville shipping channel to 47 feet.

During the ground-breaking ceremony, US Department of Transportation Maritime administrator Mark Buzby formally presented the port with a cheque for $20m in federal funds towards the project.

Wideshine linked to $377m VLGC lease with CSSC Shipping

CHINESE privately run owner Wideshine Enterprise has been linked with a sale and leaseback deal for four newbuilding very large gas carriers being constructed at a subsidiary shipyard of China State Shipbuilding.

CSSC (Hong Kong) Shipping, CSSC's leasing arm, said in an exchange filing that it had agreed to acquire the 86,000 cu m VLGCs, which were ordered with Jiangnan Shipyard in August this year, from the original buyers at the same prices as in the shipbuilding contracts.

The first ship will be taken over from Wideshine Maritime for $74.8m and the other three from Sinogas Maritime for $222m.

Greek master dies in ore carrier fire

AN INVESTIGATION has been launched into the death of the Greek master whose body was found on board an ore carrier following a fire.

Maran Dry Management, a dry bulk operator, said fire broke out on the 276,599 dwt Ore Sudbury last week while at anchor in Itaguai in Brazil, as it was awaiting the pilot to proceed for loading. The fire was eventually put out by the crew. It took crew firefighters on board four hours to extinguish the blaze.

“It is with great sadness that we must report the death of our much-valued Greek master who was found in his cabin once the fire was extinguished,” Maran said in a statement.

France plans European naval mission for Strait of Hormuz

THE European-led naval mission in the Middle East Gulf will be based in a French naval base Abu Dhabi.

The new mission could launch early in 2020 with the participation of around 10 European and non-European countries, Reuters reported.

The command center will host around a dozen officials representing the countries involved, said France's defence minister Florence Parly.

Maritime UK calls for Brexit resolution to allow focus to move on

MARITIME UK, the promotional organisation for the industry, has issued a plea for the next British government to resolve the country's exit from the EU to provide maritime and other industries with the certainty, stability and predictability they need to do business.

The body has launched a general election manifesto prioritising five areas; people, innovation, environment, competitiveness and regional growth.

They highlight the need to attract talented people to the maritime sector, attract new companies from other countries, secure government investment for research and development, boost coastal communities and contribute to Britain's climate change abatement strategy.

Anglo-Eastern will roll out digital solution for fleet

ANGLO-Eastern has announced plans to digitalise its fleet of 600 vessels in a partnership deal with Wärtsilä.

Wärtsilä's fleet operations solution will be applied to Anglo Eastern's global fleet, and support full-voyage planning and execution, as well as engine performance and fuel efficiency monitoring.

The system integrates previously disparate processes to optimise planning, weather routing, fuel consumption and the speed of a vessel.

Flex LNG unveils 10-year charter deal for newbuild

OSLO-listed liquefied natural gas carrier operator Flex LNG has clinched a charter deal of up to 10 years with Clearlake Shipping, the shipping arm of the commodity giant Gunvor.

The charter is schedule to begin in August 2020, following the delivery of the vessel, for a period of five years with an optional extension period of five years.

The 173,400 cu m LNG carrier, to be named Flex Artemis, is being built by South Korea's Daewoo Shipbuilding & Marine Engineering and is fitted with a modern high-pressure, two-stroke slow-speed propulsion system.

SocGen loses regional trade finance heads for Asia

SOCIÉTÉ Générale's regional heads of trade and commodities finance for Asia-Pacific have left the Paris-based bank, Reuters reported, citing a company statement.

The bank was cited as confirming the departures of Damien de Rosny and Timothy Siow.

The moves come after the lender said this year it would shrink or exit some businesses to cut costs at its investment banking unit, and has been hit by losses from trade financing in the Singapore bunker fuel market, the news agency said.

Bumi Armada third quarter utilisation rate rises to 58% amid fleet optimisation

MALAYSIAN offshore services player Bumi Armada continued to rehabilitate itself with fleet pruning boosting average offshore supply vessel utilisation rates to 58% in the third quarter of the year, from 51% in the preceding quarter.

This improved performance was also seen in the type of vessels being chartered out, as the utilisation rate for the so-called Class A, or higher specification vessels, rose to 54% from 43% in the previous quarter. Meanwhile, the Class B, or lower specification vessels more than 12 years old and under 8,000 bhp, saw utilisation drop from 74% to 73%, although the relatively higher rate suggests price is still an important market consideration.

The change in charter pattern did not necessarily work out to the greatest advantage for the group as third quarter revenue fell to RM527.8m ($126.4m) from RM588.0m in the corresponding quarter last year as certain charters required third-party vessels to be used, incurring additional costs. This was offset however by increased floating production and offloading segment revenue because of higher contribution from Armada Kraken FPSO.

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