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Consolidation pays off for carriers during crisis

CONSOLIDATION OF LINER shipping carriers appears to have borne fruit, as seen in their ability to stabilise freight rates amid the unprecedented economic shock wave brought about by the coronavirus pandemic.

This is "fundamentally different" from the previous crises when decimated demand always led to a collapse in prices for container shipment, said Sea-Intelligence in its latest weekly report on Sunday.

"The consolidation of the past 20 years seems to finally pay off, in having created the possibility to mitigate the worst impacts of a crisis they otherwise have no control over."

Rates remain stable despite the virus fallout, as the carriers have shown strength of capacity discipline.

Citing data from China Containerised Freight Index, Sea-Intelligence found that the overall shipping prices so far this year were higher than 2019.

Moreover, the rates over the past six weeks, during which liners' operations were hit by the disease "in earnest", were 11% higher compared with the same period of last year.

"Despite the adversity in the market, the carriers have been able to maintain a very high degree of stability in the freight rates," said the consultancy in its latest report. "This in turn also bodes well for their ability to avoid a catastrophic loss in 2020."

Sea-Intelligence earlier forecast carriers could record a combined loss of $23bn this year should they see the collapse in both volume and

rates reach the levels experienced during the previous crises. The shortfall will be narrowed to $800m if the current rates can be maintained, according to the estimates.

The steadiness comes as shipping lines continue their efforts in capacity withdrawal amid lower than expected demand.

As of end of last week, the number of total pandemic-led void sailings recorded by Sea-Intelligence has reached 435, up from 384 during the previous week.

As a result, capacity on Asia to North America west coast trade and east coast trade is expected to drop 25% and 20%, in the coming weeks, during which capacity on Asia-Europe services will be down by 30%.

However, Sea-Intelligence noted that Ocean Alliance had blanked consistently less than 2M or The Alliance on Asia-Europe and transpacific trades.

"This of course raises the question whether Ocean Alliance is inherently less negative in its outlook or whether they aim to gain market share."

Nevertheless, Sea-Intelligence foresaw a "declining trend" for freight rates with the low bunker prices starting to be factored in.

There is also another caveat for container shipping: "In the current situation nothing should be taken for granted."

Drawing from the reading of the book This Time is Different: Eight Centuries of Financial Folly, the consultancy added: "Anyone could — expectedly or unexpectedly — run headfirst into default.

"This includes the whole range, from small companies, to state-supported actors, to nations themselves."

WHAT TO WATCH

ONE volumes point to tough first quarter for container lines

OCEAN Network Express has provided the first evidence of the impact of blanked sailings on carriers' lifted volumes.

The Singapore-based carrier's transpacific liftings fell 6.7% in the three months to the end of March, indicating that other carriers will report similar volume decreases when they begin to publish first quarter of the year results from the beginning of next month.

Figures for ONE's full financial year, which runs to the end of March, showed an improvement on both the transpacific and Asia-Europe trades, which were up 1% and 8.5%.

On the transpacific, volumes continued to rise in January, gaining 1.7% compared with the corresponding month last year, despite the early Lunar New Year. But the closure of China's factories in February saw volumes slump by a fifth.

The decline eased in March as Chinese manufacturing began to resume, but were still down 3.6% in March. Total eastbound volumes ex-Asia for the most recent quarter were down 42,000 teu.

On the Asia-Europe trade a similar pattern was evident, with volumes growing well in January, at 2.2%, falling sharply by 8.3% in February and again by 5.8% in March as mitigation efforts to prevent the spread of coronavirus stalled economic activity across Europe.

The decline across the quarter was less severe on the European trade, falling by only 2.6%. This helped boost full-year growth to 8.5%, but this itself was in comparison to 2018, when the line had difficulties processing cargoes following its launch in April 2018.

The Alliance, of which ONE is a member, along with Hapag-Lloyd, Yang Ming and HMM, has been one of the more aggressive alliances in blanking voyages, removing a fifth of its transpacific capacity, a third of Asia-northern Europe capacity and 40% of Asia-Mediterranean capacity.

As Sea-Intelligence noted today, there have now been 435 sailings cancelled on several deepsea trade lanes, indicating a full year slide in demand of 7m teu.

Analyst from Platts today warned that although some countries were beginning to ease mitigation efforts, further impart demand into Europe and North America would be predicated on how long these easings on restrictions of work and movement lasted.

"Concerns across much of Europe are whether there will be a second rise in infections, as other countries such as South Korea and Singapore have seen," Platts said. "With demand already taking a severe hit over the course of the year to date, some alarm bells are starting to ring as to how much of these losses carriers can shoulder."

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

BIMCO has warned of "dire implications" for the oil tanker shipping market and projected an end to the unexpected rates rally of the first quarter, with earnings facing "massive downward pressure" beyond April.

"The first quarter of 2020 has been one of the most profitable quarters in the past decade for crude oil tankers, which will hopefully provide a liquidity buffer for the challenging months that lie ahead," said BIMCO chief shipping analyst Peter Sand. "Once the production cuts set in, the profitable journey is likely to grind to a halt."

BIMCO has one of the industry's most pessimistic assessments of what the Organisation of the Petroleum Exporting Countries crude production cuts will mean for the tanker market. Only three weeks ago leading tanker chief executives talked up the oil demand shock as a "once-in-a-generation" opportunity for the sector at an international investor forum.

But Mr Sand estimated that the removal of tonnage to floating storage to deal with oil overcapacity won't be enough to offset the sliding demand.

"With oil demand collapsing from one quarter to another, the crude oil tanker market is facing disruption on an unparalleled scale," he said in an emailed report.

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

Despite oil demand contracting at a record pace, shipbroker Braemar ACM provides a more optimistic scenario, suggesting that floating storage in coming months will provide support to current tanker rates.

Very large crude carriers are currently earning some $170,000 per day on benchmark rates to Asia from the Middle East Gulf, with gains cascading down to smaller tanker sizes. Average time charter equivalent rates have dipped from a record $210,000 daily on April 2 to today's levels with floating storage providing a floor to the coronavirus-led collapse in oil demand.

Some 146 million barrels of crude is currently in floating storage on 110 tankers for the week ending April 10, according to Lloyd's List Intelligence, equal to the highest in records going back to 2009, data show. Last week the same volumes were seen on 114 tankers. Numbers have risen as traders book vessels to store the crude and products surplus and also to take advantage of a market contango, when the future price is higher than the spot price.

While the floating storage figure is double levels seen last June, volumes are inflated by 38 Iranian-owned VLCCs which cannot trade due to US sanctions and are holding crude and condensate cargoes off the country's coast.

'What remains certain is that tanker demand will grow as oil literally has nowhere else to go when storage fills up globally," said Braemar ACM in its weekly report. Discharge delays were also helping reduce tanker availability, lending further support to rates.

Export volumes for May for crude and product tankers appear similar to April levels, said another London-based shipbroker, Affinity Tankers, which also provided a more positive assessment of what the OPEC-plus agreement means for shipping. The agreement sees production cut by 9.7 million bpd over coming months.

"We expect sustaining interest in floating storage, which will also be supported further by the imminent running out of onshore storage capacity," the report said.

"This tightening of supply will, at least in the short term, offset much of the impact of the Opec+ production cuts and provide a floor for rates. In the

longer term, even once these vessels taken out for storage return, many will require inspections and be considered compromised going forward. Even with lower volumes ex-Middle East Gulf, Russia and the US, the supply side of the equation remains supportive, with limited deliveries expected and potentially higher scrapping levels."

Despite BIMCO's gloomy estimates, VLCC fixtures continue to be done at levels above $180,000 per day, according to information provided by tankers pool, Tankers International. Voyages from the Middle East Gulf to China were provisionally agreed at rates equivalent to as much as $187,000 daily yesterday.

With oil demand destruction "on an unprecedented scale", Frontline chief executive Robert MacLeod said on March 31 that land-based inventories were filling up five times faster than in 2015 — the last time crude and product tanker rates were buoyed as oil traders turned to storing oil on ship at sea.

ANALYSIS

Class analyses suggest no single fuel type for zero-carbon shipping

SHIPPING is under intense pressure to meet sustainability targets as directed by the International Maritime Organization even though the industry's track record of producing clear and concise guidance over the past 30 years has not been good, according to the American Bureau of Shipping.

In every instance from the IMO's mandate of the double hull oil tanker design and onwards, "the conception, formulation and implementation of regulations would have been greatly aided by a comprehensive, living document that summarised the challenges and offered current solutions," ABS says in "Pathways to sustainable shipping", the second in a series of Outlook papers.

But as no such document existed, shipping has stumbled along, trying to interpret the new mandates, then harnessing technology to comply with those mandates.

In an attempt to understand the strategic and holistic requirements on a global industry, ABS examines three main fuel pathways on the course to meeting the IMO's emission reduction targets for 2050 and beyond: light gas fuels, heavy gas fuels, and bio/synthetic fuels.

Crucially, the Outlook document digs into possible capacity demand and related emissions output trends on a global basis to build a picture of the environments in which the 2030 and 2050 targets may need to be achieved.

The conclusion is that a solution for sustainable shipping is more complex than identifying a suitable fuel type or even a range of fuels to meet specific requirements.

The push to decarbonise the global economy over the next three decades will have a profound impact on trade volumes and patterns in the range of commodities being carried.

These changes will affect the evolution of the fleet, while the transition from low- to zero-carbon fuels will increase the cost of ships and their operation until investment in associated technologies and infrastructure catches up.

That will mean new the adoption of new environmental and safety regulations, "which, in turn, may affect cargo and trade volumes."

In brief, ABS states that, based on the projected fuel mix for the five vessel segments analysed in the study, shipping can meet IMO's target to reduce CO_2 emissions per transport work ($gCO_2/dwt/nm$) by 70% by 2050, relative to 2008. However, in order to hit that 50% reduction in absolute CO_2 emissions, the market share of petroleum fuels will need to be reduced well below the expected 40% by 2050.

Meanwhile, LR has released its "Techno-economic assessment of zero-carbon fuels", in which the class society together with University Maritime Advisory Services has derived an interconnected system of fuels and technologies that each form viable routes to zero-carbon vessels.

The study acknowledges the significance of fuel prices as they are influenced by the wider energy ecosystem. "This evolution over time means that different zero-carbon fuel options are more competitive in different decades and there is not one option which is the most competitive from today through to 2050," the report concludes.

In the short-term, biofuels look marginally more competitive, however there are issues around the sustainability and availability of biofuels. Ammonia produced from hydrogen, where hydrogen is produced from natural gas with carbon capture and storage, is comparable to biofuels in the short term and becomes the lowest-cost zero-carbon option by the 2050s.

And while certain pathways look more resilient than others in terms of asset longevity, fuel price is the dominant factor in total cost of operation.

This LR/UMAS study also examines the readiness of associated technologies, ranging from 'basic principles observed' to 'fully operational'. Methanol, LNG, and diesel are more mature than hydrogen and ammonia as rules and regulations currently exist.

Finally, there is also a 'community readiness'. What may be ready from an investment and technology perspective might not be acceptable at regional and national level.

Neither the ABS nor LR analysis suggests that finding a single fuel to meet zero-carbon aspirations is likely, and both recommend a more holistic view. As the global economy evolves, so trade patterns and fuel price will develop. That will bring changes to ship design and propulsion, which in turn will determine the right fuel type.

Forwarders may see 20%-30% volume drop in second quarter

FREIGHT forwarders may see volume declines of 20%-30% in air and sea freight in the second quarter of this year with a "trough" of 30%-50% in April, according to investment analysts Jefferies.

Analysis published by the logistics investment specialist estimated that major freight forwarders such as DHL, DSV, Kuehne + Nagel and XPO had faced volume declines or "volume pressure" of around 10% in air and sea freight for the first quarter of 2020.

This would increase "to 30%-50% in April, which will likely be the trough, before a gradual restart of activities on the back of easing lockdown restrictions", Jefferies said.

"We are now assuming volume declines of 5% for both air and sea freight for [2020], followed by recoveries of 5% for" the full year.

On the sea freight side, Jefferies estimated volumes were 5%-10% lower in the first quarter of the year and likely to be down by 20%-30% from April/May.

It said it expected sea freight volume to be 5%-10% lower in the first quarter of 2020, with relatively higher exposure to east-west trades for both DSV Panalpina and Kuehne + Nagel.

It said Maersk indicated it expects global container volume to be 3%-5% lower during the three months, while Hapag-Lloyd said estimated volume slightly increased.

Container throughput figures from the Port of Rotterdam, the largest port in Europe, showed a decline of 5% in the first quarter of the year, Jefferies said. Hapag-Lloyd said volume for April is holding up, while May will likely come under increasing pressure.

"We are anticipating volume pressure of 20%-30%, in line with the targeted capacity reductions by the container liners," added Jefferies.

"Alphaliner expects idle container capacity to increase to 3m teu in the coming weeks, accounting for 13% of the global fleet, versus 3% on average in 2019, after 250 scheduled sailings will be withdrawn" in the second quarter of this year. That will result "in capacity cuts of up to 30% on some of the most affected trade lanes".

MARKETS

UN probes Sharjah-Libya jet fuel shipment as UAE boosts crude imports

THE United Nations is investigating an 11,000-tonne jet fuel shipment to the eastern Libyan port of Benghazi on a tanker owned by UAE-based shipping company Gulf Shipping FZC for possible contravention of an international arms embargo.

The cargo was loaded on February 25 from the port of Sharjah, rather than Abu Dhabi's port of Ruwais from where all of UAE's jet fuel exports are normally shipped.

On March 14, the 13,000 dwt tanker *Gulf Petroleum 4* arrived at Benghazi, a region controlled by General Khalifa Haftar, whose Libyan National Army opposes Libya's internationally recognised government which is based in Tripoli. The vessel then sailed to Tripoli, where it remains berthed.

The UAE is among countries implicated in Libyan arms embargo violations, and one of only five tracked receiving Libyan oil exports since the country's National Oil Company declared force majeure on January 18.

Crude exports are now paralysed and some $4bn has since been lost in oil revenues, which are distributed via the central bank to the UN-backed government of Tripoli and General Haftar's rival administration in the east which controls the closed ports.

Oil exports have dropped from 940,000 barrels per day in December (29.2m barrels) to just 2.9m barrels in March, which comprised just five shipments of crude or condensate, Lloyd's List Intelligence data show.

Of the 13 cargoes tracked since February 1, five condensate cargoes were shipped to the UAE, data show, all from the western port of Mellitah, and discharged at Jebel Ali.

The UAE port received 18 condensate cargoes for all of 2019. China and Malta each received one cargo while Spain had two and Italy four cargoes over the same period.

The jointly operated port of Mellitah is controlled by the NOC but surrounding territories are reportedly held by General Haftar, further raising questions about the UAE's links with the jet fuel cargo.

Gulf Shipping FZC is the beneficial owner of the tanker *Gulf Petroleum 4* and another, smaller tanker *Nautical Global VII*, according to Lloyd's List Intelligence.

The company does not have a website or any contact information. One person listed as the operations manager with Gulf Shipping FZC on LinkedIn did not respond to an emailed request for comment.

The UAE government, along with Egypt and Russia, has expressed support for General Haftar, while rival Turkey supports the Tripoli-based national government, complicating any resolution to internal rivalry which may lead to ports reopening.

The Zawiya refinery in western Libya produces middle distillates including jet fuel, some of which are sold and exported to Italy, Spain and other Mediterranean countries, in addition to meeting domestic demand.

However, NOC said in a statement on April 13 that the Zawiya refinery as well as other NOC facilities which included the crude and condensate exporting terminals were illegally shut down on January 17.

NOC said it had increased refined products imports to compensate for refinery outage, including the supply of liquefied petroleum gas and gasoline at the port of Benghazi. Tobruk and other eastern ports were supplied by NOC via Benghazi.

Last month, the European Union launched Operation Eunavfor Irini to enforce the Libyan arms embargo, using aerial, satellite and maritime assets to inspect vessels on the high sea and off the coast of Libya suspected of carrying arms or related material.

Monitoring illicit exports of crude and refined products is part of the brief.

Capesizes hold firm despite Vale's sharp 2020 iron ore cut

VALE, Brazil's mining giant, has revised downwards its forecast for iron ore production for 2020 given additional safety measures related to the coronavirus outbreak.

The miner said in a statement that it expects production to come in at 310m to 330m tonnes. Its previous guidance was 340m-355m tonnes.

It cited delays in the resumption of halted operations such as in Timbopeba and Fabrica combined with delays related to "inspections, assessments and authorisation processes". It also sees risks associated with increased absenteeism.

Its first-quarter production also missed estimates, with iron ore output at 59.6m tonnes versus previous projections of 63m to 68m tonnes, and far lower than the 72.9m tonnes output in the first quarter of 2019.

Vale said in March that its operations could be hampered by the coronavirus outbreak.

Capesizes held firm despite Vale's new 2020 outlook.

The average weighted capesize time charter on the Baltic Exchange rose to $10,081 per day by the close on Monday, the highest since January 3 and a 71% increase from April 1. Both the Brazil to China and Australia to China routes gained.

Arctic Securities said in a note: "For dry bulk shipping, a negative guidance revision from Vale is certainly not supportive news, as it will likely mean less high-grade iron ore to be shipped long-haul from Brazil to China."

However, it expects that iron ore shipments from Brazil will amount to about 30m tonnes per month for the remainder of the year, which would mean a rise of 8% year on year.

"There's upside potential in rates and earnings going forward, in our view," it said.

Maritime Strategies International said Australian miners would certainly look to capitalise on the tighter global supply given Vale's difficulties, but there was a growing likelihood of disruption there too.

According to MSI's analyst William Tooth, one of the effects of the global pandemic has been a loss of steel demand as car factories close and manufacturing slows or stops, which is weakening iron ore demand.

However, China's gradual return "will provide support for capesize earnings", he said.

IN OTHER NEWS

Sohar Port joins SEA-LNG coalition

OMAN's Sohar Port has joined the SEA-LNG coalition to promote its investment in liquefied natural gas bunkering facilities and the use of LNG as a marine fuel.

Marsa LNG, a venture comprised of Total and the Oman-based fuels and chemicals company OQ, is developing a modern LNG liquefaction plant and bunkering facility in Sohar port.

Port chief executive Mark Geilenkirchen said the project would generate in-country value and job opportunities and support industry diversification efforts by promoting shipping activities in Oman.

IMO unable to hold virtual decarbonisation talks

POSTPONED environmental negotiations cannot be held virtually, at least for now, as the International Maritime Organization lacks the necessary tools to host them, IMO secretary-general Kitack Lim has said.

The statement from Mr Lim came in a letter to four non-governmental organisations that had requested that the IMO should consider holding virtual meetings on key decarbonisation negotiations that were meant to be held between late March to early April, but had to be postponed because of the coronavirus outbreak.

"With respect to the potential for remote meetings, the organisation does not presently have the capability to hold a virtual meeting for the number of participants that normally attend an MEPC session," Mr Lim wrote in a letter seen by Lloyd's List.

North Carolina redoubles efforts to be big ship ready

THE North Carolina State Ports Authority continues its efforts to boost the throughput capacity at the port of Wilmington, and this month has more than tripled the facility's number of refrigerated container plugs to 775 from 225.

The work is part of a plan aimed at attracting 14,000 teu ships up the Cape Fear River and includes a recently enlarged turning basin as well as increased air draft to ease passage.

"North Carolina Ports has become a critical gateway for the movement of refrigerated cargoes," said North Carolina Ports executive director Paul Cozza in announcing the new reefer infrastructure.

South Carolina cuts costs to navigate throughput downturn

THE South Carolina Ports Authority cites adverse effects of the coronavirus pandemic in revising lower its container outlook for fiscal year 2020, which runs from July 2019 to June 2020. It now forecasts 1.345m teu versus 1.364m teu in fiscal year 2019.

"We will not achieve our fiscal year 2020 volume plan," port president and chief executive Jim Newsome told local media. That result was "increasingly clear" due to the shutdown of manufacturing in China and reduced demand in consumer economies in the West.

Now, he anticipates a 5%-10% reduction in container volumes instead of any projected increases.

Crew believed held in Benin anchorage pirate attack

THE crew of a containership are being held against their will after it was boarded by pirates.

The *Tommi Ritscher* was boarded over the weekend while at Cotonou anchorage in Benin. It is believed eight of the crew are being held on board, while another 11 have managed to lock themselves in the citadel.

According to Lloyd's List Intelligence, the 4,957 teu, Portugal-flagged vessel was attacked by pirates in a speedboat in the early hours of Sunday morning.

Colombian authorities investigate death of boxship captain

COLOMBIAN authorities are investigating the death of the master of the containership *Spirit of Hamburg*, according to Zeaborn Ship Management.

Zeaborn said in a statement that one of its seafarers "suffered fatal injuries" after "what is believed to be a violent incident with an intruder" on board the ship in the port of Cartagena, Colombia.

"The exact circumstances of the violent incident are yet unknown and police have started an official investigation into the events and conducted interviews with the crew of *Spirit of Hamburg*," the statement said.

Classified notices follow