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'The only way to survive is take out cost' — Hapag-Lloyd chief



HAPAG-LLOYD CHIEF EXECUTIVE Rolf Habben Jansen has shared greater optimism for container shipping's fortunes than his Maersk counterpart, anticipating a significantly lower drop in volumes for the second quarter.

Earlier this week Maersk chief executive Søren Skou issued a warning to the industry that global container volumes could drop by as much as 25% due to the coronavirus pandemic.

Although under no illusion that the health crisis will have a damning impact, Mr Habben Jansen told Lloyd's List that the German carrier is "more optimistic". Indeed, he said the more likely scenario is for a small double-digit percentage drop in carried volumes.

His comments came after the Hamburg-based line revealed its financial result for the first quarter, which was dampened significantly by its transition to new low-sulphur fuels in line with global regulation.

Hapag-Lloyd saw its net result fall nearly 75% against the corresponding period of last year. However, the group still turned a profit thanks to both an increase in volumes and average freight rates for the quarter, which in turn lifted revenues. This was also despite the initial impact of the coronavirus, particularly in Asia.

Contributing to this "pretty solid first quarter" were significant measures to take costs out of the system from the get-go, according to Mr Habben Jansen. He said acting quickly should ensure the group is in good stead to weather the current headwinds.

“We’re already seeing the impact in the second quarter. So, I think right now we are well positioned to weather the storm,” he said.

One such measure has been service cancellations, which have become a feature across the industry. Blanked sailings are currently at record levels.

Whereas in the past carriers have responded to dramatic market downturns with price wars, capacity discipline this time round has been striking.

Blanked sailings have helped lines keep freight rates at a more than respectable level and above last year comparably.

Mr Skou said this newfound capacity discipline among carriers had been enabled by the flexibility granted by the current alliance set-up, which eased the ability to pull services in accordance with demand fluctuations.

Mr Habben Jansen said that he did not necessarily agree, but the one thing carriers have learned from downturns of the recent past is that if you do not address your cost base quickly, when things go south, you get into “deep trouble”.

“I think we all we all know what happened in 2008-2009. And we are certainly a lot more aggressive in taking out costs now than we probably were then,” he said. “That is what we are doing, because we simply need less [ships]. The only way to survive is take out cost.”

Hapag-Lloyd, along with its alliance partners, will continue to pull capacity to suit, and although this is perhaps the most visible and substantial measure to keep costs down, Mr Habben Jansen said this is one of 1,500 currently being executed aimed at taking costs out of the system.

“Essentially, we’re looking at every cost category and trying to save money everywhere,” he said.

“On the one hand, that means that trying to combine services, redeliver ships, but we’re also trying to see whether we can save cost on the terminal side and what we can do make our transportation more efficient.”

Mr Habben Jansen says that he like everyone else is understandably hoping the recovery of the container shipping sector comes sooner rather than later.

“I think we have taken precautionary measures on all fronts that certainly will help us. But of course, if we don’t see any signs of recovery in the fourth quarter, then we’ll have to adjust our plan.”

A prolonged downturn could see more carriers turn to the state to help prop up the company, which has always been a contentious issue among those unable to call so easily on government support.

The subject of state subsidies has come to the fore once again in light of the current pandemic, and with news this week of CMA CGM’s state-backed loan. In the past, Mr Habben Jansen has made no secret of his objection to state subsidies and how they can create an uneven playing field in the container shipping sector.

HMM, which is also a member of The Alliance alongside Hapag-Lloyd, has been highlighted as one such carrier that may well lean on the government if the situation worsens and its balance sheet comes under increasing stress.

But Mr Habben Jansen said that although in general he is against state support, the current situation is extraordinary.

“In many countries, you see that governments are trying to help out to make sure that the economy doesn’t completely collapse. It is easy to say that it [state support] should not happen or in principle shouldn’t, but I also believe that we need to recognise that we are in very, very special circumstances. Many people in many industries would probably echo that.”

WHAT TO WATCH

China leasing lenders here to stay despite pandemic downdraft

THE coronavirus pandemic is not dulling the appetite of Chinese leasing houses for expanding

their sway in the ship finance arena, a Marine Money webinar was told.

One case in point is that they are acting increasingly as shipowners as they order vessels at yards on their own amid lack of newbuilding demand.

Such a trend was pointed out by one of the speakers, Bill Guo, executive director of shipping at ICBC Financial Leasing, one of the largest of its kind in China.

“The virus might change a lot of things on the ship finance side,” he said. “For example, more and more Chinese leasing houses have put the efforts, time and money in operate leasing, which means they become the so-called ‘financial shipowner’ and place the new orders by themselves.”

Most leasing companies in China started their shipping lending by engaging financial leasing, whereby the lessor act more like a bank lender.

However, under an operate leasing agreement, the lessee is not obliged to buy back the ships and that makes the lessor the real owner and bear both the upside and downside risks of the assets’ residual value.

The rising uptakes of the latter structure had been palpable even before the outbreak of the public health crisis as the Chinese lessors became more experienced and less risk-averse in quest of better returns. In addition, there was also the order to alleviate the order drought facing domestic shipbuilders.

Now the virus-led market downturn seems to be speeding up that process.

“If they couldn’t find newbuildings or new financial leasing deals they have to become shipowners to build new ships,” said Mr Guo.

For the first four months this year, 31% of the new orders won by Chinese shipyards in compensated gross tonnage terms were from their compatriot leasing investors in the form of operate leasing, according to Clarksons data. The proportion was as high as 90% in April alone.

Recent deals include the 12 dual-fuel, long-range two tankers placed by Bocomm Financial Leasing linked to charters from Shell, as well as eight newcastlemax dry bulkers by CDB Financial Leasing supported by charters from RWE.

While the ordering spree has stoked concerns over the dominance of leasing investment, the flip side was it could help smooth down the shipping cycles

and bring about more stable freight markets, according to Mr Guo.

“The shipping supply and demand have never reached their balance because nobody orders new ship in a situation like today, and then everyone rushed to yards for newbuildings when the markets become booming,” he said. “But the leasing houses can place new orders no matter whether it’s good or bad times.

“Also, the cargo owners like things this way, because the freight prices will not be jumping from \$3,000 to \$300,000 and can be more stable.”

Moreover, he said the leasing orders, with those backed by long-term contracts from charterers, could squeeze out speculative orders during a market trough. “But the shipping markets is still very big, the Chinese leasing houses won’t take over everything,” he added.

Fallout from aviation woe

But doubts have arisen over whether the coronavirus-induced depression in the aviation industry, where the leasing lenders also have a big exposure, may have taken a big toll on their commitment to shipping.

The latest available statistics on its website shows ICBC Leasing had 325 commercial aircraft in its portfolio until the end of May 2018. Data from Cirium indicated the lessor’s fleet worth about \$16.1bn as of end-2018, ranking the sixth in the world.

Mr Guo declined to comment on his company’s aviation sector, saying the shipping business was treated separately and the operation remained normal.

He said despite the downdraft, “the door is still open” for clients, especially those with solid credit, to tap funds. However, there will be “a closer look” at the borrowers’ cash flows and balance sheet due to the current crisis.

He also admitted his company did receive some requests for payment deferrals as a result of the difficult shipping market, but claimed “99% of the existing customers were still in good shape.”

His fellow speaker Yan Zhonglu, head of shipping finance at SPDB Financial Leasing, appeared even more unwavering in face of the aviation woe. The smaller lessor ranked 41st on Cirium’s list, with an aircraft fleet worth \$1.7bn. It is also a relatively newcomer to the international ship finance market

compared to ICBC Leasing, having only started to establish its presence in recent years.

Aircraft carrying passengers were more vulnerable to the current economic recession, but ships hauling cargo would be less impacted, he explained. “We will continue to expand our [shipping] business.”

He said SPDB Leasing, a subsidiary of Shanghai Pudong Development Bank, will probably slow its pace in container shipping, where it has already “done lots of business”. But the push for new deals in the other sectors remains unchanged.

“In fact, some projects of bulkers, tankers and LPG carriers are in the process for credit approvals.”

Mr Yan said that rather than clients’ credit, his company paid more attention to the ship assets per se, and would be more confident to take up the projects “if the ship quality is high and the price is low”.

Poseidon Principles

The question has also been raised regarding the point at which the Chinese lessors will begin to embrace the Poseidon Principles, initiated by western banks and aimed to align shipping portfolios to climate goals.

The progress, however, appears to be slowed down by the virus headwinds.

Sierra Leone flag targeted by sanctions-busting tanker

A TANKER being used by Chinese companies to ship sanctioned Iranian crude for the last 18 months has now reflagged to Sierra Leone, as the US increases regulatory scrutiny on registries.

The 2001-built very large crude carrier *Latin Venture*, which formerly traded as the *Pacific Bravo*, was one of the tankers formerly operated by Kunlun Shipping, with a Cosco Shipping tanker subsidiary as its technical manager.

The technical manager is now listed as Zhejiang Taifu Supply Chain Management, changing in July 2019, according to data from Lloyd’s List Intelligence.

The tanker changed flag to Sierra Leone in April. The vessel was previously flagged in Panama from July 2019, after owners switched from Liberia once that registry became aware it was shipping Iranian

“I don’t think, at this juncture, they are ready to adopt, but they are considering,” said the other webinar speaker Christoforos Bisbikon, a partner at Watson Farley & Williams.

Mr Bisbiko, whose law firm has helped draft the green initiative, said the lessors needed to take the principles into account particularly when seeking funds from traditional western banks, who now want to put the terms into the documentation.

“One would assume that the same language should be included in their leasing documents as well,” he said. “But we haven’t seen a significant appetite from the Chinese leasing world to adopt these principles in the documents on a global basis.”

In response, Mr Guo said the banks’ agreement was under review by his company and its parent the Industrial and Commercial Bank of China, which are in general supportive to shipping’s decarbonisation direction. However, the bank must align its decision with the other Chinese banks as most of them are owned and overseen by Chinese government.

“So far, we haven’t come to any conclusions in terms of when to sign up, and with the virus impact lots of things are being postponed,” he said.

crude to China via ship-to-ship transfers off the coast of Malaysia.

The Sierra Leone maritime administration lists offices in 18 countries, with the main office appearing to be based in China, and numbers provided for shipping companies that appear to provide representation.

Two offices contacted by Lloyd’s List did not respond to requests for comment.

Zhejiang Taifu also manages another elderly VLCC linked to sanctioned Iranian shipments, *FT Island*. Formerly known as *CCPC Vanguard*, the vessel was reflagged to Honduras in November 2019, from the Liberian registry.

Sierra Leone is the newest registry favoured by ships tracked shipping Iranian crude and liquefied

petroleum gas. Sao Tome & Principe, Comoros, Malaysia, Gabon and Palau are among the registries used by shipowners managing a subterfuge fleet tracked by Lloyd's List shipping Iranian crude.

Flag registries were targeted by the US State Department and US Treasury in an advisory issued this week to provide guidance on deceptive shipping practices.

The practice of so-called flag-hopping was one of seven deceptive practices highlighted. Repeatedly

registering with new flags to avoid detection, or claiming to be flagged with a particular registry, were singled out, alongside advice for registries to detect suspicious vessels.

The registry lists 750 vessels that are currently trading, with the 299,988 dwt *Latin Venture* the largest vessel in its registry, with the second-largest a 1995-built, 45,654 dwt bulk carrier.

The registry is best known for being used by cash buyers for their final voyage to shipyards for demolition.

OPINION

Coronavirus is the 'everything shock' for years to come

PLENTY of commentators penned "this changes everything" columns in the wake of 9/11 and the global financial crisis; coronavirus really does, *writes David Osler.*

Double-digit percentage point contractions in GDP are not supposed to happen in a single quarter. But that is what is happening in the current period, as we watch the agony unfold in real time.

Talk of "V-shaped recovery" comes over as facile Panglossian boosterism. Everything patently is not for the best in the best of all possible worlds, and will not be tomorrow or the day after that.

All the working assumptions on which the industry's business models have been built in recent decades are suddenly no longer givens, and will need to be rethought comprehensively in the years ahead.

Disruption from external events is nothing new for shipping, of course. The rise of China, the Somali piracy threat and periodic mortar attacks on very large crude carriers in the Middle East are some of the marquee examples from the 21st century.

But even disruption generally self-limits with pre-specified parameters. Economic upturns become economic downturns, armed conflicts ultimately reach settlement, however long it takes to get there.

Not even this heartbreaking pandemic will last forever. The signs are encouraging that the pharmaceutical industry will devise a vaccine in the coming months and secure its worldwide distribution this year and in 2021.

And after that? Many things will alter beyond recognition, and it is worth taking time out from the gloomy short-term projections and reflecting on the gloomy long-term future as well.

The basic dynamic of world trade in the era of globalisation has been east-west, with container shipping rightly commended for its role in making the revolution possible.

The settlement looks unstable, as western companies realise the drawbacks of total dependence on Asia-based supply chains.

Coronavirus will if anything accelerate a trend towards reshoring that was already apparent in an age of increasingly populist politics.

For a sector that has retooled, at great expense, with 20,000 teu-plus boxships specifically geared to one trade route and one trade route only, that could leave a lot of redundant tonnage.

Tanker markets enjoyed an astonishing rally earlier this year as the result of an oil output spat between Russia and Saudi Arabia that actually saw West Texas Intermediate price briefly turn negative.

Hopefully owners savoured the moment. The current downturn will wreak a savage toll on oil demand. Again, coronavirus is only amplifying a tendency that was already underway, with climate change imperatives driving a turn away from fossil fuels in any case.

Bulk carrier operators can draw comfort from the truism that people always have to eat, which has historically meant that the prices of agricultural commodities have not been closely tied to the health of the world economy.

That will be good news for those shipping grain. Other key trades such as iron ore and coal are harder to call.

Do not rely on Chinese demand to pull the mining commodities segment through, though. It is already in what economists euphemistically dub 'negative growth', with GDP down almost 7% between January and March.

The woes of the cruise industry are attested by the sheer number of vessels laid up off Miami and the Bahamas, which some marine insurers believe now to represent an accumulation risk in itself.

Highly publicised instances of coronavirus on cruiseships — which came after years of bad press about norovirus outbreaks — have provided the ultimate in bad public relations for a business that is all about good times.

Shortsea ro-ro has been recognised for the necessity it is, and in some countries is enjoying subsidies as a result. That will be reassuring for pure freight outfits.

Crew repatriation dilemma drives supply chain planning

CORONAVIRUS has forced shipping groups to work in partnership to fight a common threat, and now those organisations need to identify which threats are unique to the virus and which will drive lasting change for the industry, according to panellists on a UN webinar.

Participants in the Global Compact Academy discussion agreed there had been little disruption to the global supply chain so far. Cargoes are being carried and ports are operating at near-normal conditions. However, they concurred that the real threats will hit hard in the next few weeks.

The greatest challenge is crew repatriation. The International Chamber of Shipping, seafarer unions and the insurance sector have spearheaded a 12-step plan that would assure governments that every point on the seafarers' journey from home to ship, and ship to home, will be safe.

But for those whose strategy built around passenger traffic as well, the outlook may be on a par with the outlook for cruise concerns. This summer is already a write-off, and the attractions of staycations or holidays in home countries will look increasingly alluring to middle-class Europeans.

Ports can ultimately reconfigure to capitalise on whatever patterns of trade eventually emerge. But that cannot be done overnight, and may indeed require many years. Those that have already bet the ranch on the past may find themselves ruinously out of pocket in the future.

Here in Britain, we face an additional layer of uncertainty from Brexit, given that the government's ardour to complete disentanglement from the European Union appears undiminished. That would have been a challenge at the best of times, and will surely present a greater challenge now.

One day our descendants will look back on us and reach retrospective judgment on how we have handled this crisis.

The Yom Kippur War and the Iranian revolution triggered the events the history books have come to record as the oil shocks of the 1970s; coronavirus will surely be seen as the everything shock of 2020.

Guy Platten, its secretary-general, said 200,000 seafarers are in transit every month. However, with borders closed, airports shut, quarantine in place and lockdown measures in force, very few transits have taken place in the past month.

"Many seafarers are two months out of contract... we must avoid serious fatigue," he said.

The concerns go deeper than getting home, added Heike Deggim, safety division director at the International Maritime Organization.

It has not been possible to get normal medical treatment for seafarers or take them to hospitals when they get into port. For many, their visas and passports have expired. "[The IMO] is trying to intervene at a diplomatic level, helping people in a difficult situation."

Ms Deggim said the coronavirus had opened a new concern. “The IMO has 174 member states but it is a specialised agency. It lacks direct access to the UN General Assembly. Understandably, governments have taken decisions in the best interests of their people. The tendency is to replace globalism with local action. Our problem is: which authority is in charge?”

“Our contact partner has always been the marine administration; now they take second place to health authorities, which are not always aware of all the issues that concern an industry like shipping.”

She said the IMO had been working closely with the World Health Organisation via webinars to explain to health authorities what problems their decisions have caused to shipping industry.

Asked by UN Global Compact special adviser for the oceans Sturla Henriksen what is being done at a practical level, Mr Platten confirmed that talks were under way with the International Air Transport Association, which represents the world’s airlines, to repatriate 150,000 seafarers.

“There are tentative plans to set up [commercial air routes] between Manila and Amsterdam, and Manila and Singapore,” he said, observing that the ICS was working closely with IATA on different opportunities.

Moving 200,000 seafarers a month is a massive logistical challenge that cannot be solved on an ad hoc basis, Mr Henriksen said. “It requires a structural systemic approach. Agreement is needed at several levels.”

For International Association of Ports and Harbors strategy lead Patrick Verhoeven, some of his member ports are emerging from lockdown, while others are just being hit.

“Ports have managed to stay operational, in spite of a strain on warehouse capacity, hinterland connections, and availability of workforce. Our focus is gradually shifting from the operational concerns of how to get out of the crisis, to how the crisis will change us.” He said there is a window of opportunity to accelerate earlier work on digitalisation, which he described as “half-hearted”. The benefits of data for port community service systems and optimising ship port calls must be explored further.

All three panellists expressed their desire to use the new partnerships built up to beat the coronavirus to improve interaction between stakeholders after the virus. Seafarers are not uppermost in the minds of politicians or customers, they agreed. Perhaps this experience will help to raise the profile of seafarers more generally.

ANALYSIS

Global port throughput forecast to drop 8% in 2020

GLOBAL container throughput is projected to fall by as much as 8% in 2020 due to the ongoing coronavirus crisis, according to Drewry.

The majority of regions facing reduced container volumes will have greater connectivity to advanced economies that are going to suffer disproportionately, the London-based shipping analysts said in a webinar.

The forecast comes in the same week that Søren Skou, chief executive of the world’s largest ocean carrier Maersk, issued an equally damning verdict for carried volumes in the second quarter, when box numbers are anticipated to fall by up to 25% against last year.

Drewry estimates that port liftings shrank by around 5% in the first quarter. However, as with

Maersk’s sobering prediction for the second quarter, it too expects “much worse in the second” for the container sector, when around half of the world’s population faced lockdown restrictions to some degree.

“We think that it [the coronavirus pandemic] is going to contribute to a 16% reduction in global port throughput for the [second quarter] period,” said Drewry senior manager container research Simon Heaney. “Our assumption is that activity will improve through the second half of the year as lockdowns are lifted, and stimulus packages kick in.”

These projections are in line with both anecdotal throughput reports relayed to Lloyd’s List in recent weeks, and numbers posted by the world’s largest port facilities over the past month, including those in China, Europe and North America.

Mr Heaney added that growth rates would remain negative until next year, at least, as the world adjusted to the new rules of living.

As such, Drewry has revised its baseline scenario for world port handling to -8%, a figure that would represent the worst performance since the trade collapse of 2009, he said.

Prior to the virus spreading globally, Drewry projected global port throughput to rise by between 2% and 3%. However, as Mr Heaney was keen to reiterate, nothing is certain at this time.

“A failure to contain the virus, or a fresh outbreak next year, could very quickly reverse our forecasts into further negative territory,” he said.

In this worst-case scenario, which the International Monetary Fund said would see global GDP fall by as much as 6% in 2020, this would translate to a 12% fall in port liftings for the year. This would be followed by a further 6% drop in 2021, according to Drewry.

“Such an outcome would have very grave implications for the container industry and certainly require more radical surgery beyond the industrial scale of blank sailings that we are currently witnessing,” said Mr Heaney.

“A prolonged downturn would undoubtedly raise the risk of a major carrier bankruptcy. And in this nightmare scenario, we would expect to see mass idling of ships and demolitions, staff reductions.”

But there is some cause for optimism that the industry can ride out the storm, particularly the low orderbook.

Has the capesize market found a floor?

THE capesize market has potentially found a floor, with rates inching up slightly from a four-year low earlier in the week, as new data from China buoyed sentiment.

China's industrial output rose 3.9% in April compared with a year earlier, according to the country's National Bureau of Statistics. It is the first expansion this year and the figure is higher than anticipated, according to reports.

The Baltic Capesize Index flipped back into positive territory to 26 points on Friday after two days below zero.

“With less new ships coming and armed with over a decade's worth of experience in perfecting capacity management, we actually think carriers should be able to ride out the storm in our baseline demand scenario, but clearly, there is still a huge downside risk on the demand side. And in such an event that would require an even bigger supply side response.”

The one lingering concern he highlighted that will be of concern to the carriers is how long will take for the industry to regain its feet.

“The strength of the recovery is really going to depend on the economic rescue measures that governments have put forward, and the extent the business and consumer confidence can be supported.”

Further, any virus ‘phobia’ that remains may too suppress economic activity in the short term by changing consumer behaviour, he said.

There is also the surge in government debt to keep economies afloat in response to the virus which could weigh on container volumes in the short to midterm, he added.

But in the long term there are also questions about how the pandemic may shape the supply chain of the future.

While the pandemic has exposed some of the frailties of long-distance supply chains, there is also the prospect of some form of political backlash against China once the dust has settled, said Mr Heaney.

“That could stir up more of the nationalistic tendencies that spurred the US-China trade war.”

The average weighted time charter on the Baltic Exchange increased by \$402 to \$2,392 per day at Friday's close from the four-year low of \$2,082 on Wednesday.

“The spot market is bottoming out,” because the Chinese data was good, according to Klaveness research analyst Peter Lindstrom.

Maritime Strategies International said that it was “positive” that economic output in the world's largest importer of ore, China, was starting to recover, and that supply from the world's largest provider, Australia, has been broadly unaffected.

“Iron ore trade, for the moment, is holding up relatively well,” said lead analyst Will Fray.

“But it is not all positive, with production shutdowns at mines in Canada and South Africa, and concerns are mounting over Brazilian supply this year, which would certainly dampen shipping demand when taking into account distances,” he added.

The rise in iron ore prices to the highest since March suggested supply tightness in Brazil, according to brokerage Simpson Spence Young, with volumes from January to April 8% lower than the same period last year.

And with iron ore stockpiles in China at 11.9m tonnes as of May 8, the lowest since the end of 2016, there is “scope for some stockbuilds”, it said in a report.

“We need more than just positive sentiment,” said BIMCO chief shipping analyst Peter Sand.

Capesize rates are currently only 0.9% of where they were doing the glory year of 2008, he said.

According to Braemar ACM, some vessels have been fixing at negative time charter rates from Malaysia to China this week.

“Since the psychological barrier of \$4 was breached on the C5 route (Australia to China) toward the end of last week, there’s been a decent volume of fixtures concluded, suggesting that for some owners this market is palatable even at less than \$3,000 per day,” the brokerage said in a note.

“The Brazilian market seems to have been largely contributed to by owners with vessels already en route to load ports, so for vessels yet to open we can see why the inclination to commit to the shorter-term trades available in the Pacific make more sense,” it said.

Some capesize vessels were now also “aggressively pursuing trans-Atlantic panamax stems in an attempt to find employment in the short term in the face of the other available options”, it noted.

MARKETS

LNG bunkering makes progress in Asia Pacific

LIQUEFIED natural gas bunkering developments in Asia Pacific have ramped up as spot prices for the cleaner-burning fossil fuel fell to record lows.

Korea Gas, as one of the world’s biggest LNG importers, has started to install loading arms at terminals in Tongyeong to allow for bunkering operation to take place, The Korea Herald reported.

This spells progress, after a long lull, in the state-owned player’s earlier LNG bunkering plans in its home country.

Kogas has already, on hire from Korea Line, a small-scale LNG tanker initially built with the option to cater for bunkering capabilities.

The tanker, which entered into service last year, has so far been active only in transporting LNG between two South Korea cities, Jeju and Tongyeong.

A lack of immediate demand is widely seen as holding back LNG bunkering plans in South Korea and elsewhere, given investments in LNG-fueled newbuildings have not picked up as quickly as expected.

But LNG proponents have argued that interest in the marine use of this fossil fuel is set to increase, given it has been trading at persistently low prices on the spot market.

Australia as a top LNG exporting nation, has also taken more steps to push for LNG bunkering.

The state of Western Australia, which hosts the country’s largest LNG plants, is rolling out a 50% discount in port dues to bulk carriers bunkering with LNG at Pilbara.

Pilbara is a major port for iron ore exports from Australia.

The state government estimates that transitioning iron ore exports shipped from the Pilbara from heavy fuel oil to LNG would slash carbon emissions by up to 6m tonnes annually.

Australia’s LNG producer Woodside Energy is working with the country’s three largest iron ore exporters, Rio Tinto, BHP and Fortescue Metals, to develop vessels that can be fuelled by LNG, Argus Media reported.

Going by Woodside's estimates, converting ships exporting iron ore from Pilbara to run on LNG may create a 4m tonne per annum market for the commodity.

Meanwhile, Japan has also launched its first LNG bunkering vessel, owned by the Central LNG Shipping Japan Corporation joint venture of K Line, JERA Co, Toyota Tsusho Corporation and NYK hitting the water at Kawasaki Heavy Industries earlier this week.

The vessel was ordered in 2018 and is scheduled to be delivered at the end of September 2020, when it will be based at JERA's Kawagoe Thermal Power Station and start ship-to-ship LNG bunkering business for LNG-fuelled vessels.

Central LNG Marine Fuel Japan Corporation will promote the LNG bunkering business in the central Chubu region of Japan and help promote a shift to marine LNG for ships.

US oil production suffers as home orders reduce demand

EFFORTS to contain the coronavirus outbreak have caused a continuing steep drop in demand for petroleum products and crude oil prices, according to the US Energy Information Administration, which expects the country's crude oil production to fall in both 2020 and 2021.

US crude oil production will average 11.7m barrels per day in 2020 and 10.9m bpd in 2021, levels that would be 500,000 bpd and 1.3m bpd, respectively, lower than the 2019 average of 12.2m bpd, the EIA said in its May Short-Term Energy Outlook.

It noted the sharp decline in the benchmark West Texas Intermediate crude oil average spot price, which fell 50% from \$58 per barrel in January 2020 to \$29 per barrel in March and 71% to the April price of \$17 per barrel.

The sharp decline in oil prices is having a "significant effect" on US drilling activity, with the number of drilling rigs falling 53% from 753 in February to 355 as of May 8, the EIA said, citing Baker Hughes data.

The EIA issued a caveat to its projections, saying that its crude oil production forecast is "highly uncertain" given the still-evolving impacts of the Covid-19 mitigation efforts and the resulting economic effects.

Its forecast is also contingent on production cuts through 2022 announced by members of the Organisation of the Petroleum Exporting Countries and other partner countries which, if undertaken, "would affect oil prices and US producer investment decisions".

Saudi crude fleet in US Gulf as May exports slashed

THE first of 19 Saudi-loaded tankers bound for refineries in the US Gulf has discharged its cargo and is sailing in ballast to West Africa.

The very large crude carrier Dalian is part of an armada of 19 tankers importing the largest volumes of Saudi Arabian crude to the US in six years over the month of May.

The tankers reflected record April crude volumes loaded by the Kingdom with some 10% of shipments destined for the US.

Saudi Arabia pledged in March to flood the market with cheap crude to shore up market share, launching an oil price war with other key producers including Russia.

Its oil exports in May are now showing an average 28% drop on April's level, which reached 10.37m barrels that month, the highest in records going back to 2002, according to data compiled by Lloyd's List.

Saudi Arabia's national shipping arm Bahri chartered 25 VLCCs in March in addition to its existing fleet to move the extra oil. Some 19 of these ships, totalling 38m barrels, were tracked sailing to the US Gulf.

Seven VLCCs have so far arrived and are at anchor in waters off Houston and New Orleans, vessel-tracking data show. The vessels are too large to discharge at US Gulf ports, with lightering operations to transfer crude to smaller tankers often

performed in these areas. A further eight tankers with Saudi crude are scheduled to arrive between now and May 25.

May loadings from Saudi Arabian ports are tracked averaging 7.2m bpd for the first half of the month. The lower sailings reflect the Organisation of the Petroleum Exporting Countries accord to lower production by 9.7m bpd over May and June as the coronavirus pandemic keeps demand for land and air transport fuels at historic lows.

April incorporated the loading of 229 tankers, including 152 very large crude carriers, from Saudi Arabian ports, according to data from Lloyd's List

Intelligence. So far 78 tankers are tracked loading in the first 13 days of May.

The destination of this cheap Saudi oil, whether it has been sold or will remain on board ships in floating storage in the Gulf for a prolonged period, is being keenly watched, amid a growing surplus of crude.

Refiners in the US Gulf are slowing utilisation levels and have reduced runs. Utilisation levels fell to 71.8% for the week ending May 15, while regional gasoline stocks remained elevated, and close to the highest in records going back to 1990.

IN OTHER NEWS

Bangladesh fossil fuel imports to double in a decade

FAST-GROWING South Asian economy Bangladesh is expected to double its fossil fuel imports to 32m tonnes of oil equivalent between 2020 and 2030 with most of that demand being fed by coal and liquefied natural gas, said Wood Mackenzie in a recent report.

The power needs of the country's fertiliser, and textile and jute industries will drive its energy demand growth this decade, in addition to a growing working age population, urbanisation and rising income levels.

Power demand has outpaced average GDP and grown 6% annually in the past decade, while total energy demand in Bangladesh is expected to rise 27% to 55m tonnes of oil equivalent during the forecast period.

RCL steers return to profit in first quarter

Intra-Asia specialist regional line RCL reported a Baht12.7m (\$395,854) net profit in the first quarter from a net loss of Baht28.4m in the year-earlier period.

Although revenue of Baht4.27bn barely rose from the Baht4.25bn posted in the first quarter of 2019 as volumes dropped 12% to 489,000 teu, a "noticeably improved" freight rate per teu and exchange rate gains helped to boost RCL's performance.

RCL acknowledged that demand for goods and services plunged as a result of this year's extended Chinese New Year holidays amid the Chinese government's anti-coronavirus lockdown of cities.

Hapag-Lloyd net income falls 74% on higher fuel costs

HAPAG-Lloyd saw profits dented significantly in the first quarter of 2020, as the transition to new low-sulphur fuels hit the group's bottom line.

The German carrier's net result fell 74% to €25m (\$27m) from €96m in the same period a year earlier.

In addition to higher bunker prices, as a result of the International Maritime Organization's limit on burning fuels with a sulphur content no higher than 0.5% effective from the start of the year, chief executive Rolf Habben Jansen said the group also had "a

significant negative bunker stock valuation after the decline in crude oil prices at the end of the first quarter".

Wallenius Wilhelmsen in the red in first quarter

WALLENIUS Wilhelmsen, the Norway-headquartered ro-ro shipping specialist, swung to a net loss of \$285m in the first quarter of the year as the coronavirus outbreak hit car demand and closed factories.

The company, which cut its fleet by 14 vessels in March, said its total income fell 18% year on year to \$834m. It said falling volumes had created excess capacity in the market, which would likely last for some time and delay any rate improvements.

Lower volumes combined with lower net freight per cu m and lower other operating income in turn resulted in a decrease in ocean revenues, Wallenius Wilhelmsen said in its first quarter of the year results announcement.

Sovcomflot sees stronger second quarter after profit spike

SOVCOMFLOT, the Russian shipping company, is

maintaining a positive outlook for the year on the back of a strong first half of 2020, as tanker market fundamentals and steady industrial revenues are causes for optimism.

"We safely say that we anticipate a fairly strong performance in the second quarter of 2020. The first half of the year is pretty secure, given where we are currently fixing the vessels and the upcoming voyages," chief financial officer Nikolay Kolesnikov told Lloyd's List.

Sovcomflot, which owns and operates more than 130 vessels primarily in the crude, product, gas carriers and other segments, increased its net profits for the first quarter of the year by 65.6% year on year to \$116.1m. Revenue rose 20.1% to \$493.3m.

Dry bulk market weathers Norway fund's shift from mining

THE decision by Norway's sovereign wealth fund to pull investments from some coal producers such as Glencore and Anglo American on environmental grounds, as well as from Vale, Brazil's mining giant, on ethical considerations, should have little impact on the dry bulk market.

"If the decision was based on specific events for ethical reasons, then it won't affect dry bulk shipping," said Arctic Securities analyst Jo Ringheim. "But, if there is a shift towards moving away from any dry bulk infrastructure or industries related to steel-making or coal, then that will be negative for the dry bulk market in general.

"We have seen a gradual shift in the past few years away from coal

as investors pay more attention to environmental concerns," said the Oslo-based analyst.

HMM warns of weakening market after narrowing losses

SOUTH Korean carrier HMM has warned of the adverse impact of the coronavirus crisis and geopolitical risks as it posted continued losses in the first quarter of this year.

"The knock-on effects of the Covid-19 pandemic still persist," the company said in results statement. "Trade volumes are expected to be weakened as a result of demand-side impacts in the US and Europe as well as continued lockdown worldwide."

It also shared the rising concerns about the reignited US-China trade tensions, which "also can intensify the situation".

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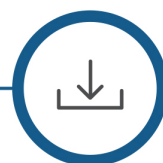
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