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## Transatlantic product tankers divert as US refined products demand stalls



HIGH PRODUCT INVENTORIES on the US east coast have seen product tankers shipping gasoline, gasoil, diesel and jet fuel divert to Caribbean storage destinations or other countries mid-way through their transatlantic voyage.

At least five medium range tankers that loaded cargoes in Europe, Turkey, Russia and the Middle East Gulf were reported diverting from New York, data analytics firm Vortexa reported.

Another product tanker laden with jet fuel is diverting for the storage destination of St Croix in the Caribbean.

Lloyd's List identified a further seven product tankers over 25,000 dwt on the water that appear to have changed course as they sailed across the Atlantic, originally destined for the northeastern US coast.

The diversions imply a surplus of cargoes amid dampened demand, said Vortexa. Its weekly report highlighted rising stocks in the PADD 1 energy district that encompasses the US east coast.

It is also a further gloomy signal for the west-of-Suez product tanker market, where daily earnings on the transatlantic route for medium range tankers have averaged just over \$7,000 per day in January on fewer cargoes.

The rates tankers are earning are just under the level needed to cover operating costs, benchmarked at \$7,400 per day for the global fleet of tankers from 30,000 dwt to 55,000 dwt, according to BDO's Opcost report.

Gasoline imports to PADD 1, which includes east coast ports in New York and Philadelphia, are at the lowest in eight months, while stocks at 68.1m barrels are the highest since August, Energy Information Administration data show.

The four-weekly average of gasoline imports into the PADD 1 district was 396,000 barrels per day for the January 1-8 period, EIA data show. That is equivalent to about six to eight MR cargoes weekly.

As well as PADD 1 import volumes showing the lowest weekly figure since May 2020, at the height of the first wave of the pandemic, they are also 16% lower than in the year-ago period.

Middle distillate inventories are also rising, at 62.4m barrels, another sign of stalling demand, especially given that gasoil imports spike on colder weather over January.

Drawdowns of land-based stocks, alongside lower refinery runs, are behind the downturn in transatlantic cargoes that is keeping tanker earnings at unprofitable levels.

Consumption of transportation fuels, which comprise nearly half of all oil demand, has been heavily impacted by lockdown restrictions across Europe, and also in the US.

The EIA estimates 2021 distillate fuel consumption, which includes diesel used for industrial transport and cars, to remain below 2019 levels, at 4m bpd.

That compares with 3.77m bpd in 2020 and 4.1m bpd in 2019.

Gasoline consumption is going to be 800,000 bpd less than 2019 levels for the first six months of 2021, at 8.5m bpd.

Vortexa said about 850,000 barrels of gasoline and blending components had diverted from New York, and were heading for the Caribbean and South America.

The BP-chartered *Mitera* (IMO: 9380104) switched destinations to the Bahamas and then Argentina after originally signalling New York, the report said.

The *STI Esles II* (IMO: 9794434) is also now signalling Bahamas, a known storage area, mid-voyage to New York from Bilbao, Spain. The *BW Osprey* (IMO: 9682241), which loaded in Turkey, instead sailed to the Caribbean storage destination of St Croix.

Middle distillate diversions were seen for the MR tankers *Piltene* (IMO: 9323376) and *Jo Kari* (IMO: 9332028), and the aframax tanker *Baru* (IMO: 9813096) according to Vortexa.

In addition to these ships, the trajectories of the product tankers *Nord Lavender* (IMO: 9729233), *Mediterranean Voyager* (IMO: 9857858), *Chemtrans Nova* (IMO: 9316232) and *Torm Stellar* (IMO: 9854806) also suggest that the vessels are diverting from their original destinations after they sailed through the Strait of Gibraltar and headed across the Atlantic.

## WHAT TO WATCH

# Volume surge, not blankings, behind supply chain problems

A LARGE transfer of volumes from the first half of 2020 into the second half of the year is a substantial element of the current crisis in container shipping rather than any carrier-imposed restrictions on capacity.

Data from Sea-Intelligence shows that after a spate of blankings in the first half of last year, there has since been a net growth in deployed capacity.

While there had been blanked sailings during the second-half of the year, as rates began their steady rise to record-breaking levels, lines had “more than

compensated” for the blankings with the injection of additional capacity, resulting in a net growth of offered capacity, Sea-Intelligence said.

The additional capacity had been achieved through the use of extra loaders on some trade lanes and the phasing-in of ever-larger tonnage.

“When combining these facts, there is no basis for saying that because the carriers are blanking sailings, then the spot rates are going up,” it said. “The starting point has to be that the carriers have substantially increased the total capacity in the markets.”

This remained true despite an increase in blanked sailings towards the end of 2020

“Since July, the amount of capacity brought in through larger vessels and extra loaders have more than exceeded the amount of capacity removed through blank sailings,” said Sea-Intelligence. “There have been periods where the growth in capacity injection was pushing 30%, despite some sailings being cancelled.”

Blankings that had taken place recently had been driven by considerations other than artificially holding up freight rates, it added.

Delays at a number of ports, particularly on the US west coast, along with disruptions caused by positive coronavirus tests among crew, had delayed vessels to the extent that scheduled sailings had to be cancelled.

Additionally, a lack of demand on one particular port pairing may have facilitated taking a vessel off a voyage to be redeployed elsewhere where there was high demand.

“Overall, the data does not support the notion that the blank sailings are being used by carriers to drive the current spike in spot rates,” Sea-Intelligence said. “Hence the notion that the current problems are partly due to blank sailings, is myth.”

## Australia tipped as top LNG exporter in 2020

AUSTRALIA exported record volumes of liquefied natural gas last year despite outages at key projects, even exceeding Qatar's designed output.

Exports from the resource-rich country reached 78m tonnes, surpassing nameplate capacity of the giant Rasgas complex in the Middle East, according to an estimate from Australia-focused consultancy EnergyQuest.

LNG production at Chevron's Gorgon LNG complex on Barrow Island in Western Australia was disrupted by unscheduled repair work from May.

The energy giant also faced downtime at its Wheatstone LNG project also off Western Australia, which was hit by faults at an offshore production facility.

Shell's Prelude floating LNG off the country's northwest coast also went offline from February because of an electrical trip and recommenced operation only in late December.

What had not changed, however, was the total number of containers shifted during the year.

But a “dramatic deviation” from normal seasonality had thrown the entire supply chain into disarray, Sea-Intelligence said.

The seasonal decline following Chinese New Year is usually around 2.4m teu, but last year fell by 3.2m teu.

“Under normal circumstances we then see volumes gradually fill up following the slump, but in 2020 this dropped further to below 6m teu when compared to the straight average and 5 m teu when adjusted for seasonality,” the analyst said.

Peak season recovery doubled in 2020, with more than 1m teu of additional demand being added each month.

“As it is impossible to rapidly increase capacity beyond a certain point, this creates significant problems in the supply chain,” it said. “Total annual volume in 2020 is essentially at the same level as 2019.

“But it is split in such a way that 5m additional teu is shifted to the later part of the year, and compared to the annual average, we are seeing a spike above 6m teu being shifted.”

## Australia tipped as top LNG exporter in 2020

Production downtime at these major projects did not hold back expansion of Western Australia's LNG output, however.

The state, which accounted for more than half of Australia's LNG exports last year, pumped 43.7m tonnes of output last year, up 5% year on year.

But the Northern Territory, as home state to the Darwin LNG terminal, recorded the biggest jump of 11% in LNG production

The east coast state of Queensland, as host to three large-scale projects, achieved record production of 22.6m tonnes, albeit up only 1% from the previous year.

Australia would have derived A\$36.13bn (\$27.23bn) in revenue from its LNG exports last year, down 26% due to lower prices for the commodity, according to EnergyQuest's estimate.

Asia JKM benchmark prices for LNG spot trades fell

to a record low price of just over \$1.80 per million British thermal units during the summer of 2020.

Reflecting on a dramatic comeback for the LNG trade, however, EnergyQuest flagged the possibility of higher Australia exports by volume and revenue this year should prices and demand hold up.

JKM prices were assessed at over \$32 per mmBtu last week, reflecting the effect among others, of record deals tied to Australia's export projects.

Leading pricing agency S&P Global Platts noted that

ExxonMobil has sold a Gorgon spot cargo at low to mid \$30s to a Japanese power utility for prompt delivery during the week of January 21 to January 28.

Platts also flagged a recent bid from Trafigura for two separate cargoes from Total at \$36.05 per mmBtu and \$39.30 per mmBtu for delivery in early and mid-February.

Total owns an equity share in the Inpex-operated Ichthys project exporting through the Darwin LNG terminal

## ANALYSIS:

# Smarter shipping will benefit decarbonisation and safety

DATA will be the key to unlocking smarter shipping, for both existing vessels and newbuildings, says Tor Svanes, chief executive of Norwegian e-navigation provider Navtor.

"We may not have the systems in place to enable this just yet," he says, "but they are on the horizon."

In discussions with Oslo-based shipowner Höegh LNG and Spar Shipping in Bergen, Mr Svanes heard that improving environmental efficiency, meeting monitoring and reporting responsibilities, and proving vessel performance have become significant day-to-day challenges.

Sustainability impacts every stakeholder in the supply chain. Progressive owners are working hard to drive their own transitions to carbon-neutrality. However, says Höegh LNG performance manager Anders Tønnessen, even the stronger companies should not be complacent.

"We have the responsibility to continually work to reduce our carbon footprint. That is good for the environment, but it also makes good business sense —enhancing energy efficiency, lowering costs and ensuring compliance with both regulatory demands and the requirements of our charterers," he said.

This demands a continuing search for optimisation.

Mr Tønnessen is trying to gather and analyse all relevant performance data for an advanced fleet of 12 vessels, benchmarking individual vessel results to incorporate best practice into a fleet-wide systematic approach.

"Monitoring real-time performance is crucial, checking to identify deviations from expectations and assess exactly what the fleet is doing and how we could do it better.

"There are so many data sources, and so much value to be derived from them, that we need an effective organisation and tools to streamline and simplify the process, guiding our ships — and our business — on a path of improvement."

For Torfinn Jølle, senior marine superintendent also Hoegh LNG, the challenge has been greater regulatory demands and increasing operational complexity. Port authorities, charterers, business and other stakeholders place a heavy burden of proof upon individual vessels and fleets.

"Put simply," says Mr Jølle, "there's too much administration. It is definitely one of the main challenges facing crews and onshore teams, which already shoulder a great deal of responsibility."

He believes a greater integration of systems and data would assist those dealing with the administrative burden as much as those involved in vessel optimisation.

There would also be safety benefits, he suggests, because laborious administrative tasks and data input increase the likelihood of human error.

Another concern for shipowners chartering out vessels is meeting contractual covenants. Charter party agreements may have implicit warranties or performance guarantees, with the promise of a

minimum standard related to fuel consumption and set speed. If this level of performance cannot be achieved, a charterer might submit a substantial performance claim, reducing a company's profitability.

There is no room for error, says Thomas Strand Knudsen of Spar Shipping.

"Good shipping companies invest in building strong relationships with customers," he said, "and for Spar that means operating with integrity, trust and transparency. Proving performance is key."

Traditionally, performance is assessed based on a raft of different documentation from vessels, detailing average speed, weather, bunker consumption, and so on. This requirement places an administrative burden on ships staff, as Mr Jølle highlighted.

Despite the best intentions and efforts of crew, results can be disputed and the integrity of masters and bridge teams questioned.

"The information is coming from the owner's vessel and the owner's officers, and a charterer looking to submit a claim may see that as subjective," says Mr Knudsen. "Ideally, you may like to see third party verification, with no vested interest, and a charterer may refuse to accept an owner's report altogether, instead looking to compile their own with a weather company they trust."

"The owner may, in turn, also have to consult a third party to provide further proof."

He believes it is a time-consuming way of doing business and hardly the best way to build relationships.

Shipowners are seeking a single platform capable of channelling several real-time data sources into one system, which then can be used to automatically generate reports, and provide immediate feedback. Data provided by respected suppliers, with proven integrity, could potentially provide a solid foundation of proof.

"In an increasingly connected, digital industry, the less analogue work we are required to do the better,"

## Basel ban has confused recycling sector, not clarified it

Ship recycling is in a state of flux. The Hong Kong Convention has not yet been ratified, but the

Mr Knudsen says. "A system that unequivocally demonstrates performance would be a real step forward."

Mr Svanes agrees that the way forward lies in data and integration.

"We now have the digital infrastructure to enable safe, reliable and secure real-time data flows between vessels, shore-based offices, and throughout entire organisations," he says

However, identifying the big picture from all that data requires smart technology.

"By combining weather data with consumption, speed, wave heights, schedules, fleet management data and sensors throughout vessels you can not only simplify operations and automate tasks, but also fine tune performance and trouble shoot when you see deviations from expectations."

He recognises how hard it is to manage multiple, geographically scattered assets from far away, and to address issues raised. To understand what is happening and deliver solutions you need to have "eyes on the ship". Data can deliver that vision.

"If you can integrate real-time navigation and weather data, engine shaft torque, rpm, and so on, you get an accurate insight not just of fuel consumption, but fuel consumption and engine performance under exact conditions and on exact routes," he said. "That allows you to benchmark performance, compare vessels and optimise operations across the fleet."

"Based on that you could even stream data in real-time to test performance of individual vessels... If you know what rpm should produce a speed of 10 knots in good weather conditions, you can set the engine accordingly and monitor ongoing speed. If the speed does not meet expectations you may have a hull performance issue, with biofouling producing frictional drag. You then know it is time to schedule hull cleaning."

Further, better real-time monitoring and data utilisation would enable owners to prevent issues in the first place, said Mr Svanes.

European Commission's Ship Recycling Regulation has now fixed its list of approved yards.

But rather than clarifying the situation, this appears to have muddled what had already been confused by the so-called Basel ban.

It is hardly surprising that recycling observers on a January 12 webinar described the EU as “at a crossroads” regarding recycling after “tying itself in knots” about Basel.

Petter Heier, chief executive at Grieg Green, the sustainable recycling arm of Norway’s Grieg Star, was a speaker on that webinar. He agrees the EU’s current position on the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes is uncertain.

“Basel was made because European countries were dumping waste in Africa — pure waste,” he tells Lloyd’s List. “A vessel for recycling is not pure waste. There’s a lot of steel that can be reused.”

The Bangladeshi industrial sector depends on importing steel from ship recycling, while India has reused steel and other materials from vessels for years

Under the Basel Convention ships can only be recycled in Organisation for Economic Co-operation and Development yards.

“In theory...” he states. “We [Grieg] have exported vessels from Europe to non-OECD countries, so it is possible. But it’s not clear cut, which is why I say: ‘in theory’.”

A vessel to be exported for recycling must be covered by a guarantee from the importing country that recycling will take place in an environmentally friendly way.

“The process is safeguarded, so it is working,” Mr Heier says. “If the importer is unable to do that, he is obliged to reimport the vessel back to the exporting country.”

He believes the way recycling takes place is more important than whether or not it is an OECD yard.

Ship recycling has risen up the agenda for stakeholders across the maritime value chain — from company shareholders to financial institutions, non-governmental organisations, employees and the general public.

This is especially true in Scandinavia, where environmental consciousness is high.

Mr Heier has heard of potential hires not wanting to work in shipping companies because of the attitude to recycling. Bad practice damages reputation, in addition to leaving owners open to fines.

Late in 2020, Norwegian media ran the news that shipowner Georg Eide had been sentenced to six months’ unconditional imprisonment for assisting a cash buyer to illegally export the laid-up 1989-built barge carrier Eide Carrier (IMO: 8730479) to Gadani, Pakistan for demolition.

It is understood Mr Eide may appeal the verdict, however the Norwegian media is keeping the story active.

“Norway is a shipping nation so people are interested in that business,” Mr Heier says. “That awareness will be increasingly visible around the world. Other countries are following Norway.”

The key issue is safety — of the environment and for the people who work in the recycling yards.

Attitudes to safety have improved significantly in recent years. Partly that comes after Japan and Norway ploughed money into education and training on safety matters; partly it follows a generational change of management.

Petter Heier explains the series of decisions made when selecting a recycling yard, especially beaching a vessel, worker training, and waste material handling.

“We cover everything,” he says. “We have a downstream waste tracking system. We mark all the hazardous material to track everything through to final disposal.”

While some owners demand this level of information, many others are happy to be compliant. However, most owners still sell ships at the highest price.

“With so few recycling yards approved by the EU, European owners could stand to lose up to \$80 per tonne compared with yards not approved by EU or yards still in the process of approval — for the same quality and standards,” says Mr Heier.

He is encouraged by the change to the next generation of yard managers. Ten years ago the family business was run by the founder, but the arrival of his son to management has brought new ideas, fresh attitudes and a clearer focus on safety.

"The previous generation thought about day-to-day survival, it was all about the money. Now the thinking is more long term, more about protecting the environment and the safety of workers."

The next five years will see a consolidation of the focus on environment and safety, Petter Heier believes, however he would like to a change in the way ships are built.

"I hope we will start building ships with a plan for

making it easier to recycle. Ships are built for a trading life of 25 to 30 years but the installed equipment lasts just for five or six years.

"The way ships are built has to change. If you start by improving the way ships are recycled you will solve smaller problems. The way to solve the big problems is to build a ship so it is easy to recycle. The Inventory of Hazardous Materials is good but not using hazardous materials in the first place would make ships easier to dismantle."

## IN OTHER NEWS:

### Solid oxide fuel cell project launched

A GROUP of maritime companies has announced a project to help develop solid oxide fuel cells to power ships.

Marine parts supplier Alfa Laval is leading the project with technology company Haldor Topsoe, the Technical University of Denmark (DTU), tug owner Svitzer and the Maersk Mc-Kinney Moller Center for Zero Carbon Shipping.

Solid oxide fuel cells convert fuels such as ammonia to electricity using a chemical reaction over a ceramic membrane at high temperature.

### China Merchants Port Group vice-president resigns

CHINA Merchants Port Group said its vice-president and board secretary Huang Chuanjing has resigned.

The Shenzhen-listed port operator cited the reason for his departure as "job changes" in an exchange filing, without further explanations.

Mr Huang, who had held the two positions since December 2018, does not hold any CMPG shares. But he has 240,000 share options, which he has yet to exercise and these will be settled in accordance with China's stock market rules, the filing added.

### Avance Gas places dual-fuel VLGC order

AVANCE Gas, an Oslo-based tanker owner, has placed an order for two dual-fuelled very large gas carriers as it looks to cut emissions.

The 91,000 cu m vessels, which will be built at the Daewoo Shipbuilding and Marine Engineering yard in South Korea, are scheduled for delivery in the fourth quarter of 2022 and the first quarter of 2023, the company said.

"The investment enhances the green profile of the Avance Gas fleet, allowing the company to take another important step towards decarbonisation, while contributing to a greener shipping industry and achieving the targeted 40% reduction in emissions by 2030," it added.

### Dingheng Shipping orders six chemical tankers

SHANGHAI Dingheng Shipping, a Chinese chemical tanker specialist, has ordered six stainless steel tank vessels as part of its efforts to build a 100-ship fleet.

The newbuildings, consisting of five 6,600 dwt and one 9,000 dwt units, will be equipped with dual-fuel propulsion systems that can be powered by electricity.

Privately run Dingheng said the smaller vessels, also fitted with smart operational systems, can reduce fuel consumption and crew numbers by 15% and 35% respectively, compared with conventional tonnage of the same size.

### Uniper eyes more LNG offtake from Woodside

Uniper Global Commodities SE has agreed to double the volume of liquefied natural gas supply it has committed to lift from Woodside Energy's global portfolio.

Uniper penned an offtake agreement with the Singapore-based trading arm of Woodside in December 2019.

The quantity of LNG supplies tied to the now amended deal has doubled, stepping up from an initial volume of up to 1m tonnes per annum from this year to about 2m tonnes per annum from 2026.

### Ship emissions off Southern California pose health risks

EMISSIONS from vessels anchored off Southern California are undermining the air quality controls of local ports and boosting the risk of coronavirus infections along the regional supply chain.

The proliferation of ships at anchor in San Pedro Bay

— sometimes upwards of 50 or more a day — has turned attention on the adverse impacts to ship movements or cargo deliveries.

But there has been little focus on an irritant to human respiratory systems called particulate matter, or PM2.5, which is

emitted as ships at anchor run their auxiliary engines while awaiting berths.

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