Lloyd's List
Maritime intelligence | informa

Daily Briefing
Leading maritime commerce since 1734

Shipping 'hurt' by Ukraine conflict amid record volatility on commodities market

RUSSIA'S MILITARY INCURSION into Ukraine will delay and mute the long-anticipated rebound in moribund tanker markets as oil prices hit a 13-year high, while closed ports and record grain prices stifle bulk carrier demand, according to BIMCO.

The world's largest international shipping association said the events in Ukraine would hurt all shipping segments as dramatic and volatile rises in prices for commodities such as metals, wheat, oil, and gas stoked global inflation and curbed demand.

Both Ukraine and Russia accounted for 10% of global grains exports while Russia controlled about 10% of seaborne shipments of crude, fuel oil and refined products, Niels Rasmussen, BIMCO's chief shipping analyst said in a report published today about the conflict's impact on global shipping.

Diminishing numbers of tankers were seen loading Russian crude and oil products from key Black Sea, Baltic and eastern ports on Monday as buyers self-sanctioned and shunned cargoes while shipowners weighed risks and complexities of doing business. As much as 70% of Russian crude exports are said to lack buyers despite heavily discounted prices, even as diesel cargoes sold before the February 25 invasion were discharged at ports in Germany, France and the UK over the weekend.

"The EU is the major taker of all Russia's [oil] exports and has so far taken no steps to sanction it; nor has the US White House despite pressure from Congress," said Mr Rasmussen.

"China could emerge as a buyer for Russian crude which could help alleviate some of the current global supply concerns as the EU could in turn buy more from the Middle East.

"This could lead to increased tonne-mile demand but if the high prices are sustained, overall demand would still suffer.

"The much-awaited rebound in the tanker markets will be further delayed and be more muted than otherwise expected," he said.

Tanker rates that have yet to recover from a protracted, pandemic-induced slump exceeding 18 months as the supply of ships outpaces demand. The world's top 10 listed tanker owners collectively reported more than $1bn in losses over 2021.

Charter rates on aframax and suezmax routes for shipping crude from Baltic and Black Sea ports surged between 800% and 1,600% in the past nine days and exceeded $262,000 per day for Primorsk-Rotterdam cargoes on Monday.

These spikes have not extended to routes beyond tankers engaged in Russian trades.

Politicians do not want to sanction or disrupt the flow of hydrocarbons out of Russia for fear it will raise consumer prices further, said one Western shipowner executive still operating in Russia, speaking on background.

The shipowner said tankers would continue serving the world's leading oil traders while it remained legal, safe and feasible, but did say that hurdles to ship cargoes were getting higher, on top of banking and financial curbs.

Underwriters and lending syndicates required detailed information about voyage details, with the overall high degree of scrutiny slowed down the shipowner's ability to do business, they said.

The Russia-Ukraine conflict pushed crude prices even higher on Monday. Brent crude is now priced at 37% more than February 25, and settled at $129 per barrel in late Monday trading, while gasoil futures — against which diesel is priced — is 50% higher.

How would any ban on Russian crude affect shipping?

Some 1,334 tankers loaded crude and oil products from Russian ports since 2019, Lloyd's List Intelligence data shows.

Russian-controlled Sovcomflot is the most exposed, with 74 vessels totalling just over 8.1m dwt tracked loading crude or refined products from Russian ports in the past 36 months. That comprises about 5% of all tankers tracked.

The data covers all tankers more than 60,000 dwt and some, but not all, smaller tanker sizes.

Private companies operated by Greek shipowners are also heavily exposed, reflecting their dominant position in these trades.

George Economou, and the Economou group of companies, have the next-highest tally of tankers engaged in Russian trading after Sovcomflot. Some 45 tankers comprising 5.5m dwt that belong to Economou lifted Russian-origin crude over the past three years, data show.

Economou is closely followed by Andreas Martinos and family interests via Minerva Marine (43 tankers and 5m dwt, Diamantis Diamantidies through Marmaras Navigation (32 ships and 4.6m dwt), and the Prokopiou family via Dynacom Tankers Management (31 tankers and 4.4m dwt).wAll up, there are 262 beneficial owners listed alongside the 1,383 tankers, reflecting the highly fragmented tanker ownership. Listed companies Frontline (22 ships, 2.8m dwt), Teekay Corp (20 ships, 2.7m dwt), and Tsakos Energy Navigation (31, 3.7m dwt) were also represented, as was the Zodiac Group Monaco (23, 2.7m dwt).

Which vessel types are most engaged in Russian trades?

Suezmax and aframax vessels are predominantly used to lift Russian crude. Lloyd's List Intelligence figures show that aframaxes comprised 77% of all trade (60,000 dwt and above), followed by suezmax tankers at 18.6%.

Handysize tankers are used to ship refined products ranging from 20,000-tonne cargoes to 40,000-tonne cargoes from Russian Baltic ports to destinations to northwest Europe.

Most of the refined products are middle distillates comprising diesel, gasoil and jet fuel, as European refineries do not make enough of these products to meet demand because of how they are configured.

The US and EU have yet to comment further on whether they will adopt UK-style port restrictions on ships that are Russian-owned or affiliated, a move last week that ensnared some 430 internationally trading vessels.

There is growing political pressure from some countries including Poland for a ban on Russian oil exports at a time when global crude production is already stretched and inventories are low.

The move would not only push prices higher but imperil the already patchy and uncertain pace of demand growth for transport fuels that is seen as crucial for any tanker rates rebound.

Russia seaborne crude exports comprise some 5m barrels per day and refined products a further 2.7m bpd, with 60% heading to Europe, according to BIMCO. Vessel-tracking indicates that loadings from Russian ports have slowed by about 1.5m bpd in the past week.

The EU27 and UK import some 40% of 10ppm diesel from Russia, their biggest export market for middle distillates including gasoil and jet fuel, European Commission customs data showed.

Although tankers have diverted from UK ports because of the ban on Russian-affiliated ships, some Primorsk-loaded cargoes have discharged in German, France the the UK over the weekend.

One aframax tanker, *Elli* (IMO: 9412452), loaded at Novorossiysk on February 25 and is signalling it will arrive in Houston on March 22. Others are signalling ports in Italy, Romania, Turkey and Bulgaria.

Rising bunker prices threaten higher box freight costs

THE impact of the military action in Ukraine on container shipping is likely to come more from increased bunker costs rather than any direct disruption to the sector.

Freight rates have seen no significant increase since the start of the conflict on February 24. The Shanghai Containerised Freight Index fell back 1.5% during the first full week of Russia's military incursion, with rates to northern Europe and the Mediterranean slipping 1.8% and 1.2%, respectively.

Figures from Xeneta also show a dip in rates on Black Sea and Baltic trades, as trade with Russia and Ukraine comes to a halt due to sanctions and many carriers' decisions to no longer accept bookings to or from the region.

Analysts at Linerlytica said new bookings to Ukraine and Russia had almost completely stopped, affecting around 3%-4% of total Asia-Europe volumes.

"Positive spillovers as a result of shifts from air freight and trans-Siberian rail will not be sufficient to compensate for the short-term cargo loss, with further rate erosion expected in the coming weeks."

But the outbreak of war has led to a sharp rise in the price of oil, with the price of Brent Crude today reaching $139 per barrel, its highest level for more than a decade.

That price hike has been followed by a similar sharp hike in the cost of bunker fuel. At the beginning of last week prices for very low-sulphur fuel oil broke the $800 per tonne mark for the first time and by Friday had reached $902 per tonne.

Heavy fuel oil, used by the 30% of containerships with scrubbers fitted has also seen a sharp rise since the start of hostilities, rising from $597 per tonne on the day of the invasion to $627 per tonne on March 4.

"The price of fuel had been showing an increasing trend in the beginning of the year, but it is clear that following Russia's invasion of Ukraine, the price increased sharply as a consequence," said Sea-Intelligence chief executive Alan Murphy. "We are now at a point where the average purchased price has increased $108 per tonne, compared to the day before the invasion."

With the box shipping sector consuming 64m tonnes of fuel per year, by March 4 this additional cost amounted to $19m per day across all carriers and there has been an additional $66m to pay since the start of the conflict.

While the outcome of the war and the future price of oil is impossible to predict, if prices were to stay at their current elevated level, container shipping would be looking at costs rising by $7bn per year on current consumption patterns, said Mr Murphy.

Dividing that figure by the 179m containers carried in 2021 would give a figure of $39 per teu that container lines would need to recover if other measures, such as slow steaming to reduce consumption, were not adopted.

"This will of course vary significantly depending on the length of a trade and the size of vessels used in the trade," he said. "But clearly it will result in significant increases in bunker surcharges."

Leading law firm to exit Russia

LAW firm Norton Rose Fulbright is pulling out of Russia.

It will wind down operations and close its Moscow office, and will not accept further instructions from businesses, people or entities liked to the Russian regime, sanctioned or not.

"Norton Rose Fulbright stands unequivocally with the people of Ukraine who are suffering as a result of the increasingly brutal invasion by Russia," the firm said in a statement.

The closure will mean 50 jobs lost.

"We are winding down our operations in Russia and will be closing our Moscow office as quickly as we can, in compliance with our professional obligations," the firm said.

"The wellbeing of our staff in the region is a priority. We thank our 50 colleagues in Moscow for their loyal service and will support them through this transition."

The firm would review exiting existing work if its professional obligations allowed. If it could not exit the work, it would donate profits to charity.

"We are working with our charitable partners in every region to raise funds to help the people of Ukraine as well as providing pro bono support to those Ukrainians and others who are being forced to relocate," the firm said.

Senior consultant Harry Theochari said he hoped other UK firms would follow the firm's example.

Chambers and Partners, a rankings firm, listed Norton Rose Fulbright in its top tier worldwide for shipping finance (alongside Stephenson Harwood and Watson Farley & Williams) and its third tier for shipping litigation.

Last week, WFW, which does not have a Moscow office, said it was reviewing its clients to ensure sanctions compliance, and was donating to the UN's refugee agency in response to the war.

Hill Dickinson, another shipping law firm, said it did not have a Moscow office but declined to comment further.

OPINION:

UK shipping sanctions on Russian vessels have broad and unknown effects

THE Russia (Sanctions) (EU Exit) (Amendment) (No 4) Regulations 2022, which amend the Russia (Sanctions) (EU Exit) Regulations 2019, prevent certain vessels from entering British ports, *writes Patrick Murphy, a partner at law firm Clyde & Co.*

They also authorise the secretary of state for transport to give directions to harbour authorities to restrict the movement of vessels (directing them to proceed to certain areas of a port or remain where they are) and the detention of vessels and restriction on registration of certain ships in the UK.

Vessels targeted by the new sanctions include those flying the Russian flag, registered in Russia or vessels that are owned, controlled, chartered or operated by a designated person or by "persons connected with Russia".

It is fairly easy to determine whether a vessel is Russian-flagged or even beneficially owned by a designated person. Less clear is what is meant by the targeting of vessels "connected with Russia".

A person is defined as being connected with Russia if they are a person (other than an individual) who is domiciled or incorporated or constituted under the laws of Russia or if they are an individual or association or a combination of individuals who are ordinarily resident in Russia or located in Russia.

This is potentially a broad category of persons and, given the vessel only has to be chartered by such a person, the due diligence requirements might be considerable.

The regulations also give the secretary of state the power to "specify" a ship as being subject to such sanctions.

The grounds for "specifying" a ship is that the secretary of state considers it to be involved in an activity whose object or effect is to contravene or circumvent the UK's Russia regulations.

This appears to introduce a new category of sanctions designation under British sanctions law.

The secretary of state must specify a ship by reference to its International Maritime Organization number (or, if not available, by reference to any other means considered appropriate).

It is not clear from the amendments to the regulations where such specifications/designations will be publicised and whether this will be through a different listing from those persons subject to financial sanctions and whose details are published on the UK's list of consolidated sanctions targets.

These sanctions raise a number of questions for the shipping/commodity industry. There is no derogation for vessels that are already laden and bound for UK ports, in similar ways to the limited derogations that sometimes arise from asset freezes.

This could lead to difficulties with cargoes being transhipped to enter British ports. Even then, any Russian chartering connection may still prove problematic.

Similarly, there are no derogations or exceptions provided in instances where an urgent port call is necessary to preserve life or prevent environmental damage. The knock-on effect of these restrictions on the commodity industry generally is also unknown.

The larger unknown is the extent to which these sanctions, which the UK has been able to implement outside the European Union following Brexit, are complemented by similar restrictions within the EU.

ANALYSIS:

Box volume growth subdued as new year begins

GLOBAL volume growth took another dip in January, marking the fourth month in a row that liftings have declined from their previous peak.

Figures from Container Trade Statistics show global volumes stood at 14.5m teu in January, the latest month for which figures are available.

That was down 3.5% on last December, but largely on par with January 2021 when 14.3m teu were lifted.

Going back two years to January 2020, the last month not to be affected by the pandemic, shows that global growth has been just under 5% across the past two years, or around 2.2% per year.

"Exports from all seven of our reporting regions are down on December," CTS said. "The biggest fall is from Australasia and Oceania, where the January total of 191,200 teu is down by 16.8%."

Even exports from Asia were down 1.4% down month on month to 8.8m teu.

"Compared to January 2021, it is one of only three regions with positive growth, at 3%," it said.

The others were South and Central America, up 3.6%, and sub-Saharan Africa, up 3%.

But this January's figures could have been affected by the early fall of Chinese New Year on February 1 this year.

"As a normally quiet period for shipping up to two weeks before and after, this might have impacted January's figure," CTS said. "Carriers will often blank sailings to match the lower demand but this was not so evident this year. Equipment remains in short supply and it seems all available capacity was deployed to manage it."

Congestion in China and the US west coast may have played some part in lower January liftings. US imports fell marginally in January as the vessel queue dropped from over 100 to around 60. But this was affected as much by capacity being held up by delays as an improvement in congestion.

"Early January saw port operations in several Chinese ports including Ningbo partially crippled for a time causing disruption as ships were forced to divert," it said. "This came after new Covid outbreaks and mass testing in line with China's zero-Covid policy, which affected port workers and especially truckers before they could enter the port."

Despite this, volumes from Asia to Europe saw their highest monthly total since January 2019 at 1.6m teu, up 2.4% on December and 4.4% on January 2021.

But while demand may have eased to some slight extent, freight rates failed to reflect this.

The CTS Global Price Index has risen every month since March 2021 and continued this upward trend in January, adding 14 points to hit 206.

"This rise is driven once again by trades from the Far East," it said. "The largest gain is the Far East to Europe trade which took on 28 more points to reach 294. This index has now overtaken the Far East to North America trade which stands at 286, a rise of 14 more points.

CTS warned that as tensions rise and the west increased sanctions of Russia, trading conditions could become harder, and there were few signs of rates falling soon.

"There is now a new threat to world order and stability with the unfolding crisis in Ukraine. As sanctions and restrictions are imposed, many container carriers are temporarily suspending cargo shipments to and from Russia and Ukraine. This can only delay cargo flows further and intensify the congestion and bottlenecks already present in ports in Europe and elsewhere".

Russia makes up only a small fraction of global box volumes, however. It was only responsible for 3.8m teu in 2020, said CTS.

It had already been hit by sanctions following the 2014 invasion of Ukraine, when combined import and export volumes fell from 4.5m teu to 3.8m teu, a figure that had stayed broadly flat since then.

The week in newbuildings: Boxship owners sign $25bn worth of new orders

ORDERS for new ships are continuing apace, with contracts for 31 vessels in the container and gas sectors confirmed with a combined estimated value of some $3.4bn.

New contracts included two separate deals for neo-panamax containerships.

These comprised a pair of 15,500 teu ships penned by Mediterranean Shipping Co, which were optional units tied to a previous contract placed with South Korean shipyard Hyundai Samho, and four dual-fuel 14,000 teu ships ordered by Singapore's Pacific International Lines at Chinese shipbuilder Jiangnan Shipyard.

The pricing levels of these two orders confirms just how far newbuilding costs have risen for in-demand tonnage in the past year; vessels of similar specification ordered in April 2021 were priced at an average of 20% less than current levels.

Further containership orders placed in the past week comprised three contracts for so-called 'mid-size' units in the 5,500 teu-8,000 teu range.

First, undisclosed owners ordered six 8,000 teu, conventional-fuel and scrubber-fitted, ships from Hyundai Heavy Industries' Ulsan shipbuilding facility.

With delivery in the second half of 2024 they were estimated to have been priced at $97.5m apiece.

Meanwhile, Singapore's Eastern Pacific Shipping exercised options attached to an earlier order for a trio of 7,900 teu capacity, dual-fuel, ships at Hyundai Samho, also for second half 2024 delivery. Finally, in the mid-size ranges, Belgium's Delphis penned four 5,900 teu, ice-class 1A, units at Chinese shipbuilder Qingdao Yangfan.

Interest in neo-panamax and mid-size containership newbuildings has been strong for several months now whilst owners appear to be shying away from ordering mega containerships of 18,000 teu plus capacity.

The inherent long port turnarounds of mega containerships have been cited by some as a contributing factor in the current supply chain crisis.

Perhaps liner operators will adopt a similar approach to the airline industry, whereby more flexible planes such as the Boeing 787 or Airbus A350 have replaced the airliner equivalents of the mega containership — the Airbus A380 and Boeing 747, on long haul routes?

Elsewhere, Greek shipowner Dynagas has confirmed that it has added a further three 200,000 cu m liquefied natural gas tankers to its existing six-vessel order at Hyundai Heavy Industries' Ulsan yard.

The latest ships are due for delivery in the second half of 2025. This nine-vessel series are the largest LNG carriers ordered to date.

Also in the gas sector, Seaspan firmed up a letter of intent at Nantong CIMC Sinopacific Offshore & Engineering Company in China for a pair of 7,600 cu m capacity LNG bunkering tankers. They are due to be deployed on the Canadian and US west coast in particular to service containership bunkering.

Whether newbuilding orders will continue their frenetic pace remains to be seen. But with slot availability for large tonnage now stretching out to 2025, surging pricing levels and previous global economic forecasts now being torn up due to the Ukraine crisis, a newbuilding sabbatical may not be a bad thing.

MARKETS:

Berge Bulk sells another capesize for scrap as steel prices climb

HAVING sold its 22-year-old *Berge Aoraki* (IMO: 9223590) for scrap in the past month, Berge Bulk has now sold a second capesize bulk carrier for demolition at an even higher rate.

The latest Berge Bulk scrap sale comprises the 175,000 dwt *Berge Arctic* (IMO: 9221906), which has been sold to Indian breakers at a rate of $660 per ldt. This compares with the $640 per ldt, which was realised for *Berge Aoraki* in a sale to Bangladeshi breakers in February.

"It was another incredibly firm showing from the subcontinent markets this week, particularly Bangladesh and even a recently resurgent India which now seem to be competing even more on tonnage.

"Pakistan misses out on units once again, largely behind on the numbers due to local concerns surrounding the impact of the ongoing war in Ukraine," said GMS in its latest report.

With the exception of China, local steel plate prices made impressive gains across the board in the major recycling destinations last week in particular in India and Bangladesh.

"In the Turkish market, both import and local steel plate prices have made improvements, with levels for all types of tonnage now firmly poised past the $400/LDT barrier — a first in memorable history," said GMS.

However, given the rising rates for both tankers and bulk carriers recently, the supply of ships could dry up in the near future, with the possible exception of those units due for special survey or requiring the installation of ballast water treatment systems.

Presale inspections expedite S&P activity

SELLERS are looking to avoid delays by carrying out independent pre-sale inspections as asset prices continue to climb.

The trend is growing and is a reversal of pre-pandemic days when inspection reports were mostly, or all, carried out by interested buyers.

About one third of transactions now make use of pre-sale ship inspections, according to Idwal, a UK-based maritime services company.

"There have been changes in the sales and purchase market since Covid-19 in that sellers have been asking for inspection reports rather than the buyers," said chief executive Nick Owens.

"Sellers are taking control of the sales process to speed things up" and avoid delays by having to wait for an inspection at the next port of call, he said, adding that it can also minimise the risk of virus transmission on board by not having multiple surveyors visiting the ship.

Idwal conducted 2,559 inspections in 2021, compared with 2,000 in 2020. This year, it is targeting more than 3,000.

The Baltic Sale and Purchase Index increased 24% to $40,815 as of March 4 compared with the same time last year. Average prices for a five-year-old bulker surged 42% to $33,255, while tanker values rose 14% to $48,376, Baltic Exchange data shows.

Clarksons said the global S&P markets continued to recover in 2021, with sales volumes reaching record levels at over 147m dwt representing $47bn.

"Despite some remaining Covid-19-related disruption (particularly around crew transfer), the S&P markets have been extremely active, supported by highly cash generative and strong charter markets (aside from tankers), a generally improved economic outlook and the potential impact of upcoming regulations," the brokerage said.

Transaction volumes increased, most notably in the containership sector, underpinned by the exceptional global freight markets, with more than $14bn of sales (500 ships) reported, more than triple the previous record level in dollar terms, it said, adding that activity also increased significantly in the bulk carrier segment with 961 units worth $16bn, more than double in value, and tankers (522 units) worth $11bn.

While there are multiple indices for earnings, value and ratings, there are no indices related to asset condition or integrity, said Mr Owens of Idwal, adding that his company has tools and software to grade a ship, with a digital score out of 100.

"We aim to create a benchmark for asset condition and integrity and give the market a point of reference which can be used for multiple commercial reasons," he said.

The company has four years' worth of data with 8,000 ships on its register to be able to compare against size, yard, design, and country of build.

Its inspections, which are carried out in-person, look not only at the condition of the ship, but also at its management such as crew welfare, and its environmental footprint such as energy efficiency and how it handles waste for example.

"Remote surveys cannot be as robust and detailed as having someone on board," Mr Owens said, as it is important to understand what is going on, to see the culture on the vessel.

More routine inspection reports can be used by banks, insurers or charterers as a risk management tool.

The company was started 10 years ago, and the last five have targeted growth and scale.

IN OTHER NEWS:

PIL places first containership order for seven years
PACIFIC International Lines has firmed up an order for four dual-fuel 14,000 teu containerships at China State Shipbuilding Corp's Jiangnan Shipyard.

A letter of intent, signed in January, includes a firm containership pair and an option for two more, according to shipbuilding sources.

The fresh tonnage marks PIL's first newbuilding order since 2015 when it struck a $1.2bn deal with China's Yangzijiang Shipbuilding to construct 12 ships.

Clarksons outlook 'strong' after record full-year results
CLARKSONS, the world's largest shipbroker, reported a return to profits on the back of strong performances in dry bulk, containers and sale and purchase markets.

The UK-based company reported full-year net profit of £54.4m ($71.7m) on revenues of £443.3m. That compares with a loss of £25.8m in 2020.

"Clarksons has emerged from the pandemic in better shape than ever," said newly-appointed chairman Laurence Hollingworth. "We enter 2022 from a position of strength and are very well placed to capitalise on favourable market dynamics.''

Classified notices


Lloyd's List Intelligence