

Lloyd's List



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Outlook 2021

Shipping accelerates towards
an uncertain future





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The editor's letter

LINTON NIGHTINGALE

Certainty of uncertainties

While much of our forecasting for 2021 comes with a coronavirus caveat, there is a degree of optimism that shipping will bounce back with vigour next year

Well that was quite a year. 2020 will be one few will forget in a hurry; a year fraught with disruption and upheaval as the world came to grips with a global pandemic that brought profound change to all our lives.

Yet as one year ends, another begins.

Naturally, shipping will be looking to 2021 somewhat ominously and with a touch of anxiety, following 12 months of turmoil.

In this edition, Lloyd's List publishes our eagerly awaited annual outlook, in which we endeavour to provide both insight and some much-needed clarity on what 2021 has in store for the shipping industry.

Peering into our crystal ball, the initial take is that the only certainty, I'm afraid, is yet more uncertainty.

For shipping's short-term prospects, as with most walks all life, much will hinge on the pace and trajectory of the coronavirus recovery curve.

That is, of course, if the recovery even occurs in 2021. With a second wave of the virus picking up speed in the west, the

roll-out of vaccines cannot come fast enough for all concerned.

And so much of our forecasting for 2021 comes with a coronavirus caveat – and a pretty sizeable one, at that.

Indeed, our readership agrees. The Covid-19 vaccine was highlighted as the most significant macro factor impacting shipping markets in 2021 – and by some distance – in a poll as part of our annual Outlook Forum, which took place in early December 2020.

Those who missed the event can watch it on demand, via the Lloyd's List website.

Nonetheless, there is a degree of optimism that shipping will bounce back with vigour next year, even if faith is pinned largely on a post-pandemic backdrop.

Either way, it is arguable that shipping at least knows what it's up against this time round.

Let's hope for a return to normality as soon as possible.

Finally, from everyone at Lloyd's List, we wish both a prosperous and joyful 2021 to all of our readers.

“

For shipping's short-term prospects, as with most walks all life, much will hinge on the pace and trajectory of the coronavirus recovery curve

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Contents

COMMENT

4 Will China speak against EU plans?

6 Do boxship safety standards stack up?

COVER STORY

9 Shipping's taster of disruption to come
Immediate future is riddled with uncertainty

OUTLOOK 2021

12 Shipping Outlook Forum: poll results
Decarbonisation and crewing among topics

14 2021 is Europe's year for regulations
Commission to unveil emissions measures

16 Capacity management to be new normal
Can container lines repeat the trick in 2021?

20 Low fleet growth lifts dry bulk spirits
Markets should enter period of higher rates

22 Can tanker market find equilibrium?
Future appears to lie in the hands of pharma

27 Fleet scarcity to boost LPG rates
Strong fundamentals drive healthy demand

29 LNG finds light in darkest moments
Plants expected to ramp up output

31 Alternative finance on the rise
As Chinese lessors falter, others step in

33 Marine insurance: more expensive
P&I clubs and underwriters look for funds

ANALYSIS

36 Economic outlook
Gravity of global economy rapidly moving east

38 Shipbuilding outlook
Vehicle carrier deliveries to drop

40 The month in charts
Key digitalisation drivers revealed in report

42 Ask the Analyst
Spotting deceptive shipping practices

MARKETS

48 Dry bulk: Depressed capesize market

50 Tankers: Sanctions-busting traders

54 Containers: World fleet update

56 Containers: Trade statistics

58 Containers: Between the Lines

REGULARS

62 Yard Talk: Bridge to decarbonisation

64 Last Word: Seafarers feel undervalued



CICHEN SHEN
China editor

Will China speak against EU impatience on emissions?

China helped thwart the EU's plan to include international airlines in its carbon trading market, but it has been quiet so far on a reignited attempt targeting the maritime industry

You may wonder when China will stand up against the European Union's motion to ditch the International Maritime Organization and unilaterally include shipping in its own carbon trading system.

As a major maritime power, the country's attitude will have an effect on Brussels' move, which may reduce emissions but is expensive for shipping.

China and the US were the main forces that helped thwart the European governments' last plan to impose what is viewed as essentially a carbon tax on international airlines.

Beijing's threat to hold back \$60bn of outstanding orders from Airbus led to France pushing the EU to halt the scheme.

Now hopes are again being pinned on bilateral diplomacy to deter the EU's reignited attempt targeting the maritime industry, especially after the recent IMO virtual meetings.

An apparent lack of ambition shown at the meetings to accelerate the sector's decarbonisation process and to start the discussions on market-based measures, such as carbon pricing, has reinforced doubts over the capability of the United Nations' agency to save the situation.

The political will of the European Commission and the European Parliament to push forward the Emissions Trading System expansion to include shipping also suggests that the odds seem stacked against the naysayers.

As a major maritime power, China and its shipping firms still have enough reasons to be a vocal opponent of the EU's "long-arm jurisdiction" — not least the need to curb the transport costs for their massive seaborne exports to the Europe, many of which are carried by Chinese-owned vessels.

Greece, the world's largest shipowning nation, has already voiced its objection. So have Japan and South Korea.

Yet bear in mind that China is also the world's largest shipbuilding country. This time, yards are suffering one of the worst ordering

droughts amid owners' hesitation to spend on new technologies that enable the reduction of vessel emissions and the use of cleaner fuels.

The EU's inclusion of shipping into its carbon market will incentivise such investments, resulting in more newbuilding or retrofitting projects.

Perhaps the Chinese shipping community — predominantly state-owned players — does want to make its voice heard, yet its arms are held by the country's shipbuilding giants, which also enjoy the backing of the government.

Still, that may not be the biggest factor that could sway China's stance on the EU's intrusion into the IMO's carbon-reduction mandate. After all, South Korea and Japan, too, have huge exposure in the vessel construction sector.

Both shipping and shipbuilding are China's strategic industries. Yet it appears both now must also fit themselves into a greater strategy, after President Xi Jinping pledged that the country will reach carbon neutrality by 2060 — only 10 years behind the EU goal.

This comes as China is aiming to launch its own nationwide carbon trading scheme in the next five years, starting with the power producers and then extending to other sectors.

Like the EU, China's aggressive green agenda is also driven by huge potential seen in its clean energy sector, a core engine of future growth. The two might find more ideas of common interest and walk closer to each other.

China's former central bank chief Zhou Xiaochuan, in a finance forum, proposed a joint "special revenue fund" backed by carbon tax to tackle the transport emissions between Europe and Asia.

Shipping and the IMO should take this trend into account when pondering their next decarbonisation moves.

The EU eventually had to scale back its Emissions Trading System for aviation to cover only flights within its airspace. It is not to be taken for granted that shipping will receive the same treatment.



Like the EU, China's aggressive green agenda is also driven by huge potential seen in its clean energy sector, a core engine of future growth



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Do box shipping's safety standards stack up?

The loss of containers from *ONE Apus* was an unwelcome event; attention now needs to turn to how containers can be better secured on deck to survive significant weather events

“
The forces generated by even a low-weight container sitting high in a stack during a violent rolling or whipping action are massive. All that is holding the stack in place are twist locks and lashings. If these are in anything less than perfect condition, there is a risk of failure
 ”

The loss of containers at sea is never a welcome event. And, while the full circumstances of the *ONE Apus* incident will not come out until an investigation is undertaken, some things are already known.

Images taken from the bridge and seen by Lloyd's List indicate a devastating collapse of multiple stacks on the ship's deck. One can only imagine what the ship – a one-year-old 14,000 teu vessel – and its crew went through for that amount of damage to be caused.

The ship's rerouting meant its entire cargo had been disrupted and 14,000 teu of goods destined for Long Beach would arrive late. Those lost overboard would not arrive at all. The insurance claims will likely run to tens of millions of dollars.

There are also possible environmental consequences. Up to 40 of the lost or damaged containers are thought to have contained dangerous goods.

While most sink to the depths of the Pacific Ocean, there is the risk that some will find their way to more environmentally sensitive areas before disgorging their content.

There is even a risk to recreational sailors, whose fibreglass boats are no match for the sharp steel of a semi-submerged container.

The loss of containers at sea has been decreasing over recent years.

Figures from the World Shipping Council, provided by its container line members, indicate that on average there were just 779 boxes a year lost overboard in the three years to 2020. That was well down on the 2,683 per year in the 2011-2013 period.

More to be done

The industry can be applauded for this improvement, but the *ONE Apus* casualty indicates there is still more to be done.

One area of concern is something that is possibly out of anyone's hands. Climate change is leading to increasingly violent storms and, while weather routing software can do so much, explosive cyclogenesis can bring about weather bombs strong enough to throw a large containership around like a bath toy, with little to predict its presence.

While ships can and do survive these conditions, the weak point is the stacking of containers seven or eight rows high above the deck level.

The introduction of compulsory container weighing has done much to prevent collapses from overweight containers sitting at the top of stacks. Nevertheless, the forces generated by even a low-weight container sitting that high in a stack during a violent rolling or whipping action are massive.

All that is holding the stack in place are twist locks and lashings. If these are in anything less than perfect condition, there is a risk of failure.

Moreover, they must have been secured properly in the first place. While the master and crew of the ship have the final sign-off, lashings are usually secured by stevedoring companies in port.

As far back as 2005, the Maritime Research Institute Netherlands launched its Lashing@Sea project to investigate the problem of lost boxes.

Yet speaking in a webinar earlier in 2020, TT Club risk management director Peregrine Storrs-Fox said it was disappointing and “a shame” that the report's findings had only been partially followed through and that there were a number of outstanding recommendations.

One of the ironies in this incident is that Ocean Network Express, the charterer of the vessel in question, has a strong culture of safety.

Jeremy Nixon, its chief executive, is a former seafarer who will understand the risks of putting to sea, and the company runs regular safety and quality campaigns internally. One item in 2019's campaign included heavy weather navigation and the importance of lashing checks.

Yet while individual companies may do their best, the complexities of the containerised supply chain mean that no man is an island.

Safety is an industry-wide affair. Box shipping will need to take a deep look at itself to ensure that it continues to improve its record and prevent similar incidents happening again.

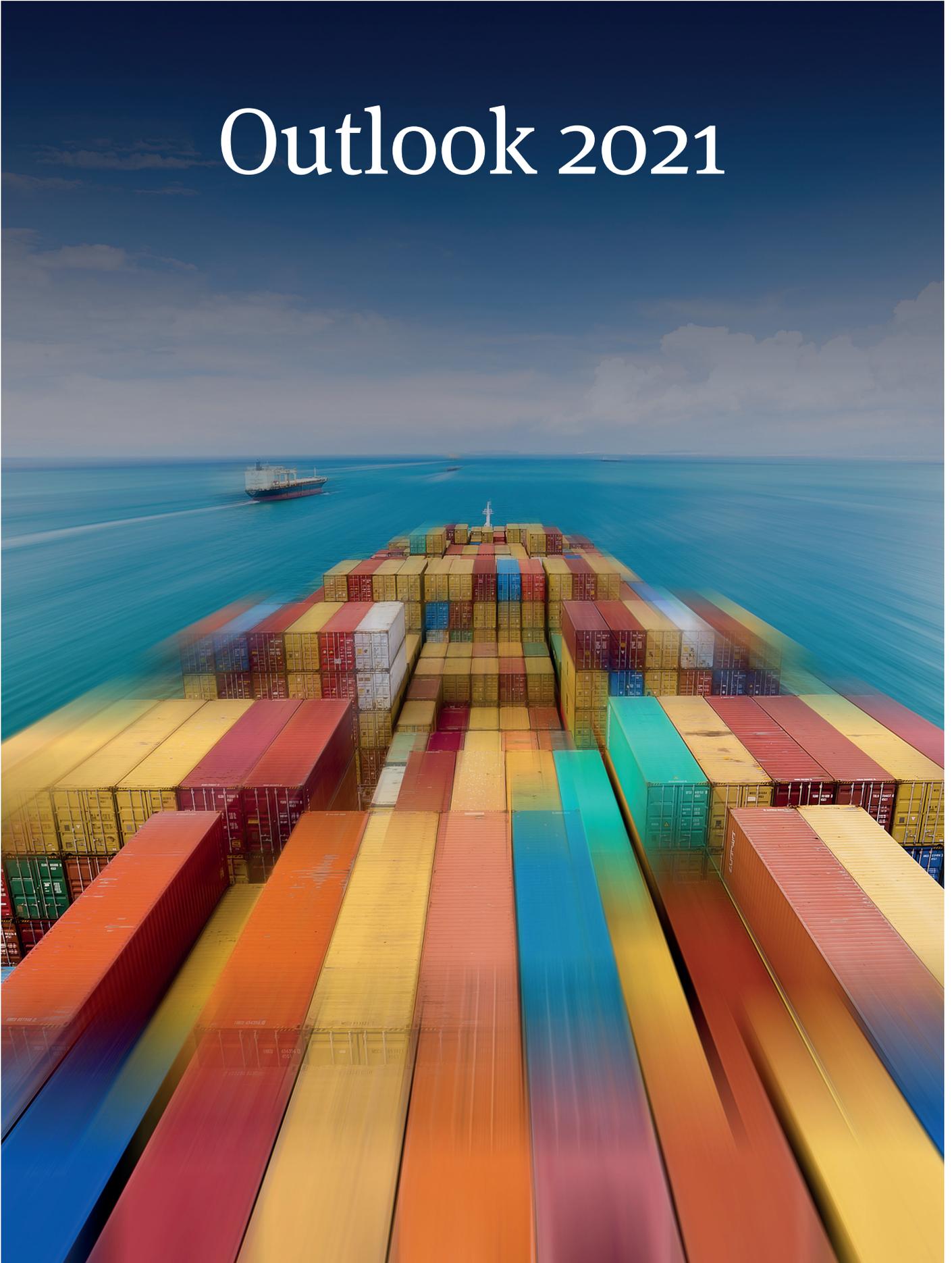


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Outlook 2021



Shipping just got a taster of the disruption yet to come

Shipping's resilience has been tested this year, but a low orderbook does not save a market and the immediate future is riddled with uncertainty. Mid-term, the business models that survived 2020 may not be set up for a future requiring financial flexibility, transparency, a smarter approach to digital integration and, of course, sufficient foresight to survive the decarbonisation transition, **Richard Meade reports**



With hopes pinned on the Covid-19 vaccine, there are useful lessons to be learned from the evolution of scientific knowledge as we consider shipping's prospects from here on.

It is entirely possible to read the runes and make a strategic play in the shipping market based on the supply and demand dynamics of 2020.

However, as we have been arguing for several years now in these annual market outlooks, context is key and much of shipping's future fortunes rests on factors that have little to do with ships.

In a year where we have all become armchair epidemiologists, courtesy of Covid-19, we suggest there are useful lessons to be learned from the evolution of scientific knowledge as we consider shipping's prospects from here on.

Science does not change its paradigm overnight. Copernicus did not immediately convince peers that the sun was the centre of the cosmos; Einstein's ideas, relatively speaking, took a while to take hold.

Younger scientists take a new paradigm forward. As the American philosopher Thomas Kuhn put it back in the early 1960s: "A new scientific truth does not triumph by convincing its opponents and making

them see the light, but rather because its opponents eventually die, and a new generation grows up that is familiar with it."

Paradigm shifts are a messy business and do not happen in a big bang. Yet the evolution of established thinking cannot be taken as a constant for any generation.

The relevance of such laboured analogy is to point out that while the shipping industry needs to sustain its 'business as usual' operations amid an increasingly volatile set of market and macro risks, there is also a pressing need to consider the longer-term context.

The twin tectonic shifts of decarbonisation and digitalisation, combined with an established trajectory towards transparency and corporatisation, all promise near-term disruption and require a wholesale mid-term rethink of the industry's established business models.

For shipowners, this is multi-tasking on a generational level.

However, let's consider 2020 first, before we tackle the epoch shift awaiting us.

One could easily write off 2020 as an anomaly – a flock of black swans swooped into view and disrupted everything. And it would be true, to a point.

In tankers, the incredible highs and lows of 2020 translated to record rates and record profits, quickly followed by desperately poor earnings – some touching 11-year lows.

In containers, a \$20bn loss has been magically turned into a \$14bn stellar performance as the world isolated itself and required shipping to deliver the tools of what we are temporarily calling the 'new normal' of remote working.

The summaries of 2020 will all dissect China's early recovery as the first major demand driver to grow since the coronavirus pandemic crashed through the global economy, and take a position on the underlying uncertainties that await in 2021.

However, the shipping-specific story will be the low orderbook and the insulation that provided shipping compared to previous economic crises.

Perhaps the real anomaly in 2020 is that supply – more by luck than design – is manageable, having hit a 30-year low point due to a combination of dwindling finance availability and hesitancy from owners looking at the low-carbon transitional options.

This is the first time for decades that the supply side has become so muted. Sale and purchase activity is low, few vessels are being ordered and few vessels are being scrapped.

Valuations have suffered, equity capital is scarce and expensive, while banks are still, generally speaking, in retreat from shipping. Fewer newbuilds and a subdued sale and purchase market is no bad thing, given past mistakes, and anything that can finally put a nail in the coffin of speculative boom-and-bust shipping cycles should be welcomed warmly as a sensible step towards a more sustainable future.

However, a low orderbook does not save a market; you need demand return to recalibrate the fleet, even before we consider the thorny issue of decarbonisation deadlines and dynamics. And that is where we still have no real certainty.

While large parts of the global economy have staged a better recovery from the first wave of the pandemic than initially anticipated, global seaborne demand was initially decimated and overall volumes are expected to decline by 4%-5% in 2020 compared to 2019 volumes.

Most forecasts predict that the lost volumes will be restored sometime during the next 12-18 months, but the effects of the second wave of the pandemic are difficult to predict.

The macro-economic wonks have all upgraded forecasts for 2021 following recent positive vaccine developments and expect the average quarterly GDP growth rate to be the strongest since 1978. Yet this will only be enough to return global GDP to pre-crisis levels – so it is unlikely to feel like the best year in more than four decades.

Which is why 2020 cannot be considered out of context with what happens next. For all the ‘urgent’ debate within the International Maritime Organization and industry forums, uncertainty pervades every aspect of shipowner’s strategic thinking right now.

Difficult decisions need to be taken today, amid the apparently anomalous circumstances of Covid and the uncertainty of a global economy requiring urgent decarbonisation.

“Buying ships today that won’t be delivered for two years and last for 25 years is a risk when we do not know exactly what fuels we will be using from 2030,”



“*Buying ships today that won’t be delivered for two years and last for 25 years is a risk when we do not know exactly what fuels we will be using from 2030*”

Søren Skou
Chief executive
AP Moller-Maersk

explained AP Moller-Maersk chief executive Søren Skou during a recent earnings call.

His statement summed up the shipowner dilemma more succinctly than the petabytes of data analysis available charting carbon intensity of trade versus the existing trajectory of shipping emissions.

The inconvenient truth is that shipowners are in a race to be second when it comes to decarbonising the global fleet.

First-movers risk expensive early obsolescence, while laggards looking to profit from an uneven transition risk being left behind by rapidly changing market requirements that are increasingly running ahead of protracted regulatory timelines.

The Goldilocks risk approach – not too soon, not too late – accepts that the shipping industry will have limited agency in the pace and scope of the global energy decarbonisation transition, but assumes the basic aim of maximising energy efficiency of the transitional fleet in a bid to buy time for viable zero-carbon fuel substitutions and infrastructure to emerge.

However, the transition to a zero-carbon future represents a generational risk for shipowners who require a centrist position, maximising flexibility both in terms of asset investment and business models.

Short-term risk is associated with the existing fleet struggling to stay ahead of carbon efficiency metrics that will increasingly eliminate tonnage and some owners from the market.

That process will spur a mid-term green order boom to account for the transitional fleet replacement requirements that cannot be met via retrofits.

The most significant mid-term risk for shipowners in this period lies in the

longevity of designs, which are already dividing owners.

While some of the advanced guard are betting on transitional dual-fuel and tri-fuel tonnage options, the majority are assuming conventional fuel eco designs will sustain them ahead of the Annual Efficiency Ratio curve of carbon emissions long enough to leapfrog gas as a transitional option, heading directly into ammonia or hydrogen designs. That division is already starting to shape the strategic outlook of the transition.

Looking further to the horizon, more challenging issues arise as owners require increasingly integrated partnerships with long-term cargo interest commitments to bridge the price gap between carbon and zero-carbon fuels.

That, in turn, assumes a significant shift in the competitive landscape of vessel ownership and, long term, we anticipate ESG capital requirements will increasingly favour the stability of consolidated fleets matched against long-term cargo interests, eliminating much of the generational privilege felt by traditional ownership models.

The discussion, then, is a question of how you see that scientific paradigm shift. Are we mid evolution, or on the cusp of revolution?

In 20 years’ time, will we look back at those who have made it and conclude it was the companies that followed the structured path, making incremental changes with the aim of consistent improvement in mind?

Or will the companies carrying seaborne trade look back at the failed analogue, carbon-fuelled business models that preceded them and wonder how the previous generation got it so wrong for so long?

REWARD!



Up to \$5 Million for Information on North Korean Sanctions Evasion

North Korea engages in illicit maritime activities that finance its nuclear weapons program, in violation of international sanctions. These include the import and export of sanctioned commodities, ship-to-ship transfers of coal and petroleum products, and the manipulation of maritime tracking data.

The U.S. government is offering up to \$5 million for information on North Korea's sanctions-evasion activities. If you have such information, text Rewards for Justice via Signal, Telegram, or WhatsApp at the number below. You could be eligible for a reward.



Report by the U.N. Security Council committee on North Korea sanctions



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Lloyd's List 2021 Shipping Outlook Forum: poll results

Decarbonisation, crewing and recovering from the pandemic were among the topics tackled in the agenda-setting event of the maritime calendar, **Richard Meade** reports

At the end of a year that no-one anticipated, the Lloyd's List 2021 Shipping Outlook Forum gathered an exclusive panel of the industry's leading lights to unpick the lessons learnt from the past 12 months and look ahead at what is to come.

On the panel were:

- Grahaeme Henderson, vice-president, shipping and maritime, Shell International;
- Nick Brown, marine and offshore director, Lloyd's Register;
- Michael Parker, chairman of global shipping, logistics and offshore at Citi;
- Johannah Christensen, managing director, Global Maritime Forum;
- Mark O'Neil, president and chief executive of Columbia Shipmanagement;

- Angelica Kemene, co-founder and chief executive at Optima-X | Enso XL, head of market analysis and intelligence at Optima Shipping Services.

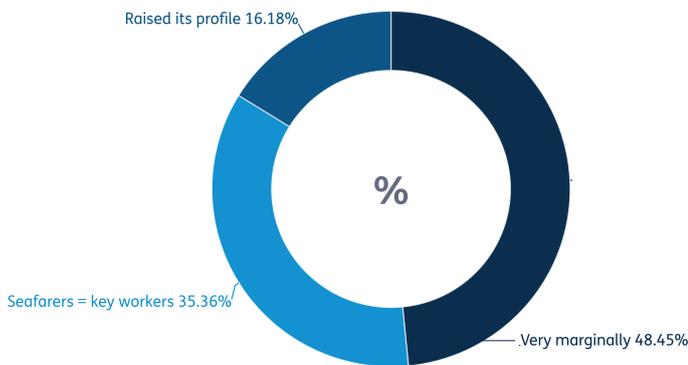
Prior to the forum, we encouraged our followers to vote in an online poll on the critical issues likely to influence maritime markets in 2021 and beyond.

The results combine with the consensus view from the forum to create the Lloyd's List 2021 Outlook Report.

A full breakdown of the poll questions and answers is available in the charts on these two pages.

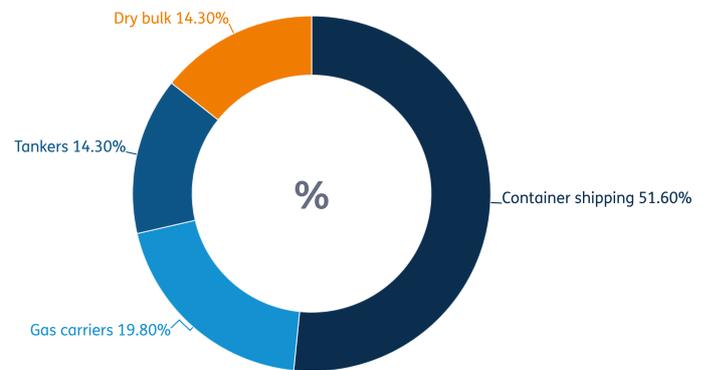
If you missed the Lloyd's List 2021 Shipping Outlook Forum, the event can be viewed on demand via our website.

Q1: How much has the crew change crisis altered the perception of the shipping industry?



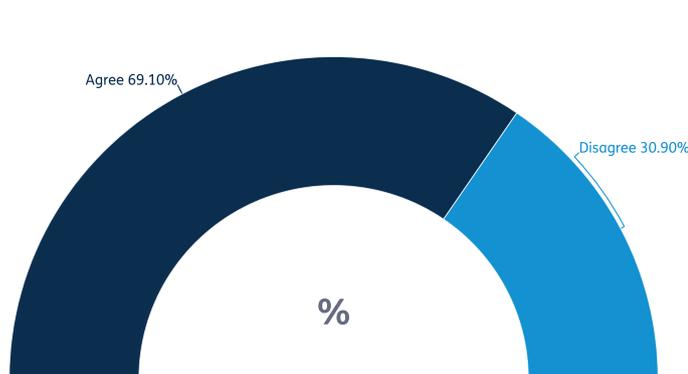
Source: @LloydsList Twitter Poll

Q2: Which sector will see the best freight rates in 2021?



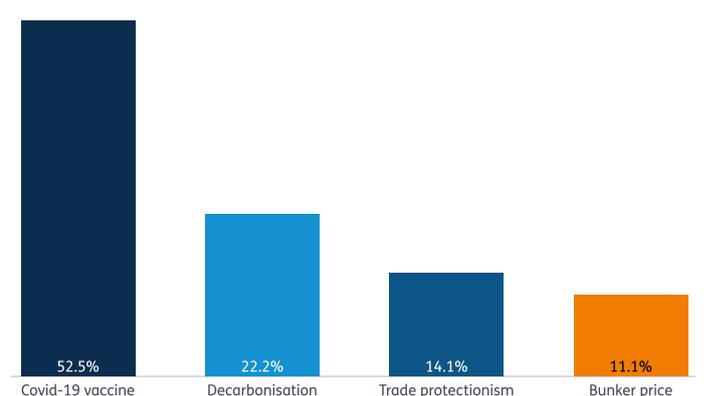
Source: @LloydsList Twitter Poll

Q3: The small, private shipowner will be an endangered species within the next decade...



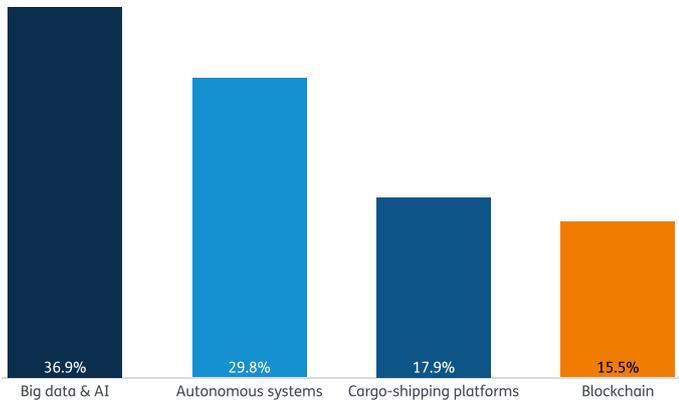
Source: @LloydsList Twitter Poll

Q4: The most significant macro factor affecting shipping markets in 2021 will be:



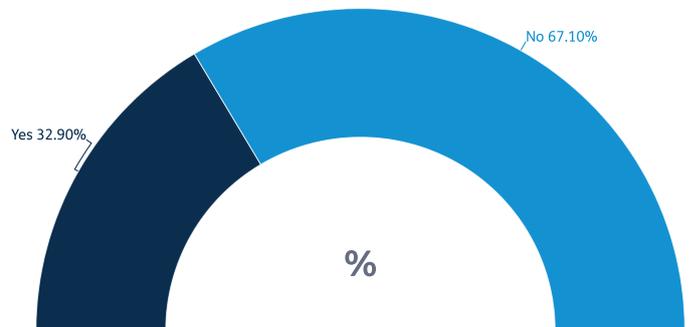
Source: @LloydsList Twitter Poll

Q5: Aside from low/zero-carbon R&D, what technology will be the most significant driver of change in shipping over the next five years?



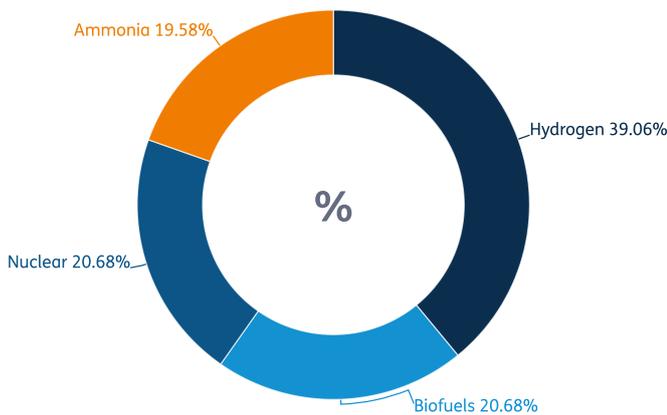
Source: @LloydsList Twitter Poll

Q6: Has the shipping industry taken its eye off the ball when it comes to safety?



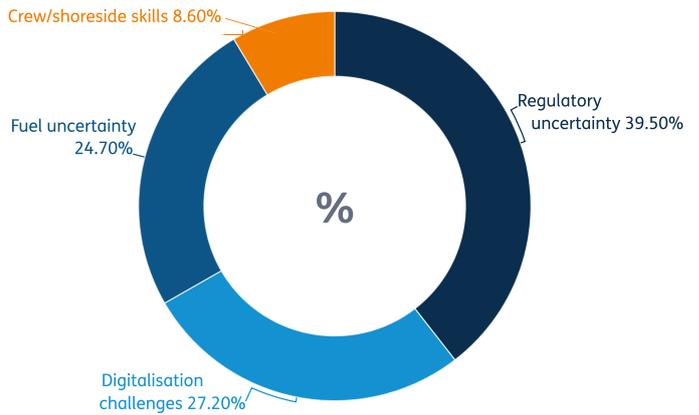
Source: @LloydsList Twitter Poll

Q7: What fuel technology offers the best chance of achieving zero-carbon emissions shipping by 2050?



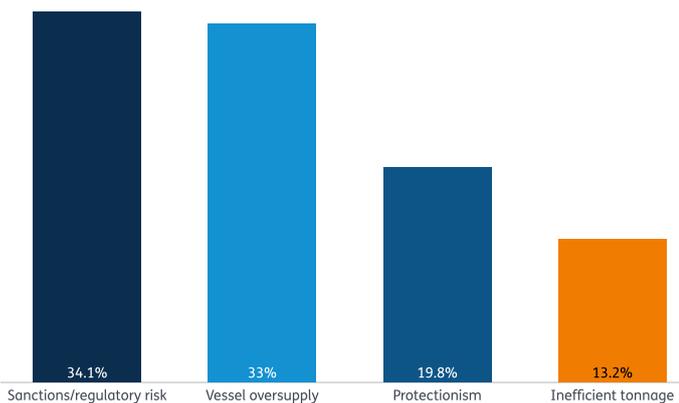
Source: @LloydsList Twitter Poll

Q8: What is the greatest challenge to the efficiency of shipping operations over the next five years?



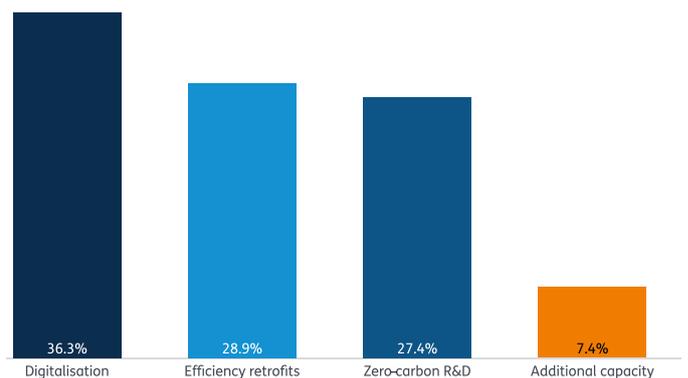
Source: @LloydsList Twitter Poll

Q9: What is the greatest threat to shipping over the next five years?



Source: @LloydsList Twitter Poll

Q10: What is the best investment opportunity for shipping in 2021?



Source: @LloydsList Twitter Poll



Igor Grochev/Shutterstock.com

The levels of the carbon-intensity indicators and the guidelines for their calculation still need to be defined by the IMO.

2021 is Europe's year for shipping's regulations

By the end of 2021, the European Commission will have unveiled exactly how it wants to regulate shipping emissions, while the International Maritime Organization may have begun its own debate on market-based measures, **Anastassios Adamopoulos** reports

In 2021, shipping's emissions regulations will take a consequential turn, with the prospect of regional regulations becoming a fact of life.

With two International Maritime Organization environmental committee meetings scheduled for 2021, the global maritime regulator should be tying up loose ends before embarking on what could be an uphill battle to deliver the regulatory coup de grâce.

The IMO will have to finalise the short-term GHG emissions measure it approved in 2020, pending an important impact assessment on countries, if it were implemented.

Though the measure that brings in energy-efficiency requirements on existing ships in 2023 and mandatory carbon-intensity requirements from 2026 is widely expected to be adopted in 2021,

the outstanding finishing touches are far from procedural.

The levels of the carbon-intensity indicators and the guidelines for their calculation still need to be defined. Their finalisation in 2021 will allow us to fully assess the potential efficacy of the stringency of the measures.

The dust settling on the short-term measures means governments at the IMO will have to confront far more daunting decisions.

The elephant in the room, the market-based measures on ships, is not only gaining significant traction within an industry that is accepting its fate, but now also has open backing from governments in the European Union and the Pacific. Other countries, like Japan, have also signalled their willingness to begin MBM talks.

The resistance, however, is still strong and the negotiation of MBMs will be far harsher and more politicised than others in the IMO's history.

Regardless of its form, an MBM is a money-extracting policy or, on the flipside, a revenue-generating tool.

Agreeing on how those costs and revenues should be allocated and used will require time, willingness to compromise and diplomacy.

Some governments will even oppose starting talks on MBMs and/or other longer-term measures in 2021.

Even if the talks on MBMs begin in 2021, do not expect governments to make any agreements during the year and potentially not even in 2022.

Some will argue this slow procedure is necessary to maintain unity among member states and facilitate as many needs as possible.

Critics, who are already displeased with the pace of decisions out of London, will claim the IMO is displaying typical behaviour that, when applying to climate crisis response, amounts to inertia; they feel others should take the reins.

And, lo and behold, others are about to pounce...

For all the high stakes being played in London – hopefully in person, rather than online – the most important developments for global shipping in 2021 will likely come out of Brussels, where the European Union's ambitions on control of shipping emissions and the industry's capability to influence them will become clear.

The European Commission will unveil its proposal to include shipping in the EU Emissions Trading System in 2021, following an ongoing impact assessment.

With a strong commitment to bring the maritime sector into the EU carbon market, the Commission will have to decide whether it wants that to cover all voyages to and from the bloc, only domestic voyages – or some compromise between the two.

The Commission will also need to take a position on whether it should be charterers or shipowners that pay the cost – a crucial and divisive issue for the liner and tramp sectors.

The Japanese and South Korean governments have spoken out against the ETS, as has China's shipping industry.

Whatever the Commission's final decision, it will have an impact not only on shipping's financial pockets, but the pace of global emissions negotiations.

It could spur on other regional jurisdictions to develop their own



The European Commission will unveil its proposal to include shipping in the EU Emissions Trading System in 2021, following an ongoing impact assessment.

“
With a strong commitment to bring the maritime sector into the EU carbon market, the Commission will have to decide whether it wants that to cover all voyages to and from the bloc, only domestic voyages – or some compromise between the two
 ”

emissions measures and – just as importantly – set the precedent for who is responsible for paying the cost of market-based measures when they arrive.

Negotiations with the European Parliament and the Council, which represents EU governments, may not conclude until 2022.

However, the Commission's position will be influential in these.

The EU should also begin negotiating the Parliament's proposed own amendments for the Monitoring Reporting and Verification regulation, the bloc's emissions data collection system.

Among its core recommendations is for all ships falling under the MRV to comply with a minimum 40% carbon-intensity improvement by 2030, likely compared to the years of 2018 and 2019.

In this proposal, the Parliament has also demanded that shipping be included in the ETS in 2022, without any free allowances and with domestic and international voyages covered.

However, the Commission does not support the idea of lumping the ETS and the MRV together – and the fact that it is rolling out its own ETS plan suggests the Parliament's ETS ambitions may be cut short.

In a non-emissions measure coming out of Brussels again in 2021, ships calling at EU ports will need to have an inventory of hazardous materials on board, a requirement that is part of the EU Ship Recycling Regulation.



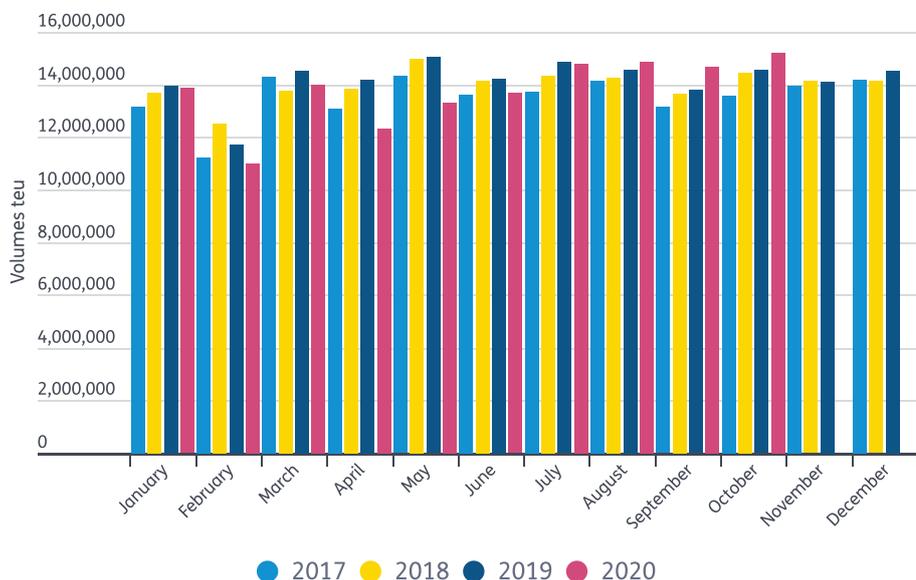
ArnoudNL/Shutterstock.com

Having performed this magic trick once, can container shipping do it again?

Capacity management will be box shipping's new normal

Container lines pulled off a magic trick in 2020, but will they have the discipline for a repeat performance in 2021? **James Baker** reports

Container trade volumes (2017-2020)



The publication of container lines' third-quarter results confirmed what most already knew: box shipping has had a stellar year in 2020.

Despite a global pandemic and a massive collapse in volumes in the second quarter, low oil prices, tight capacity management and strong demand in the second half of the year meant that the sector as a whole turned around a potential \$20bn loss into what is likely to be \$14bn in earnings for the year.

However, having performed this magic trick once, can container shipping do it again?

The circumstances, hopefully, will not repeat in 2021, but much of what has happened in 2020 will continue to influence carriers in the years ahead.

Some of it will benefit carriers, some not so much.

Source: Container Trades Statistics

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“Thanks to the support of the major ship owners over the last two decades, GMS has rapidly grown from a startup to become the Largest Buyer of Ships and Offshore Vessels in the world! We built this business on integrity, professionalism and first class performance. In an industry mired with misleading and biased information, GMS has done its best to bring transparency, facilitate dialogue, promote change and encourage responsible ship recycling. We are proud to be part of an industry that has evolved and adds true value to the shipping fraternity. We appreciate the trust the industry has placed in us and shall continue to provide strong leadership and work hard for the development of the industry.”



- Dr. Anil Sharma
Founder & CEO

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One thing is for certain: having gained a taste for capacity management, carriers will not let it go.

As Sea-Intelligence Consulting chief executive Lars Jensen points out, lines were already managing their capacity before the pandemic.

Blankings in the final quarter of 2019 and in January of 2020 were far higher than in previous years, as lines removed tonnage from service that was surplus to demand.

By April 2020, when volumes began to fall through the floor, the formerly slow process of matching capacity to demand happened within a week.

The reasons for this were obvious.

As Hapag-Lloyd chief executive Rolf Habben Jansen pointed out: “If we lose 20% of our volumes, then we lose \$200m of revenue per month.

“In order to react to that, you have to take costs out of the system.”

This capacity discipline will be the real new normal for carriers.

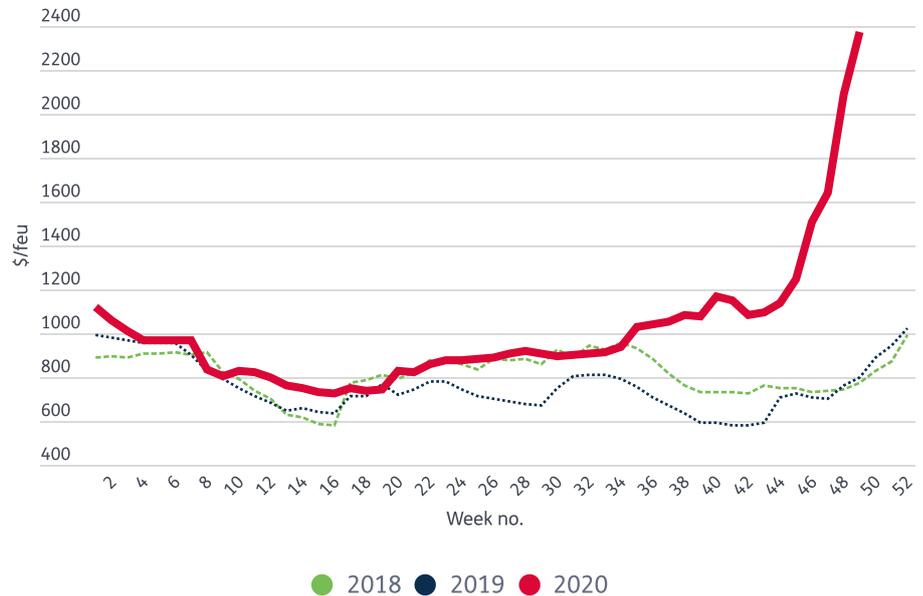
Not only were carriers able to remove capacity rapidly, they also brought it back when required.

The amount of in-service capacity on the Asia-Europe trade is roughly where it was at the same time in 2019; on the transpacific, it is 10% higher.

This allowed lines to be able to reap the rewards of surging demand for containerised goods during the pandemic.

Starved of opportunities to spend on services such as travel or

Shanghai Containerised Freight Index: Asia-Europe spot rates (2018-2020) Asia-northern Europe*



*Rates are based on an origin port of Shanghai

Source: Shanghai Shipping Exchange

entertainment, consumers – still cash-rich from stimulus packages and job support schemes – spent up on goods for their home offices and gyms, gardens and entertainment centres.

The majority of what they bought came in containers.

However, the outlook for next year remains clouded, according to BIMCO chief shipping analyst Peter Sand.

“Despite the record volumes seen imported in the US during the third

quarter, overall volumes for the year remain down,” he said.

“The virus is still spreading at alarming speed, putting the recovery on hold, and once again shuttering many shops in major advanced countries.”

Many of the goods driving the import boom have been consumer durables, one-off items that will not be repeated, he added.

Mr Jensen said if the pandemic worsened, there would be an economic slump that would be bad for container shipping.

However, if there was a quick recovery and people reverted to spending on services rather than goods, this would have a bad outcome too.

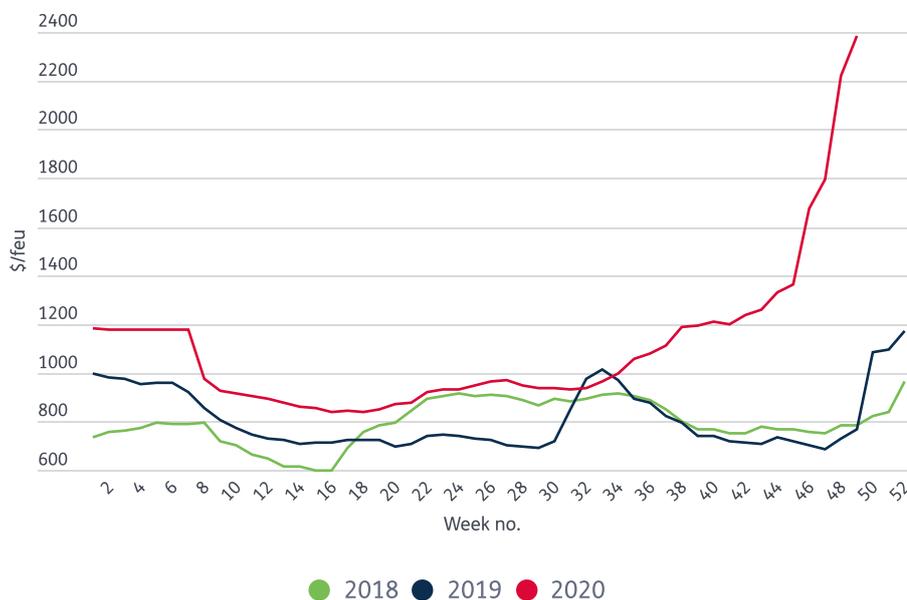
“We could end up with overflowing warehouses on the physical side, so a rapid reversal out of the pandemic would result in a negative demand dynamic for container shipping in 2021,” he said.

“The most positive outlook – if we only look at it from the perspective of container shipping – is that the pandemic continues at the level it is at now, where it is not crazily out of control and is stabilised to some degree, but it is clearly not under control either.

“If we stay where we are, we will have a positive year for containers.”

Without that rather undesirable situation, 2021 would be a difficult year to predict, he added.

Shanghai Containerised Freight Index: Asia-Europe spot rates (2018-2020) Asia-Mediterranean*



*Rates are based on an origin port of Shanghai

Source: Shanghai Shipping Exchange



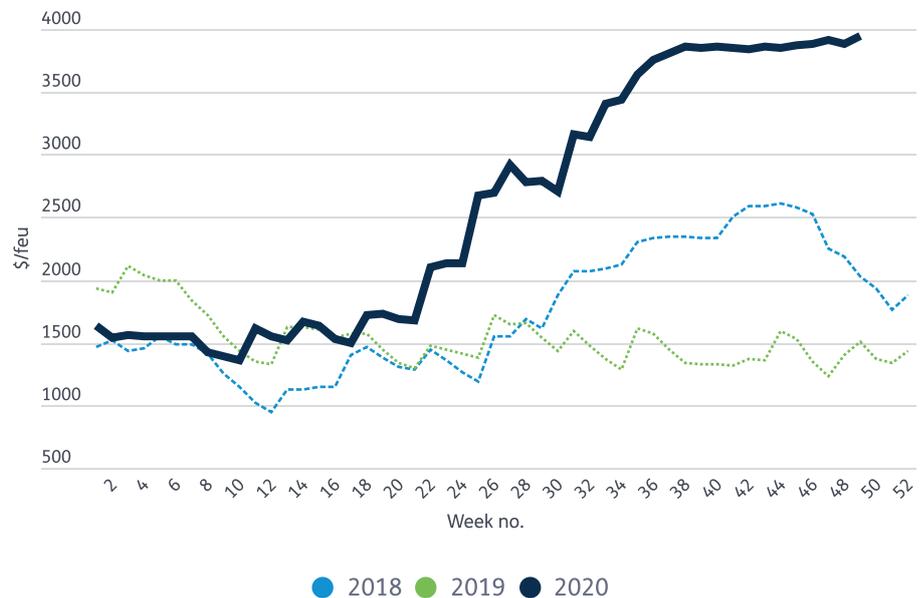
Jensen: the demand side will remain extremely uncertain for 2021 and 2022.

“Looking further ahead, once we have the pandemic under control, people will very likely go back to normal patterns of how they live their lives,” Mr Jensen said.

“So for the long term, the outlook is really not any different to that of a year ago.”

Spot rates, driven high by the strong demand and also by disruption in the supply chain that has led to a shortage of equipment in export markets, remain high at a time when

Shanghai Containerised Freight Index: Transpacific spot rates (2018-2020) Asia-US west coast*



*Rates are based on an origin port of Shanghai

Source: Shanghai Shipping Exchange

shippers and carriers are due to start negotiating next year’s contract rates.

This will lead to a tricky balancing act, according to Mr Sand.

“Spot rates have delivered an upside and the best of it could be yet to come, when we see the renewal of contract rates at a much higher level than the previous one, due to the fact that the alternative – if you stay in the spot market – is so much more expensive,” he said.

Carriers, however, would also be seeking to limit the level of contracted volumes, in order to reap the benefits of higher spot rates.

“Carriers will try to push back on increased minimum quantity commitments,” said Drewry Supply Chain Advisors director Philip Damas.

“The interest of the carriers here is that the spot market is very profitable and they will not want to get more business from the biggest BCOs, which tend to have lower contract rates.”

The key question for the next contracting season would be securing capacity, he said.

“There is clearly huge volatility and unpredictability. The only predictable thing is the volatility.”

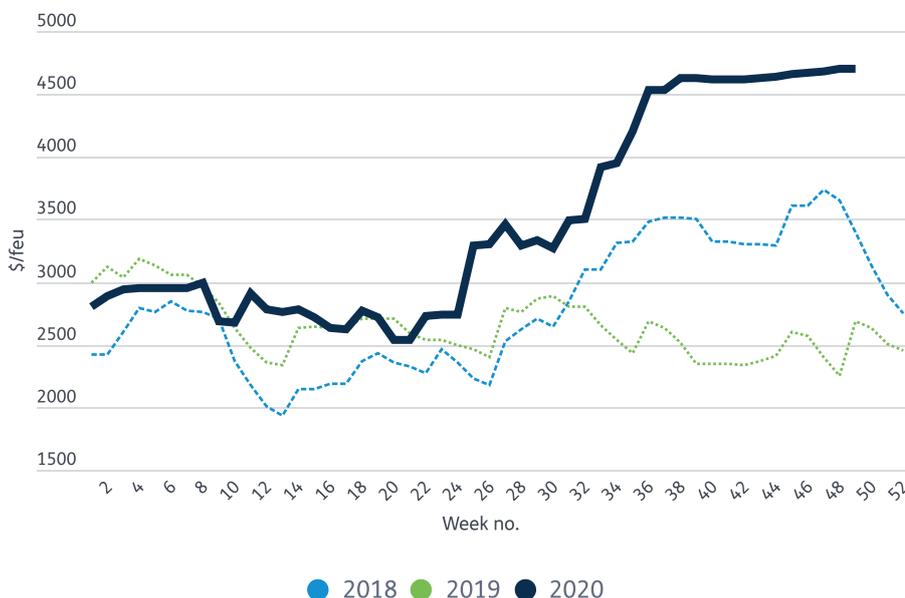
That is a gamble on demand from both sides of the equation, and many expect spot freight rate pressure will ease when the equipment shortage problem is resolved.

“The demand side will remain extremely uncertain for 2021 and 2022,” Mr Jensen said. “Next year could be extremely volatile.”

Longer term, however, a recovery from the pandemic and structural changes in container shipping could see rates higher than they have been over the past five years, he added.

“Carriers are in a much stronger position, where they do not constantly engage in freight rate wars,” Mr Jensen said.

Shanghai Containerised Freight Index: Transpacific spot rates (2018-2020) Asa-US east coast*



*Rates are based on an origin port of Shanghai

Source: Shanghai Shipping Exchange

Dry bulk markets should be entering a period of higher rates, given a downcycle that spanned four years from 2016; but uncertainty about the pace of the recovery post-pandemic is still causing some concern, **Nidaa Bakhsh** reports



Bloem Wlezech/Shutterstock.com

China's stimulus policy led to higher imports of iron ore and coking coal.

While many dry bulk market participants are optimistic – bullish, even – about 2021 prospects, given low fleet growth amid expectations of rebounding demand post-coronavirus, some are citing concern because of the uncertainty related to this recovery, combined with ongoing geopolitical tensions.

Demand growth pegged at somewhere in the region of 4%-5% is positioned against fleet growth of 2%: a scenario that is supportive of higher freight rates in 2021.

In 2020, bulk commodity demand is seen contracting, pulled lower mainly by global coal trades, and mirroring estimates for the global economy. The International Monetary Fund sees a drop of 4.4% in global GDP in 2020, rebounding by 5.2% in 2021.

China was the only country to record growth in 2020 and the lift seen in dry bulk rates in the second half of the year is testament to that, with port calls way above those of 2019, according to Lloyd's List Intelligence data.

Low fleet growth lifts dry bulk spirits

The country's stimulus policy, aimed at infrastructure projects, saw steel production soar, leading to higher imports of iron ore and coking coal, key ingredients in the steel-making industry. It also saw higher soyabean imports as its pig herd gradually recovered from devastating swine flu.

According to Arrow Research, China is charging ahead, with the rest of the world trying to catch up. It expects a "healthier" supply-demand balance next year but it does not expect "outsized gains" because although the recovery is gaining momentum, headwinds persist.

In October 2020, China produced 92.2m

tonnes of steel, up 12.7% on the same month of 2019, according to statistics from the World Steel Association. The global total rose 7% as some countries recovered.

In the first 10 months of 2020, China's output was 874m tonnes, up 5.5% versus the same period in 2019, while the global total shrank by 2%.

Given China's dominance and importance in dry bulk trades, all eyes will be on Beijing's next Five-Year Plan, due to be approved and detailed in early 2021.

'Pretty nice' year ahead

2021 should be "pretty nice" for dry bulk owners, said Shipping Strategy's founder Mark Williams.

The dry bulk market has been on a four-year cycle, and the downturn that started in 2016 should have ended in 2020, were it not for the pandemic.

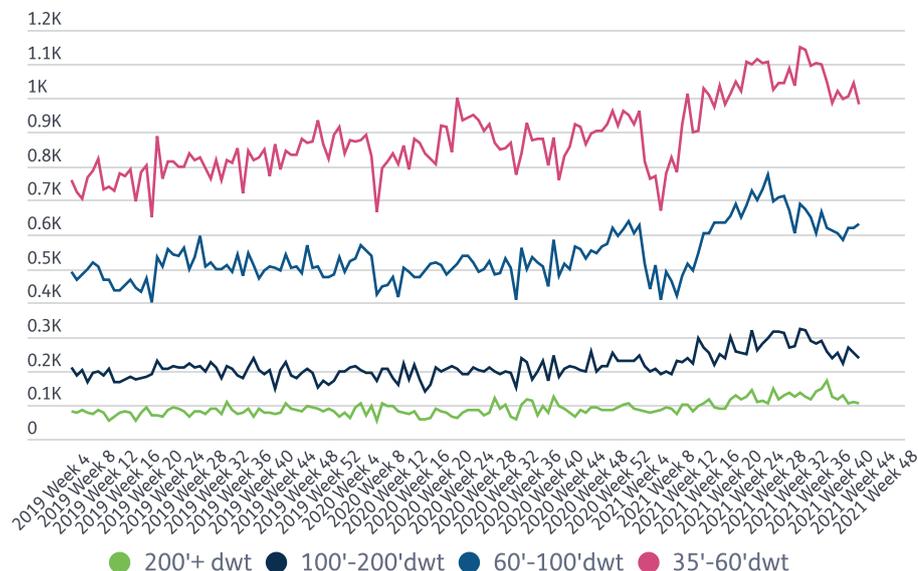
That could mean a slight delay in the start of the new upcycle, the UK-based consultant said, adding that he expects a peak to occur in the latter half of 2022.

"Everyone is excited about a post-coronavirus recovery, seen as a 'super-bump', with latent demand coming to the fore," he said.

While China's steel industry is of paramount importance, Mr Williams said he would be interested to see what China's coal policy will be, given the trade tensions of late that have seen it ban coal from Australia.

It also inked a \$1.5bn deal with Indonesia – a potential sign of Beijing moving away from its largest trading partner.

China bulker port calls by number of vessels



Source: Lloyd's List Intelligence

Oslo-based Clieves Securities also noted how China's economy was normalising, evidence of which lay in record steel production and a drop in steel and iron ore inventories.

Clieves' research head Joakim Hannisdahl does, however, see seasonal factors weighing on the market in the first quarter of 2021, while annual consecutive gains are expected until at least 2023, based on a record low orderbook. Dry bulk was his top pick within shipping.

"We expect that Chinese authorities' stimuli efforts will continue into 2021, and believe that a net restocking will follow as soon as the global commodity market finds a new equilibrium at a higher supply level," he said.

"This could be highly supportive for dry bulk shipping."

Higher iron ore exports from Brazil and Australia gave some respite to the dry bulk market in 2020, and the hope is that volumes can continue that trend in 2021.

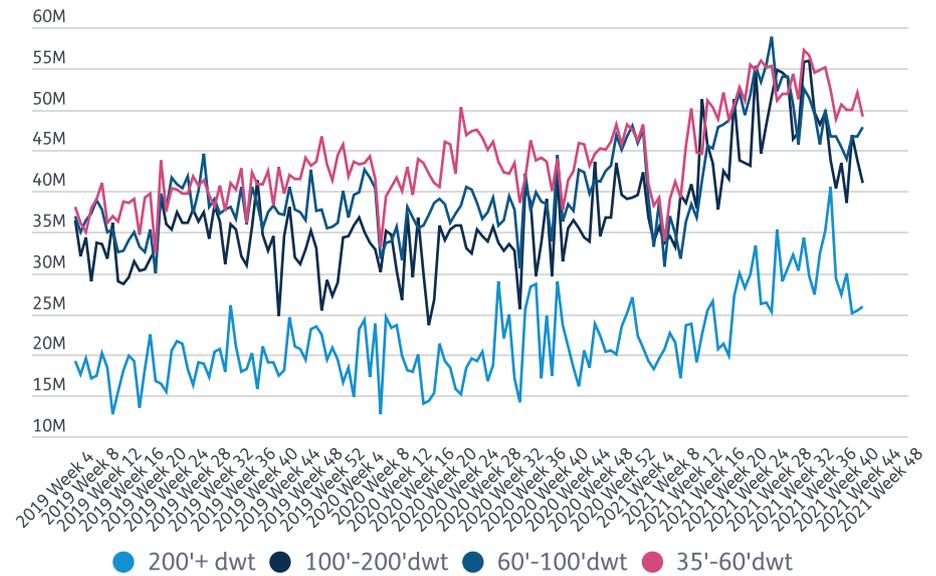
Brazil's mining giant Vale is looking to steadily resume operations following the aftermath of the Brumadinho dam collapse in early 2019, which forced the closure of several mining sites.

The miner said it was targeting iron ore production in the 315m-335m tonnes range in 2021, lower than analysts had expected. That compares with a downward revision to 300m-305m tonnes in 2020. It is aiming for output of 400m tonnes by the end of 2022.

Australian supplies could reach 897m tonnes in 2021 from 875m tonnes in 2020, which itself is a rise of 4% from 2019, Clieves estimates.

While headwinds for coal trade remain, strong demand for agri-products and

China bulker port calls by deadweight tonnes



Source: Lloyd's List Intelligence

minor bulks, including bauxite, should bode well for the market.

The optimistic sentiment has reached shipowners, with all leading listed companies citing strength in 2021. They are also bullish for the long-term prospects of the sector.

Maritime consultants Drewry is expecting higher earnings across all segments, according to its base case scenario, with the one-year time charter rate for a capesize forecast at \$17,100 per day in 2021 versus \$14,900 in 2020.

Similarly, panamaxs are forecast to achieve \$11,900 per day in 2021 from \$10,500, while supramaxes should fetch \$11,100 compared with \$9,800. Handysizes, meanwhile, should increase by \$900 on year to average \$9,900 per day.

Word of caution

Shipping association BIMCO is, however, urging caution.

Its chief shipping analyst Peter Sand expects another challenging and trying year to come, given the steep commodity import drops across advanced economies in 2020, combined with the uncertain path of trade tensions and questions about the pace of recovery, following new daily coronavirus infections. He advised patience until at least 2022 for some seasonal normality to return.

While an expected increase in iron ore exports from Brazil was "an upside" for the market, promises by Vale in the past have been "disappointing" due to various incidents that have curtailed output.

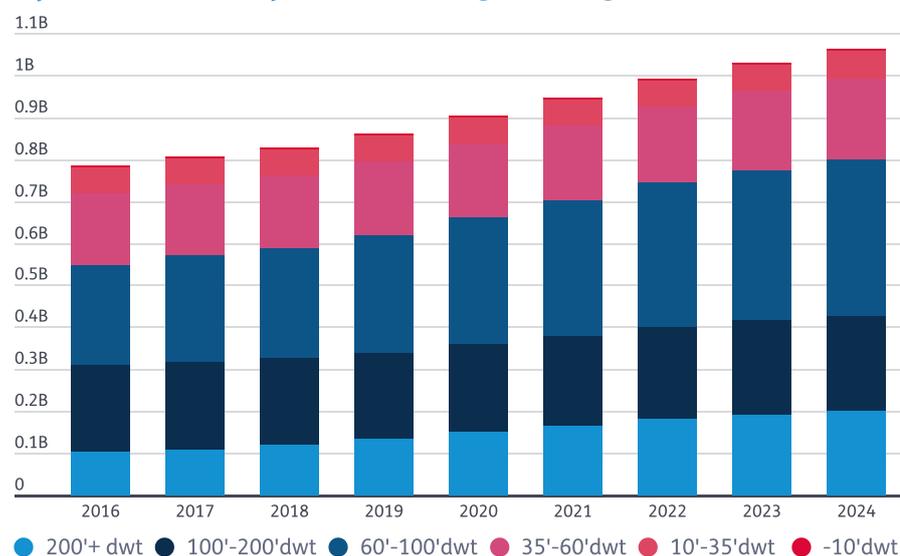
The one overwhelming factor in dry bulk's favour is that the pace of fleet growth is expected to slow to 2% in 2021, marking the lowest increase in capacity since the turn of the century, according to Mr Sand, who anticipates demand growth at 3% to 4%.

BIMCO expects 23.5m dwt to be delivered in 2021, versus demolitions in the range of 5m-10m dwt.

"To some extent, the fall in bunker prices has protected dry bulk earnings from performing even more poorly than they otherwise would have done this year," he said, adding that he expects a "slow" recovery in 2021.

Lloyd's List Intelligence also forecasts lower fleet expansion over the next few years, with a compound annual growth rate of 4.3% from 2020-2024, dropping to 3.6% in the five years to 2029. That compares with 6.4% in the 2010-2019 period.

Dry bulk fleet development (deadweight tonnage)



Source: Lloyd's List Intelligence



Pavel Chagochkin/Shutterstock.com

No significant rebound in tanker earnings is expected until October 2021 or until a coronavirus vaccine is widely distributed.

Can a bipolar tanker market find equilibrium in 2021?

The old shipping adage that cargo is king applies more than ever for 2021. A rising east-west divide, post-Trump geopolitical policies and post-pandemic consumer behaviour are recasting tanker market dynamics over the next 12 months, **Michelle Wiese Bockmann** reports

After a year of extreme volatility, tanker markets begin 2021 with little certainty of how demand for seaborne oil and refined products looks in a post-pandemic world.

The incredible highs and lows of 2020 translated to record rates and record profits, quickly followed by desperately poor earnings – some touching 11-year lows.

Over the final quarter of 2020, rates on most routes equated to sums that barely covered operating expenses, as the coronavirus pandemic's second wave again dented oil demand and slowed the pace of recovery.

No significant rebound in tanker earnings is expected until October 2021 or until a vaccine is widely distributed, tanker owners told investors when providing guidance during third-quarter earnings calls in November 2020.

A fragile recovery may be under way in the oil sector but any forecasts for crude and refined products demand

in 2021 come with significant Covid-related caveats.

The pandemic is not only accelerating a shift to greener fuels or natural gas but home-working and other lasting changes in consumer behaviour suggest an imminent peak or plateau in oil consumption.

Lost volumes from 2020 are not going to be fully replaced in 2021.

Seaborne crude exports contracted by an average of 8.4% to 48.2m bpd in the first 11 months of 2020 compared to 2019 levels of 52.6m bpd. That is equivalent to removing 4.5m bpd from the market, which translates to two very large crude carriers and one aframax tanker in terms of fewer cargoes loading daily, Lloyd's List Intelligence data shows.

Overall crude demand will be 8.8m bpd lower year on year, to average 91.3m bpd in 2020, based on the most recent International Energy Agency forecast. Demand is forecast to rise to 97.1m bpd in 2021.

Unlike the dry bulk sector, where China's voracious appetite for iron ore, coal and grains has buoyed a recovery in freight rates, this nation alone offers little respite for tankers.

So far, China's swift economic rebound has not compensated for lower crude imports registered in North America and Europe, areas of highest demand destruction.

China accounts for one-fifth of seaborne oil imports but nearly two-thirds of the world's coal and iron ore shipments by sea.

Port congestion arising from record monthly crude imports at best provided a brief cushion to tanker spot rates mid-year.

Persistently high global inventories still need to draw further for the oil market to rebalance and cargo volumes to rise.

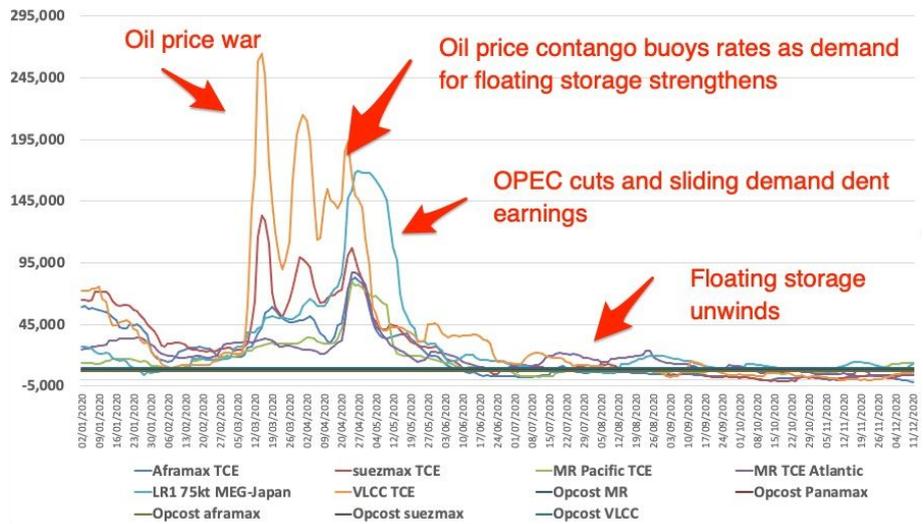
Furthermore, Russia is vying with Saudi Arabia for leading market share in China, which has implications for seaborne volumes. Russia-China imports gained 17% in 2020, all shorter voyages with implications for tonne-mile demand.

Tonne-mile demand measures volumes carried by distance travelled and is a proxy for demand for tankers.

Preliminary figures show 2020 Middle East Gulf volumes from the Organisation of the Petroleum Exporting Countries suppliers are down 10.4% year on year, at 15.8m bpd. Tonne-mile demand is 10.9% lower.

Against this backdrop, Opec and their allies will, at best, return 2m bpd

Clean and dirty tanker earnings vs operating expenses in 2020 (\$/day)*



*Note: operating expenses rose in 2020 to accommodate higher cost of crew changes

Source: Baltic Exchange & BDO Opcost 2019

“
A fragile recovery may be under way in the oil sector but any forecasts for crude and refined products demand in 2021 come with significant Covid-related caveats
”

in production over 2021's first quarter, beginning with 500,000 bpd in January. The addition equates to one more aframax loading daily.

The so-called Opec-plus agreement between 23 oil producing companies removed 9.7m bpd from the market in May 2020 to address freefalling crude prices at 21-year lows. So far, 2m bpd has been returned, in July 2020.

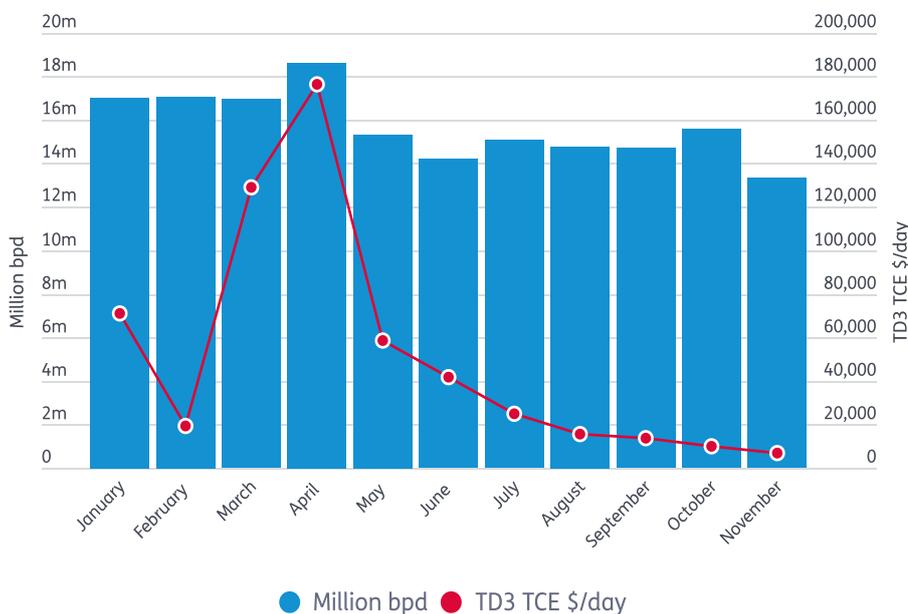
Libyan exports are unlikely to lead to any rates rally. Over November and December 2020, exports from the north African country, which is not subject to the Opec accord, returned to about two-thirds of 2019's 1m bpd. This was at the same time as secondary lockdowns were seen across Europe.

Earnings for the aframax and suezmax tankers that operate on this route remained moribund as refiners that typically buy these grades cut throughput.

With oil prices rallying on news of a vaccine, competition between Opec oil producers, US shale producers and other non-members, such as Brazil and Norway, will intensify. Brent crude was trading around \$50/bbl in mid-December 2020, up 58% from May lows, and near prices that indebted shale producers in the US need to break even.

Investment in Permian-to-US Gulf pipelines boosted exports from the region to a record 3.4m bpd in February 2020 before they slumped. Despite shale producers' indebtedness that has crimped production, the pandemic merely slowed the pace of export growth and has placed a premature cap on what was the fastest-growing crude export trade route.

Middle East Gulf exports (Opec) vs VLCC earnings in 2020 (\$/day)



Source: Lloyd's List Intelligence

Product tankers

Product tankers rely on the dislocation between where refineries are located and where demand lies for profitable operations.

At least 18 refineries have announced closures since Covid-19-related lockdowns decimated demand for gasoline, jet fuel and diesel, mostly in the Atlantic Basin. On paper, this is positive.

However, about 20m bpd out of 79m bpd of global crude distillation capacity remains idle, based on latest IEA estimates.

With the exception of Pacific routes, spot rates for medium range tankers, the workhorse of the product tanker fleet, have not exceeded operating costs since October 2020.

Refinery profits to produce transport fuels from crude have gained from 16-year lows seen in mid-2020, with November gasoil cracks up 45% since June. Yet global utilisation remains around 74%, compared to 84% in 2019, latest IEA figures show.

East of Suez routes are doing better. Shutdowns in the Philippines, Japan and Australia boosted cargoes on medium-range routes from China over November.

West of Suez, lockdowns are having a deleterious impact on refinery output. UK refineries' production levels are typical of northwest Europe and the Mediterranean, with most recent statistics showing utilisation some 20% lower year on year.

The UK was the first to roll out a nationwide vaccination programme in early December 2020, but lockdown restrictions are not seen ending for another four to five months.

Freight derivatives value - VLCC Middle East Gulf to China (\$/day)

	Dec-14	Dec-01	Nov-01
December 2020 (FFA)	16,962	15,635	23,246
January 2021 (FFA)	14,456	14,985	17,055
February 2021 (FFA)	15,066	14,373	17,681
March 2021 (FFA)	16,590	15,038	17,785
April 2021 (FFA)	18,714	16,968	17,368
May 2021 (FFA)	19,171	17,330	n/a
Fourth quarter 2021 (FFA)	32,531	32,131	30,453
Full-year 2021	21,732	21,036	21,115

Source: Baltic Exchange

“ Chinese exports of middle distillates and gasoline for mainly Asian consumption are threatening market share from Middle Eastern and Mediterranean refineries, curbing tonne-miles ”

Given that two-thirds of global crude demand destruction is linked to lower diesel, jet fuel and gasoline consumption, that is significant for product tankers in key Atlantic markets.

Higher utilisation and refinery margins in 2021 will rely on the pace at which driving, flying and manufacturing activity resumes and how quickly this reduces surplus diesel and jet fuel inventories.

Global consumption of petroleum and liquid fuels is forecast at 98.2m bpd in 2021, according to the US Energy Administration. That is up 5.8m bpd from 2020 levels.

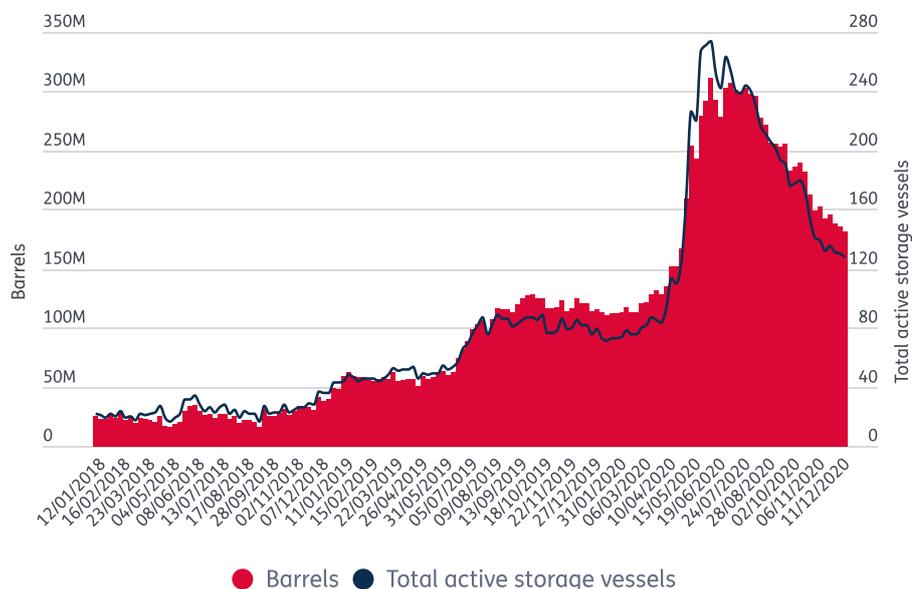
The EIA puts consumption at 92.4m bpd in 2020, a fall of 8.8m bpd from 2019.

Alongside China, rising exports are seen from the US Gulf, one of the major exporting hubs. Shipments of refined products are just 6% lower than February 2020 levels, EIA data shows.

However, this figure incorporates propane and propylene shipments, which have benefited from very strong Asia demand for chemical and plastics industries, which are manufacturing personal protective equipment.

Chinese exports of middle distillates and gasoline for mainly Asian consumption are threatening market share from Middle Eastern and Mediterranean refineries, curbing tonne-miles.

Short-term floating storage for crude and clean products



Note: methodology incorporates ships from panamax-sized tankers and larger, at anchor for 20 days or more

Source: Lloyd's List Intelligence

Price of carbon

Investment delays will keep the orderbook low in 2021, so long as technological uncertainty over future fuels and decarbonisation remains.

Despite the dearth of orders, this offers little short-term respite for the tanker sector, and muddies the medium-term outlook.

Yes, the fleet-to-orderbook ratio is very low; but technical and operational measures for carbon-intensity reduction for existing and newbuilding vessels to meet decarbonisation targets have not yet been agreed by the International Maritime Organization.



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New regulations to be passed at the IMO in 2021 require indices to lower carbon intensity and emissions that will potentially result in retrofitting and equipment expenses alongside operational changes.

The UN body's tardiness has emboldened European regulators to press ahead with their own Emissions Trading System, which will include shipping.

Ammonia-fuelled engines and other alternative fuels are yet to be commercially available, but dual-fuel and LNG-powered vessels are being ordered as a means of transition.

During the pandemic, European and US oil companies committed to net-zero carbon emissions, without fully specifying how they will reach these goals. Nevertheless, this signals a reassessment of the future shape of tanker shipping.

In its annual energy review, BP was one of the first oil companies in 2020 to even suggest that 2019 might represent peak oil demand.

Transport fuels account for 40% of demand for global crude.

Electric vehicle sales grew in 2020, while sales of cars with internal combustion engines plunged.

The greatest take-up of electric cars is in Europe and the UK, which accounts for some 8%-10% of global demand of land transport fuels, and has emissions and efficiency targets.

In November 2020, the UK said it will phase out sales of ICE cars by 2030.

The prospect of ammonia-powered tankers shipping crude oil to refineries in 15 years' time appears even more incongruous.

Sanctions and geopolitical surprises

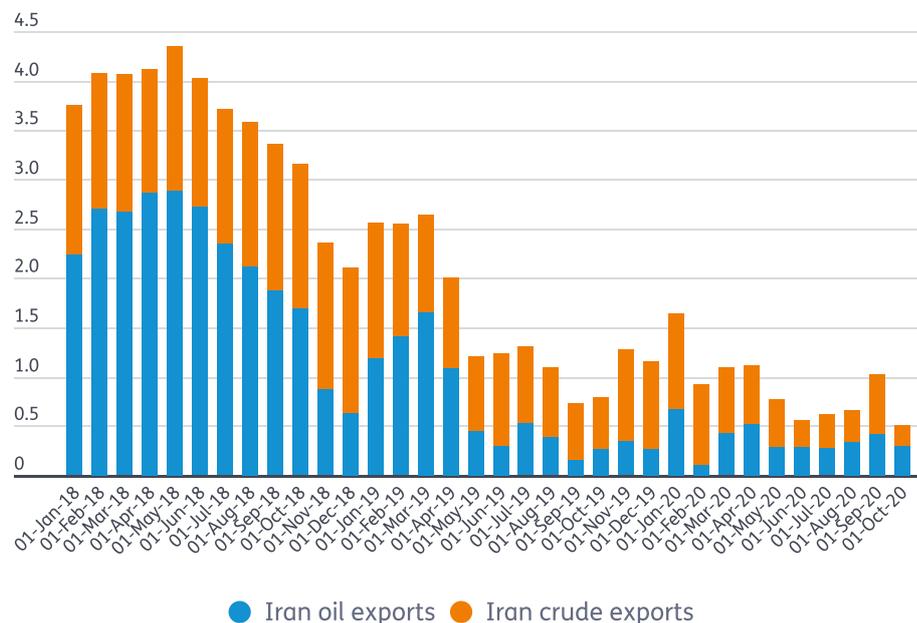
The incoming Biden administration in the US must clean up the geopolitical dirty laundry left behind by Trump. Any removal of sanctions on Iran and Venezuela will have major repercussions for tanker owners.

Once sanctions on Iran are lifted, at least 78.5m barrels of crude stored on 48 Iranian-flagged tankers will be released to the market, before any lift in export volumes is seen. If most of these vessels resume trading, rates will be under even greater pressure.

There is also a subterfuge fleet of elderly tankers operating in sanctioned trades using so-called deceptive shipping practices to escape detection and penalties.

These have been bought on the secondhand market by Iranian or Venezuelan interests over the past 18 months and include some 60 to 70 VLCCs, suezmaxes and aframaxs, Lloyd's List estimates (see also pages 50-53).

US-sanctioned crude oil exports (mbpd)



Source: Lloyd's List Intelligence

Post-sanctions trading or sale may be difficult for many of these vintage ships, making them excellent scrapping candidates.

This should offset the addition of other tankers to the global trading fleet, though to what extent depends on timing and the pace of global economic recovery.

Traders using floating storage between April and September 2020 helped prop up spot tanker rates early in the pandemic.

The release of tankers into an already depressed, overtonnaged market as demand for gasoil, gasoline, diesel and jet fuel remained poor is why rates have not lifted over the seasonally stronger fourth quarter.

How much crude can be released to the market? Iran exported 2.4m bpd and Venezuela 1.4m bpd in 2018, before the imposition of sanctions on their oil and shipping sectors.

Iran's production is now 45% lower, at 1.9m bpd, Opec sources report.

Venezuelan oil exports have been decimated by US sanctions, and are currently less than one-fifth of their pre-sanctions levels, while production is at 80-year lows.

Significant foreign investment will be needed to compensate for decades of underinvestment and poor maintenance from national oil company PDVSA.

Cargo is king

The old shipping adage that cargo is king has never been more relevant for 2021. Talk of fleet-to-orderbook ratios at 20-plus-year lows for the tanker sector cannot alleviate

the immediate oversupply of ships that has arisen from fewer cargoes.

The lowest fleet-to-orderbook ratio is seen for crude handysize tankers, at 2%, according to Braemar ACM data. The ratio is estimated at 8% for medium range tankers, 12% for suezmax tankers, and 9% for VLCCs, data from the London-based shipbroker shows.

Fleet growth remains steady. Deliveries for 2021 are forecast at 127 crude carriers and 192 product tankers, with the fleet growing by 1.9% by number of ships, according to Lloyd's List Intelligence estimates.

The world orderbook for crude oil carriers is at 87m dwt and 468 ships, data shows. Product and chemical tankers account for 497 at 25m dwt. This is second to dry bulk carriers, at 137m dwt.

Closures at recycling yards during the pandemic's first outbreak, higher rates in 2020's first half and a rise in elderly tankers sold for sanctioned trading saw recycling dip to a 22-year low.

Recycling is expected to rebound in 2021 but the pace of recovery again depends on rates and earnings trajectories and an improved scrapping steel price.

For the first time ever, the future of tanker shipping in 2021 appears to lie in the hands of big pharma.

How quickly the clouds over the tanker market that also hover over the 2021 outlook dissipate lies in how fast and how widely vaccines are distributed, and by how much strengthening Asian economies can offset those faltering in the West.



Long-haul voyages from the US to the Far East and Southeast Asia are increasing tonne-mile demand for LPG carriers.

Fleet scarcity to boost 2021 LPG freight rates

Strong LPG fundamentals are expected to present the segment with healthy demand in 2021, while tight fleet supply, driven by a heavy drydocking maintenance schedule for older vessels, will keep freight rates buoyant, **Inderpreet Walia** reports

Nothing is certain in this world – and that goes for the liquefied petroleum gas shipping market, as well.

This is what LPG brokers said when asked about the performance of the market in 2020, and whether the freight rates would improve in 2021.

The LPG tanker segment has been a silver lining in the second half of 2020, mostly on the back of supply-side disruptions, including delays in the Panama Canal, deviation from the normal trade lane for crew changes, as well as longer discharge times in Asia, causing tight fleet capacity.

Although the number of gas carrier deliveries will be the defining factor for the LPG segment in 2021, drydockings and retrofitting will continue to play a supportive role for freight rates.

Meanwhile, global LPG markets still need to harness the second wave of the pandemic that has been preventing inter-regional long-haul movements and work through the low oil price environment to bag outsized gains in the coming year.

Another supporting factor for the segment is the spread between US and Asian LPG prices, which is widening. A wider arbitrage window means more US barrels to Asia.

A favourable commodity price relationship, the continued increase in demand for LPG as a more environmentally friendly alternative to other forms of energy, as well as forecasts for high levels of US shipments supported by export capacity and pipeline investments, are expected to provide long-term support for LPG demand, Dorian LPG said in its latest earnings statement.

Invincible demand

Asia-Pacific is expected to remain the biggest demand centre for LPG, according to Poten & Partners, with China and India accounting for more than 60% of the region's total LPG consumption.

At the same time, long-haul voyages from the US to the Far East and Southeast Asia are increasing tonne-mile demand for LPG carriers and supporting freight rates.

China's LPG imports were impacted by the coronavirus outbreak and lower propane dehydrogenation operating rates in the first half of 2020.

Since then, the operating rates have risen to pre-pandemic levels and more petchem projects have started, leading to additional LPG demand, Drewry's shipping analyst Aman Sud noted.

More than 3m tonnes of PDH capacity is expected to start operation in China in 2021, depending mostly on imported propane.

Indian LPG imports have been phenomenal and are expected to rise further in 2021-2022, aided by a recovering economy and increase in LPG penetration, Mr Sud predicts.

The emergence of new markets in Bangladesh and Vietnam have been vital for both gas trade and shipping markets.

Demand growth is expected to remain strong in these countries, due to rising domestic energy demand and rapidly urbanising populations.

US production support

Resilient US exports – even in the face of a crude price slump – supported the market for very large gas carriers.

Low oil prices have made LPG more competitive but, at the same time, naphtha prices have also become competitive with US propane, both in Europe and Asia.

US exports from January-October 2020 had already surpassed the volume of exports recorded in whole of calendar year 2019.

The recent export capacity addition by Targa and at Nederland is also expected to help boost exports in coming years.

However, capex cut plans, announced by many big players because of the pandemic, could weigh on domestic gas plant field production, as well as on exports from the US in the latter half of 2021, which appears to be the biggest risk for the LPG market, Poten's consultant Shantanu Bhushan said.

Middle East exports have also recovered, following the incremental downward adjustments to Opec-plus output cuts.

LPG fleet composition (Dec 2019 vs Dec 2020)

Ship size (cu m)	In service December 2020		In service December 2019		% change in capacity (on-year)
	Vessels	Capacity (cu m)	Vessels	Capacity (cu m)	
<5000	710	1,601,448	694	1,558,792	2.7%
5000-24999	438	4,892,652	439	4,893,390	0%
25000-49999	105	3,836,555	103	3,763,471	1.9%
50000-64999	23	1,353,872	23	1,353,872	0%
>65000	308	25,166,550	288	23,505,234	7.1%
Total	1,584	36,851,077	1,547	35,074,759	5.1%

Source: Lloyd's List Intelligence

“Capex cut plans, announced by many big players because of the pandemic, could weigh on domestic gas plant field production, as well as on exports from the US in the latter half of 2021, which appears to be the biggest risk for the LPG market”

Special surveys

While strong LPG fundamentals are expected to present the segment with healthy demand in the coming year, freight rates are also forecast to be supported by tight fleet supply, driven by a heavy drydocking maintenance schedule for older vessels.

“The fleet is in a good balance for the time being,” senior analyst at Fearnleys Martin Kjendlie said.

“With the current heavy drydock schedule, fleet availability seems limited and is likely to remain so into 2021.”

Altogether, 80 VLGCs that were delivered during 2015-2016 are expected to undergo mandatory surveys during 2020-2021.

Apart from these, around 23 are scheduled to undergo surveys during the same period, data from Poten shows.

Further, a major share of the 19 VLGCs scheduled for 2021 delivery will join the fleet in the second half of the year, potentially helping freight rates.

Panama congestion boon

Congestion at the Panama Canal has been one of many reasons aiding healthy profits for the segment, especially for VLGCs.

“We believe transits in the neo-panamax locks are likely to further increase on the back of easing restrictions and more trade post-Covid,” Mr Kjendlie said, pointing out that with a ramp-up of more LNG-laden transits, congestion in the new locks would become more severe.

A laden VLGC from Houston takes roughly six round-trip voyages to China in a year if there are no delays at the canal.

If there is a waiting time of 10 days for each ship on each leg while transiting the canal, this will result in fewer than five complete voyages in a year, Mr Bhushan estimates.

Meanwhile, US-Indonesia and US-Thailand trade has also increased, and vessels on these trade lanes usually take a longer route via the Cape of Good Hope, thus tightening vessel supply.

LNG industry finds light in its darkest moments



Shell

Shell's Prelude FLNG off Australia is one project struggling to resume operations from the unscheduled downturn.

2021 will see fewer cargo cancellations as existing LNG plants ramp up output, which will help boost LNG fleet utilisation, observers say, **Hwee Hwee Tan** reports

If things cannot get worse, they can only get better – and this sums up where the market for seaborne liquefied natural gas stands, following historic lows seen in spot trades.

By the end of October 2020, global LNG trade looked set to claw back earlier losses, with full-year forecasts from leading agencies ranging upwards from 362m tonnes.

Commodity intelligence service provider ICIS projected LNG output will grow to 363.3m tonnes, 1.3% higher than in 2019, which is the smallest increment seen since 2016.

The year-on-year increase, while modest, reflects how the industry at large was afflicted by – and is now ready to move on from – the eye of a perfect storm.

The coronavirus outbreak that developed into a worldwide pandemic led to economic lockdowns, which triggered vast demand disruption.

This timing, with significant additions to liquefaction capacity – particularly in the US – fed a bulging supply glut and triggered a wave of cargo cancellations.

LNG prices in Asia and Europe plunged to unprecedented lows, trading at less than \$2 per million British thermal units during dismal summer months.

Poten & Partners estimated that from June to October 2020, around 112 cargoes lifted from the US were cancelled.

Shipping rates tumbled to a trough of around the \$30,000s as carriers ferrying stranded cargoes resorted to slow-steaming.

Behind these dark clouds, however, emerged some silver linings.

LNG shipments to the Atlantic Basin jumped during the first five months of 2020, partly offsetting lower cargo flows to the Pacific during the second quarter, Lloyd's List Intelligence data showed.

Europe emerged, once again, as the sink for arbitrage play as bargain-hunters shipped cargoes bought on the cheap to storage readily available in the region.

Overall, trades in the Pacific slipped underwater from April to August 2020, though the region also benefited from some bright spots.

India took advantage of lower commodity prices to expand imports, countering declines in volumes heading to China and Japan during the first quarter.

From April, China, as the second-largest LNG importer behind Japan, staged a strong rebound. Chinese national oil companies have made up for time lost on bargain-hunting. ICIS LNG Edge named Sinopec and CNOOC as top buyers of spot cargoes for the year through to November 20.

As it drew closer to the winter peak gas heating season up north, two top destinations for US LNG – Japan and South Korea – started ramping up imports in August and September 2020, reversing from a summer slump, LLI data showed.

Shipping firm Golar LNG noted that from early August, a recovery in Asia LNG demand, which overlapped with supply outages in Australia, boosted spot cargo prices and supported inter-basin trades.

Australia's exports took a hit from production shut-ins at Chevron's Gorgon LNG Train 2 and other key liquefaction plants, spurring demand for cargoes elsewhere.

Poten's data showed just two US cargoes cancelled in October 2020, down sharply from 45 in July. Asia spot LNG prices topped \$7 per mmBtu, while shipping rates soared past \$100,000 in late October as available tonnage tightened.

Poten's head of business intelligence Jason Feer noted that more LNG deals in the US were priced on a free-on-board basis.

Australia-focused consultancy EnergyQuest flagged one stand-out spot trade in which a cargo, initially negotiated on delivered ex-ship terms from the Ichthys project, was eventually fixed on an FOB contract.

Cargo owners are motivated to sell on an FOB basis excess volumes from projects that have no access to dedicated fleets, the analytics arm of S&P Global Platts suggested.

If this trend persists, more inquiries for sea freight may come from cargo buyers rather than sellers.

Any upside in shipping demand during the second half, however, historically rides on a seasonal surge linked to gas heating demand, which many consider as losing steam by now.

ICIS assessments suggested spot price rallies in Asia and Europe ended in late October 2020.

Platts Analytics likewise held that, barring colder than normal temperature going forward, Asia's LNG price benchmark for spot trades has already peaked for the winter.

JKM is, nonetheless, expected to be relatively supported, ranging around \$6 per mmBtu before coming off during summer months, it projected.

What would not support winter demand for LNG is the fact that importers have been motivated by a tripling in spot cargoes for the super-chilled fossil fuel since the summer of 2020, to review contractual offtake with piped gas suppliers.

Chinese buyers, for instance, were encouraged to buy LNG available at depressed spot prices to substitute piped gas imports earlier in 2020.

Platts Analytics estimated that this contributed to a year-on-year decrease of roughly 20 cu m per day in China's piped gas imports during the summer months.

ICIS global LNG editor Ed Cox pointed to the likelihood of piped gas contractual obligations standing in the way of any further winter surge for LNG trades.

He noted that gas buyers in Europe and China have nominated pipeline imports "at the bottom end of their long-term take-or-pay contracts as demand weakened in the wake of the pandemic".

These buyers are now obliged to increase their nominations for pipeline imports heading into 2021, he suggested.

Platts Analytics expects Chinese pipeline imports to recover during the winter and grow by 5% from December through to March, as flows from Russia continue to ramp up and spot LNG prices are no longer as competitive. That spells possibly slowing spot LNG trades, which have also come under pressure as the east-west arbitrage window narrows.

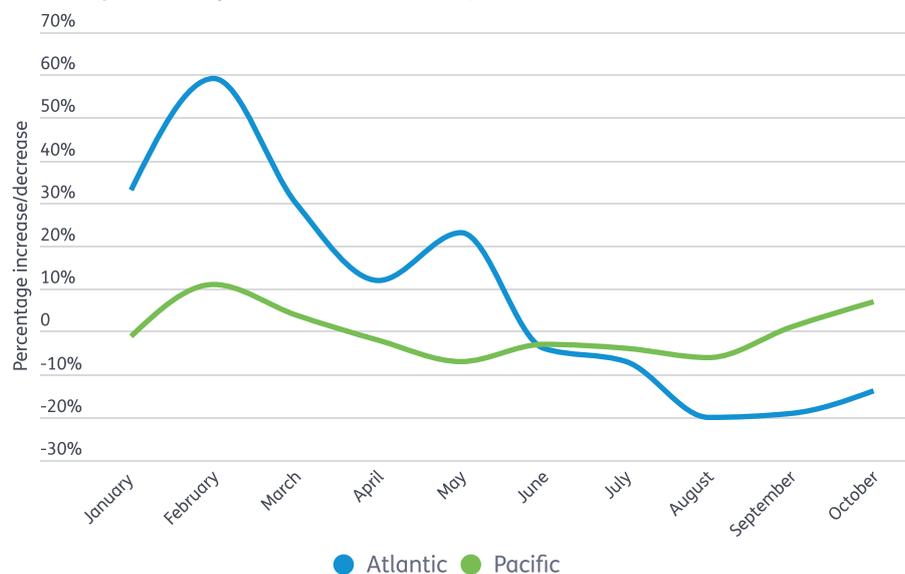
Mr Feer of Poten highlighted concerns over weakening interest in US LNG imports, which spells bad news for long-haul east-west trades and shipping demand.

US price benchmark Henry Hub had risen to \$2.70 mmBtu as of early November 2020 – a price level that does not support competitive standing for US LNG, after taking in freight and liquefaction charges, he observed.

US LNG exports were also subject to heightening scrutiny into its methane emission profile, as concerns over the footprint of oil and gas extraction from shale deposits heightened in Europe and elsewhere.

French utility group Engie backed out of a \$7 bn deal for term offtake from US developer NextDecade's Rio Grande LNG project, dealing a severe blow to

LNG shipments by basin (2020 vs 2019)



Source: Lloyd's List Intelligence

new capacities seeking final investment decisions in the US.

Speculation has been rife, too, since Joe Biden was declared as US president-elect that his incoming administration may look to deliver on his climate change pledge of tightening emission control over domestic oil and gas production.

A legislative update on this front will no doubt drive up US LNG prices, as observed from indicative figures from one research body. Oxford Institute Energy cited one carbon-neutral cargo as having factored in \$2.4m additional costs, or \$0.70 per mmBtu to \$0.80 per mmBtu – more than 10% of Asian spot prices seen late in 2020.

Yet for now, new radical emission laws are deemed unlikely, not least because the Democrats – with whom Mr Biden aligns – do not control the Senate.

Platts Analytics held that insofar as the US Senate composition is not due for an update until 2023, the LNG industry there stands a good chance of staving off tightening emission controls.

There is no denying, though, that any overhang clouding the US LNG industry – both on commercial and legislative front – will not bode well for shipping tonne-miles and rates.

Mr Feer has warned that shipping rates would be "fairly soft next year", following a winter surge in spot charter rates to as much as \$113,000 on some trades, according to Poten's assessments dated November 13, 2020.

This still falls short of matching last winter's peak of \$140,000, though the worst could be over for LNG shipping demand, if the brokerage's view of the cargo market holds true.

"We think the market will be abundantly supplied with LNG and we expect a moderate level of cancellations in the spring and summer, though not as many as 2020," Mr Feer remarked.

Poten's projections for shipping rates would have factored in significant fleet additions over the next two years.

Cleaves Securities separately forecast a 9% net fleet growth in 2021, to be followed by another 6% expansion in 2022.

This represents 14.6m cu m of new shipping capacity, which will not be matched by demand growth from new liquefaction capacity that will come in at around 5.4m cu m, going by its estimates.

On a brighter note, fleet utilisation looks set to improve if LNG plants, which ran at far below full capacities in the summer of 2020, continue to expand output as expected in 2021.

Fleet utilisation for LNG carriers is expected to reach 81% in 2021, up 80% for 2020, but down from 84% for 2019, Cleaves Securities suggested in its year-end LNG outlook.

It did not provide guidance on utilisation levels for global liquefaction in 2020 and 2021.

However, ICIS forecast reflected a year-on-year expansion of 21.4m tonnes for LNG production, to 385m tonnes in 2021.

Platts Analytics weighed in, however, on the downside risks from LNG production continuing to fail to match expectations.

Taking this into account, spot market shipping rates may well drop from \$106,000 for December 2020, to average \$54,000 for the first quarter of 2021, its assessments as of November 20, 2020 showed.



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The range of players is gently widening as a number of smaller and medium-sized banks have made their debut in the sector.

Alternative finance on the rise as Chinese lessors falter

Ship finance has ceased being a matter of banks or public markets and experts say there are potential sources of funding for most shipping companies out there, in spite of the pandemic and other challenges, **Nigel Lowry** reports

In the space of little more than a decade, the ship finance landscape has changed radically and is still evolving.

Back then, the industry's needs were more or less covered by banks, the traditional source of funds for shipowners the world over, and the public capital markets that had opened up to a wider circle of industry players amid the allure of shipping's super-cycle.

"So long as you keep building ships, there is capital available," a recent Capital Link conference was told by Richard Jansen, managing director of Braemar Naves, an international corporate finance advisor to all sides of the industry.

"But the sources have changed and they have become much more specific.

"As a shipowner, you now have to spend a lot more time to pinpoint pockets of money. It is a lot more challenging. One thing that could fit today does not necessarily fit tomorrow, even if it is essentially for a similar deal," he added.

According to a recent study by Petrofin Bank Research, a specialist in tracking shipping portfolios, 2019 saw global bank finance for shipping fall to its lowest level for 13 years.

The top 40 shipping banks worldwide had a combined portfolio of \$294bn by end-2019, a fall of 35% since the banks' heyday in 2011.

That trend, however, had shown signs of bottoming out, with a reduction in the global portfolio of just 1% in 2019.

Just as Petrofin felt able to declare that the decline of traditional ship lending, predominantly by western banks, appeared to have "run its course", along came the coronavirus pandemic to cast a further cloud on the industry's financing prospects.

According to Petrofin, banks have inevitably been more cautious, given the uncertainties engendered by the pandemic. Yet, on the whole, the shipping industry "weathered the storm well", with the exception of offshore and cruising.

At certain banks, ship finance officers even feel the standing of shipping business within their banks has been enhanced because of the relatively robust performance of their portfolios, compared with many other sectors of business that have been shattered by the pandemic.

A greater impact appears to have been felt among Chinese leasing companies, Petrofin said. They had been heavily exposed to the aviation sector – a factor that, in combination with higher US dollar funding costs, led to a slowdown in their activities.

Independently, Lloyd’s List has reported that lending by Chinese lessors has dipped substantially in 2020.

According to specialist Smarine Advisors, the sector is on course to reach about \$13.5bn in actual drawdowns for 2020, a reduction of 15% from 2019.

Peering through all the smoke in an effort to discern what might materialise in 2021, there appears little immediate prospect of a resurgence of enthusiasm for shipping on Wall Street – at least as far as initial public offerings are concerned.

China remains a major source of capital and some leasing houses that are relative newcomers to the shipping market have shown ambitions to grow their presence in the industry.

However, the overall perception is that the country’s leading maritime lessors have relatively full books and are becoming more discerning in the business they take on, with tighter screening of leaseback deals.

As Lloyd’s List has reported, some leasing house executives also acknowledge that China’s so-called dual-circulation development strategy may divert more funds to domestic shipping business and take a toll on the capacity available for financing international owners.

Meanwhile, banks remain the single largest species of financier for the industry



“
As a shipowner, you now have to spend a lot more time to pinpoint pockets of money. It is a lot more challenging
”

Richard Jansen
Managing director
Braemar Naves

– albeit one that has overall been on the back foot for the past decade.

Those that have remained active lenders to shipping have had relatively free rein in recent years, as many of their strongest rivals have drawn in their horns and may be close to self-imposed ceilings on expansion.

The range of players is gently widening as a number of smaller and medium-sized banks have made their debut in the sector and have cautiously been building their portfolios in an ongoing process.

For bank ship finance, however, the emphasis will remain less on how much of the shipping industry’s voluminous finance needs they can cover and more on precisely to whom they will be lending.

There is a gathering trend for credit committees to favour the larger, more corporate shipping groups over smaller, family-owned players – and, in today’s market, in any case, most banks can afford to pick and choose their clients.

Moreover, that choice of clients will increasingly be swayed by how well specific fleets accord with the industry’s emissions reductions targets, as more institutions subscribe to the so-called Poseidon Principles, the banks’ headline

move to help promote the industry’s decarbonisation.

Given the constraints and uncertainties faced by so many quarters of the ship finance market, it seems likely that the amorphous pool of capital providers, lenders and financial matchmakers that identify as alternative finance providers will continue to grow.

According to Nicolas Duran, who heads the asset-backed finance team at niche maritime and energy sector investment bank Fearnleys, “there are financing solutions out there for most companies in this industry, even for the smaller ones”.

He added: “For much of the industry, the cost of capital is the most important factor and one would think that the Tier 1 owners who have access to the cheapest debt are always going to win.”

However, that was not necessarily so, Mr Duran said recently.

Shipping was “a very strange industry”, where a US-listed owner of more than 100 ships competed with a family-owned firm in Asia with three vessels “and everything in between”.

Capital for smaller owners may often be more expensive, “but there are so many other factors in play”, said Mr Duran.

“Even for Tier 1 owners, there are parts of their fleet that are not financeable from traditional lenders. If you want to finance a 10-year-old asset, you are going to struggle a bit on that. They all want to finance a dual-fuel newbuilding programme.”

Mr Duran said there was a trend towards “private capital and private solutions for everyone except a very few”.

By way of example, Fearnleys – which had raised about \$11bn for the maritime sector in the past four years – used to rely mainly on capital market transactions, but now “the focus has shifted more towards alternative finance”, Mr Duran said.

“
For much of the industry, the cost of capital is the most important factor and one would think the Tier 1 owners... are going to win
”

Nicolas Duran
Director and partner
Fearnleys Securities





Kanok Sulaiman/Shutterstock.com

For hull and machinery, brokers are predicting that hull rates will go 10%, 15% or even 20% higher.

Marine insurance outlook in two words: more expensive

Insurance is a major element of operating expenses, and both P&I clubs and hull underwriters are looking for more money in 2021, **David Osler** reports

The outlook for marine insurance in the year ahead can be summarised in just two words: more expensive.

There is no need to even consult a crystal ball for P&I. At the time of writing, the majority of International Group affiliates had already revealed their hands, and almost all are seeking increases in the range of 5% to 10% at the next renewal round, which finishes on February 20, 2021.

The outlook is even worse for hull and machinery, with brokers predicting that hull rates will go 10%, 15% or even 20% higher, according to Insurance Day, the sister publication of Lloyd's List.

It is important not to over-simplify here. There will be extensive adjustment by loss records, with owners whose

records are deemed adverse likely to find themselves asked for even more than that.

On the other hand, reaching insurance contracts is a two-way process, especially for those whose fleet size gives them bargaining clout. Insurers are prepared for pushback, especially on double-digit asks.

A rule of thumb — confirmed privately by one P&I club chief executive — is that clubs often only achieve around one-half to two-thirds of the increases for which they ask.

That was born out by practical experience last year, when the going rate for announced P&I increases was 7.5%. The outcome, in the words of one broker “more like three, three and a half-ish” in the real world.

It is also difficult to translate percentages into real money, given the wider variance between vessels.

However, the rule of thumb is that it equates to at least one dollar in every 10 bucks an owner spends on opex, and often more, making it a major overhead.

What we know so far is that announced P&I club GIs run from 5% at Steamship and the American Club to 7.5% at West and as high as 10% at Standard, the UK Club and North.

In addition, two clubs have said they will seek additional premiums via ship-by-ship pricing, with Gard aiming between 2.5% to 5%.

Britannia has confirmed that it is seeking high single digits in terms of percentage points.

Erosion of rate levels

The basic case is the real-terms erosion of rate levels over many years, combined with falling investment returns in a period in which markets were spooked by coronavirus, which will see free reserves take a hit.

There has also been a spate of major casualties that has seen pool claims for the first six months of 2020 hit an all-time high for the halfway stage.

Marine hull has been a perpetual loss-maker for the past two decades and recent years have been marked by the sentiment that firmer pricing was only a matter of time.

One catalyst has been the Lloyd's Decile 10 programme, essentially a shakeout of underperformers that saw dozens of hull insurers pull out of hull, significantly reducing capacity.

So far, expectations of dramatic hardening have been confounded.



Daren Mauree/Express Maurice/APF via Getty Images

A spate of major casualties has seen pool claims hit an all-time high.

A presentation at the virtual International Union of Marine Insurance conference in September 2020 revealed that global ocean hull premiums reached \$6.9bn in 2019, a gain of only 0.2% on 2018.

Added impetus

However, in 2020, the process has been given added impetus by the coronavirus pandemic and subsequent economic downturn, as well as ongoing natural catastrophe losses, which have added to the pressure on the insurance market as a whole.

Rising reinsurance rates will also add to the pressure on primary writers to increase prices.

“Many underwriters are still complaining that they are not making money on the portfolio, so I expect to see rises continue globally, but perhaps levelling off in 2021,” said Marcus Baker, global head of marine at broking giant Marsh JLT Specialty.

He also expects the impact of the behavioural analytics and data providers will come to the fore, leading to greater accuracy in pricing.

“Many underwriters are still complaining that they are not making money on the portfolio, so I expect to see rises continue globally, but perhaps levelling off in 2021”

Marcus Baker
Global head of marine
Marsh JLT Specialty





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Container availability in China is at a record low.

Gravity of global economy is rapidly moving east

The signing of RCEP will further shift the global economy to Asia and many in the US and in Europe may be underestimating the speed of this movement, **Niklas Bengtsson** and **Adam Sharpe** report

Beyond its short-term impact on output, the coronavirus pandemic is expected to mean a slowdown of productivity growth — as did previous epidemics, such as Sars, Mers, Ebola and Zika, all affecting emerging markets more than the developed world.

Prior to the pandemic, many countries were already facing high levels of debt — which has certainly got worse — and this, in turn, means that necessary investments will be put on hold.

This gives room for world leaders to make a difference and act to the benefit of their own people — but also to continue the path towards globalisation, which will ultimately increase total world economic growth.

On this theme, some 15 Asia-Pacific countries have signed a free trade

agreement, known as the Regional Comprehensive Economic Partnership.

The deal, which took years to negotiate, is the first to include China, Japan and South Korea. Australia, New Zealand and the Asean countries (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam) are also signatories.

Analysts expect shipping and ports in Asia will benefit from the agreement as it will spur regional trade in the longer term and reduce risks associated with protectionism elsewhere in the world.

Chinese investment bank CICC said in a research report that RCEP will “effectively” increase trading activities between the member countries and reduce the region’s reliance on the US.

Shanghai-based SWS Securities says

the implementation of the agreement to reduce tariffs will be crucial but expects container shipping lines, especially those that specialise in intra-Asia trade, to benefit from RCEP.

Dry bulk shipping companies may also enjoy an uplift if the multilateral trade deal can help to ease the current tensions between China and Australia.

RCEP covers nearly one-third of the global economy but, given the pace of the growth in these countries compared with the rest of the world, it will cover half of global GDP within 10 years.

This is the first real global treaty that does not include the EU or US. The economic gravity in the world is moving east and many in the US and in Europe may underestimate the speed of this movement.

The health crisis has underpinned this development, with China being the only large economy seeing positive growth over the course of 2020.

The signed treaty reflects the importance of trading partners for China. The Asean countries have passed the EU as the largest trading partner – and, given the One Belt, One Road initiative from China, this development is set to continue.

According to the International Monetary Fund’s latest forecast, China is the only major economy expected to record GDP growth in 2020, but many other countries and regions will see a significant bounce-back in 2021.

This is based on the expectation that the pandemic will be brought under control and economies return to something like normal. The news of three potential vaccines being ready during the forthcoming months underscores this line of thinking.

Looking at the equity markets, stock exchanges all around the world are counting on a broad recovery in the world economy in 2021.

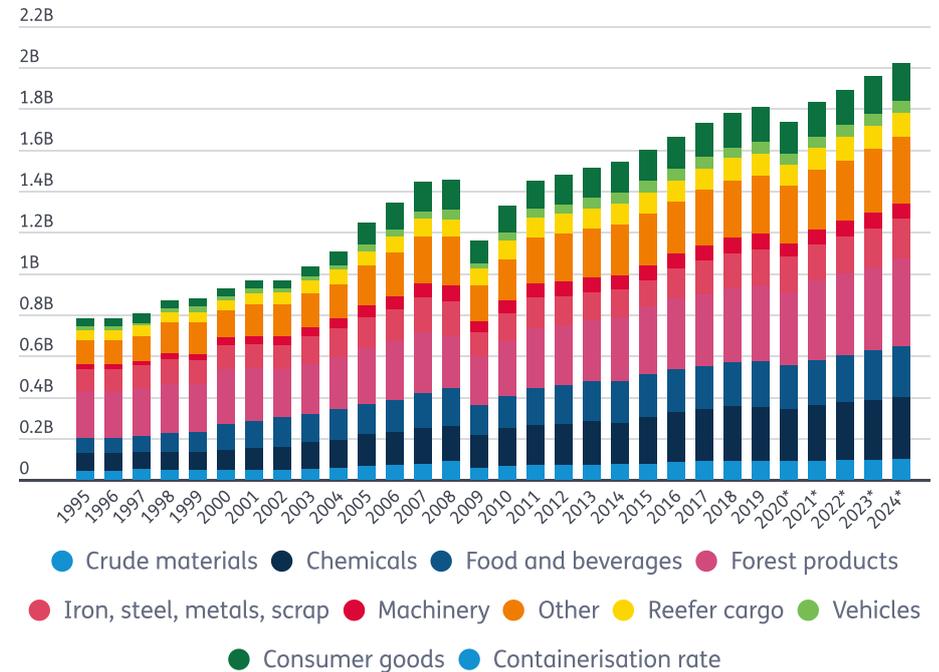
Trade recovery

Trade is expected to bounce back to the 2019 level in 2021 because of the diversity of the commodities that are transported.

Even though consumption of some commodities and products has come down in 2020, others have risen during the pandemic.

The pandemic has seriously affected global trade and, from the start, the

Seaborne trade of container and general cargo vessels by product (tonnes)



*forecast

Source: Lloyd’s List Intelligence

container sector was especially impacted, although it has moved slightly better since then.

Container spot freight rates from Asia to northern Europe broke the \$2,000 per teu level for the first time in a decade after rising by more than a quarter during the last week of November 2020.

The Shanghai Containerised Freight Index reported rates of \$2,091 per teu on the Asia-northern Europe trade.

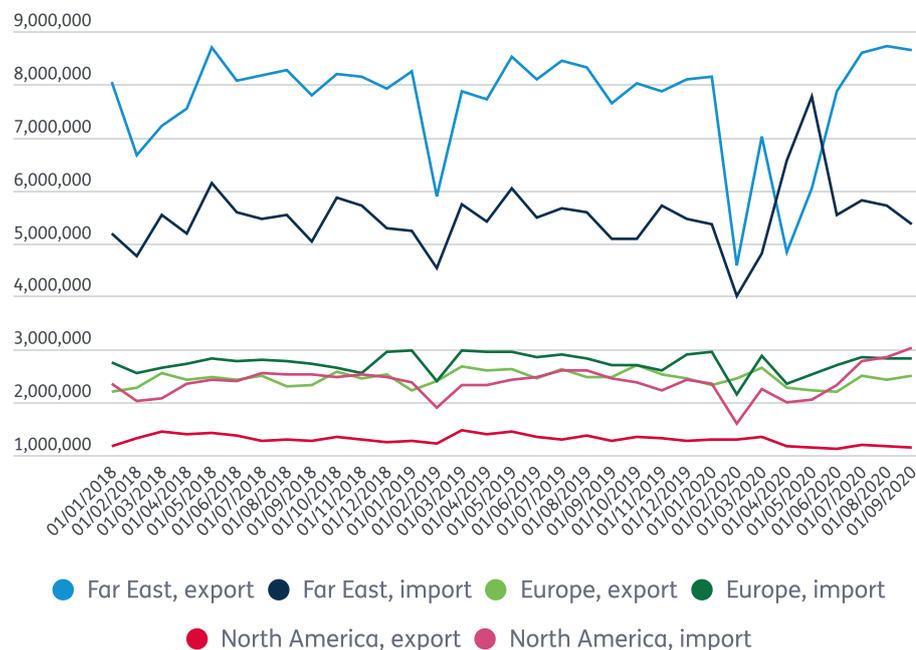
The last time rates were this high was during the “dead cat bounce” that followed the global financial crisis, when rates topped £2,100 (\$2,807) per teu in May 2010.

This situation also highlights the continuing trade imbalance between Asia and the West since the start of the pandemic.

For example, for every three and a half containers being imported into Los Angeles from overseas in November 2020, only one container was leaving filled with US goods.

This is partly due to carriers prioritising the fast return of more containers to export markets in Asia, to capitalise on the strong headhaul freight rates, rather than sending out export containers.

Monthly containerised trade by region (in teu)



Source: Container Trade Statistics

Container availability

Container availability in China is at a record low and the bottlenecks this creates in the containerised freight supply chain could mean that surges in spot freight rates on some trade lanes have further to run.

In the first nine months of 2020, container volumes with or within Europe contracted by 5.6% to 39.7m teu, according to Container Trade Statistics. Exports from Europe fell by 5%.

Of all routes, Far East exports have been the least affected, with a drop of 1%. The other major routes lost between 4.5% and 7.5%.



Studio concept/Shutterstock.com

Deliveries of vehicle carriers in the next five years are expected to be less than half the number seen in 2015-2019.

Vehicle carrier deliveries to drop in coming years

Orders for vehicle carriers will be very low in the 2020-24 period compared with the previous five years, while the size of the fleet is expected to remain relatively stable going forward, **Adam Sharpe** reports

Just 18 ships with a capacity of less than 100,000 ceu were in the vehicle carrier orderbook as of November 2020, according to the latest update to the Lloyd's List Shipbuilding Outlook.

The delivery of carriers will be extraordinarily low in the next five years, with a forecast for only 39 ships to be delivered. This is less than half of the figures from 2015-2019, measured in both numbers and in capacity, Lloyd's List Intelligence said.

There are currently 156 vehicle carriers built before the year 2000 in the fleet. Together they have a capacity of 455,000 ceu, or 12% of the current fleet.

Some of these will be removed in the 2020-2024 period, since they will have become too old.

In 2020-2024, 70 vehicle carriers are forecast to be removed from the fleet, which is six ships fewer than in 2015-2019.

These 70 ships have a capacity of 278,000 ceu, which is 9% less than in the previous five years.

The Lloyd's List Intelligence forecast for new contracts in 2020-2024 is also low, due to uncertain times within the industry as a result of the economic impacts of the coronavirus pandemic.

Only 55 new ships are forecast to be ordered, nine fewer than in 2015-2019.



The forecast for new contracts in 2020-2024 is also low ... as a result of the economic impacts of the coronavirus pandemic



Cargo ro-ro

Meanwhile, the cargo ro-ro fleet stood at 1.97m lane metres in November 2020, spread over 1,208 units.

Up until 2008, there was consistent growth seen in the total fleet size for the cargo ro-ro fleet but the great recession year of 2009 hit the sector very hard and the fleet then decreased in size until 2014.

After three years with virtually no fleet change, it started to grow again in 2018. In 2020-2024, the fleet is forecast to continue to grow, mostly due to the large orderbook.

There are currently 74 carriers in the orderbook, or 6% of the fleet in terms of numbers, but these ships have a combined capacity of 321,000 lane metres, which is 22% of the fleet in capacity terms.

Due to the large orderbook, deliveries are set to be strong in 2020-2024, at 400,000 lane metres, an increase of 70% compared with 2015-2019.

In numbers terms, deliveries are forecast at 113, which is 36 more than in the previous five years.

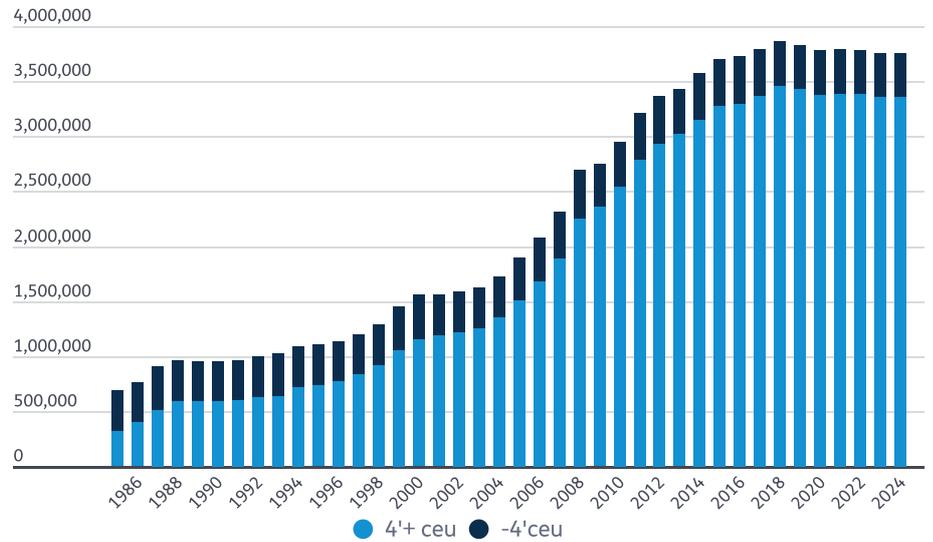
There are still many old ships in the ro-ro fleet, with some 747 of the 1,208 carriers built before the year 2000. Some 631 of those are smaller than 2,000 lane metres.

This has driven up the Lloyd's List Intelligence forecast for removals, which stands at 185 ships until year-end 2024. This is 100 ships more than in 2015-2019. Most of the ships will be small, so the removed capacity will only increase by 30%.

The new contract forecast for the 2020-2024 period stands at 63 (131,000 lane metres), of which 30 will be large vessels and 33 smaller ones. This is 50% fewer orders than in the previous five years.

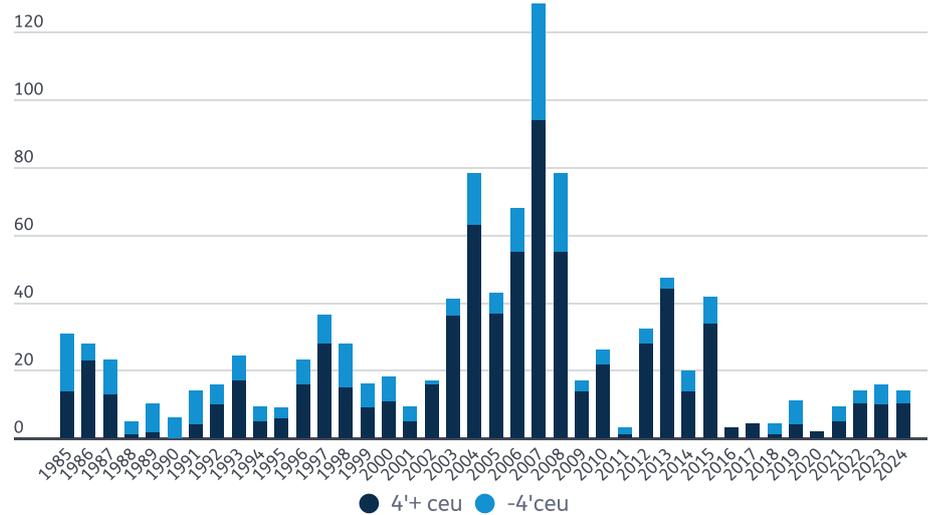
The Lloyd's List Intelligence Shipbuilding Outlook offers accurate forecasts and unique insight into each shipping market segment. For more information, go to: <http://lloydslist.maritimeintelligence.informa.com/products-and-services/lloyds-list-intelligence/shipbuilding-outlook>

Global vehicle carrier fleet in ceu



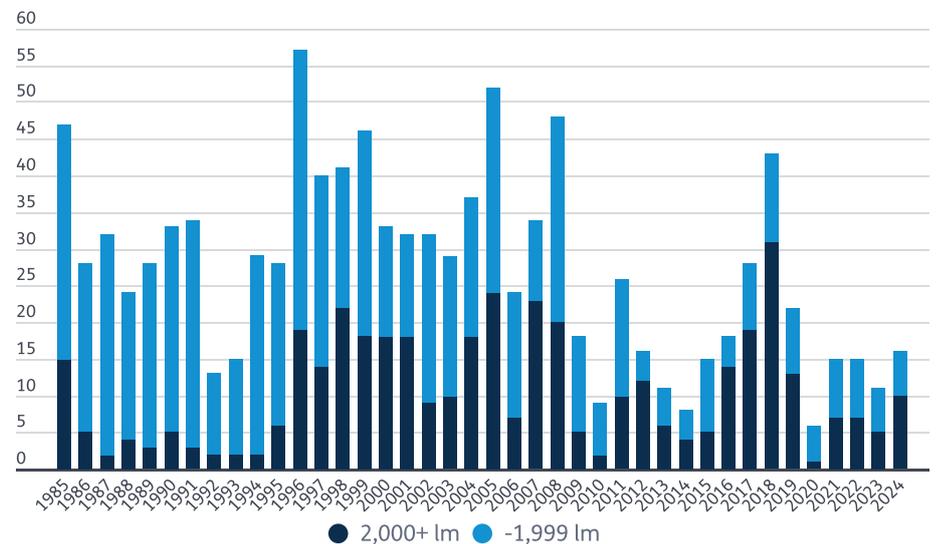
Source: Lloyd's List Intelligence

Vehicle carrier contracts in number of ships



Source: Lloyd's List Intelligence

Cargo ro-ro contracts in number of ships



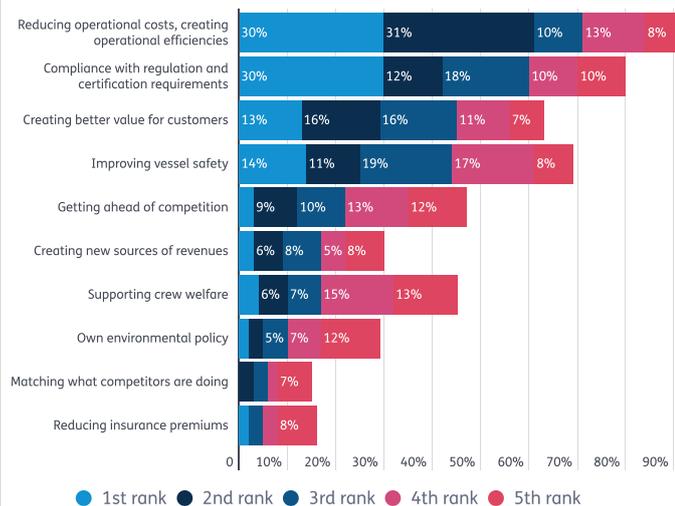
Source: Lloyd's List Intelligence



The month in charts with Adam Sharpe

Key drivers for adopting digital solutions

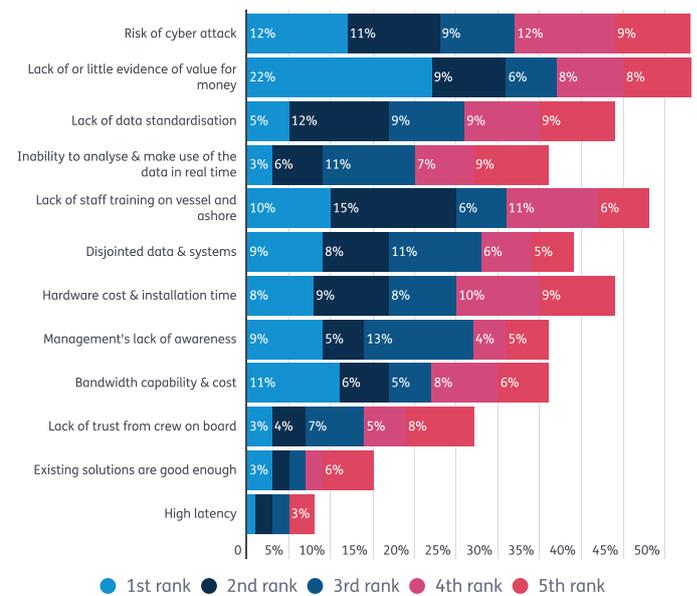
Respondents were asked to rank in order of importance, 1 being most important, the key drivers for their organisation in adopting digital solutions



Source: Inmarsat/Lloyd's List Digitalisation Uncovered report

Key challenges for implementing digital solutions

Respondents were asked to rank in order of importance, 1 being most important, the biggest challenges for their organisation in adopting digital solutions



Source: Inmarsat/Lloyd's List Digitalisation Uncovered report

Key digitalisation drivers revealed; new decarbonisation survey results

A report from Lloyd's List/Inmarsat reveals the main factors behind shipping's push towards digitalisation, while initial results of a new survey show around one-third of respondents have reacted to the industry ambition for decarbonisation by making changes to vessel types or specifications in fleet investment plans

Reducing operational costs and creating operational efficiencies are the key drivers behind shipping's move towards digitalisation, according to the results of a Lloyd's List/Inmarsat survey.

The results of the survey were released as part of the Digitalisation Uncovered publication, which outlines current views from across the industry, together with expectations for the next two years.

A webinar to accompany the launch of the report outlined how this year has been a significant milestone in the industry's journey towards digitalisation, especially in the areas of safety and sustainability.

Whether in dry bulk, tankers, containers or offshore, the health crisis has expedited the need to get "the right information to the right people at the right time", said Eric Hånell, chief executive of Stena Bulk in Sweden.

While the pandemic has forced vessel operators to gain access to data points, the

momentum will continue long after the virus has been controlled.

Inmarsat maritime president Ronald Spithout commented that data standardisation — one of the key challenges for the industry — "will come quicker than you think".

As soon as the economic benefit of investment in digital solutions became clear, he said, the roll-out would begin in earnest. He advised the industry not to wait for the International Maritime Organization to regulate.

Decarbonisation survey

Initial results of the recently launched Lloyd's List/Lloyd's Register Shipping Decarbonisation Survey show that around one-third of respondents so far have reacted to the industry ambition for decarbonisation by making changes to vessel types or specifications when it comes to their fleet investment plans.



Presented at the Lloyd's List 2021 Shipping Outlook Forum in early December 2020, the initial results of the survey also found that almost 20% said the ambition has had no impact on their fleet investment plans to date, while around 15% said they plan to grow the size of their fleet.

Among the other results gathered so far, 29% of respondents said they are already deploying fuel optimisation technology on vessels; 27% are applying new energy efficiency coatings; and 25% are practising slow-steaming.

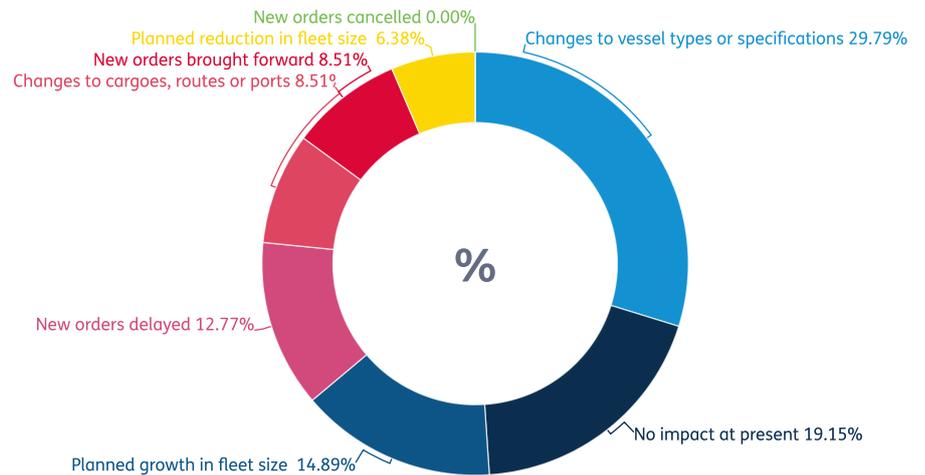
Elsewhere, 22% of respondents believe mandatory regulation is needed before companies will accelerate or intensify decarbonisation activities, while 18% think financial incentives are required.

By charting the industry's position on alternative fuels, investment and financing, the Lloyd's List/Lloyd's Register Decarbonisation Survey will start to reveal a uniquely independent view of the industry's shift towards low- and zero-carbon fuels.

The regular poll of industry decision-makers will create a dynamic view of shifting sentiment and investment as owners and financiers move from fleet renewal favouring flexibility to strategic investments to fit a complex multi-fuel future.

Once combined with Lloyd's List Intelligence's long-term shipbuilding forecasts, the development of a decarbonisation index will offer an industry benchmark.

What impact has the industry ambition for decarbonisation of shipping had on your fleet investment plans?



Source: Lloyd's Register & Lloyd's List Decarbonisation Survey

There is still time to add your voice and take part in the debate by completing the survey at:
https://informa.co1.qualtrics.com/jfe/form/SV_1AntsblcclXLCw

New investor indices

A newly developed 'health of earnings' index for the global bulk carrier fleet shows the sector's profitability dropped in November 2020 to the lowest since June.

The London-based Baltic Exchange has released the index as part of a series of investor indices, which it hopes to sell to banks and business services to provide

greater visibility in decision-making. The composite index measures the average of what the four bulk carrier vessel types are earning on the spot market as a ratio of operating costs.

During November 2020, the index averaged 1,394 points, the lowest monthly average since June's 1,059 points.

The Dry Health of Earnings Index features income derived from spot rates divided by operating costs, then multiplied by 1,000 to produce a number against which a further 1,000 is deducted.

The resulting number serves as a headline showing the general state of the bulk market, said Baltic Exchange chief executive Mark Jackson. "If the number is below zero, then you know the owner isn't making any money at all," he said.

The index reported a negative number for a six-day period in May 2020, at the height of the pandemic, but rebounded swiftly, with monthly averages gaining every month except for September and November, data shows.

The month in charts is taken from Lloyd's List's regular column The week in charts, published online each and every Friday

“
 If the number is below zero,
 then you know the owner isn't
 making any money at all
 ”

Dry Health of Earnings Index 2020



Source: Baltic Exchange



Ask the Analyst with Sebastian Villyn

Lloyd's List Intelligence's team of experts on the issues shaping shipping

Spotting deceptive shipping practices

Deceptive shipping practices expose all counterparties to sanction risks. Knowing how to spot these, and which vessels to monitor, will go a long way in protecting an organisation from wider supply chain risks, reports **Sebastian Villyn**

Shipments of Venezuelan crude, contravening US sanctions, are actively occurring. Unapologetically arranged by Chinese, Iranian, Venezuelan and other interests, the trade is facilitated through acquisitions of secondhand tonnage.

Unbeknown to the sellers, once the vessel has been delivered to new owners, it is deployed to load or discharge oil cargo.

Flag states or classifications societies are not always notified in time to update their status from 'in class' to 'class suspended', giving the vessels a facade of legitimacy when loading.

This makes it difficult for counterparties to stay informed and exposes those supplying or insuring these vessels to sanction risks.

In November 2020, Lloyd's List uncovered three very large crude carriers, calling at Puerto Jose anchorage in Venezuela, lifting Venezuelan crude.

For the China-flagged *Thousand Sunny* (formerly *Junin*), the vessel's automatic identification system indicated that the tanker had a November 5 estimated time of arrival destination of Aruba.

However, by November 13, the vessel had arrived in Puerto Jose, with the ETA destination and date unchanged. The ETA is manually entered by the crew.

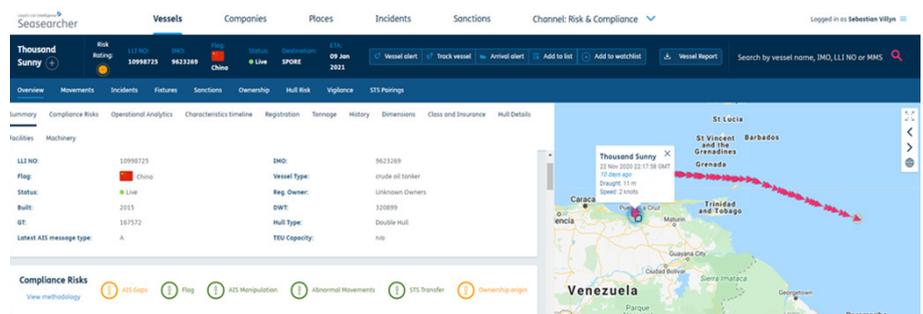
The vessel then disabled its AIS between November 22 and November 29, before continuing its journey.

At the time of writing, the vessel, owned by undisclosed parties, was in the Atlantic, bound for Singapore.

Not all illicit trades and sanction breaches are equally easy to spot, however, as AIS manipulation, AIS disablement and dark ship-to-ship transfers are being conducted around the world.

Sanctions guidelines

In July 2020, the UK Office of Financial Sanctions Implementation, under the UK Treasury, released new guidelines for UK



Tracking the movements of the China-flagged *Thousand Sunny*.

financial sanctions restrictions. This followed the comprehensive guidelines for the maritime industry released by the US Office of Foreign Assets Control in May 2020.

OFAC and the OFSI mention in their guidelines that due diligence should be carried out as part of a risk-based approach.

A risk-based approach is interpreted as performing due diligence on key vessel risks, identifying:

- Disabling or manipulation of AIS;
- Voyage irregularities;
- STS transfers;
- Falsifying of cargo and vessel documentation;
- False flags and flag hopping;
- Complex ownership, control or management;
- Physical altering of vessel information.

While the OFSI and OFAC do not mandate specific measures to be taken, it is clearly stated by the OFSI that "the onus is on the organisation to ensure that it has put in place sufficient measures to ensure it does not breach financial sanctions".

It is not enough simply to be aware of which vessels are currently sanctioned, but also which vessels are currently conducting or likely to engage in illicit activity and monitor these, while also knowing your customers' customer.

The implications of not adhering to OFAC, OFSI, EU or UN guidelines can be severe, including operational disruption, lock-out of

the US financial system, legal and financial penalties, or reputational damage.

The administration team of US president Donald Trump were active purveyors of sanctions to further his political agenda.

President-elect Joe Biden has indicated sanctions will continue and, while US policy might shift, the deceptive shipping practices will too.

Insurance, finance, commodity and shipping companies are therefore under significant scrutiny from the US and UK regulators.

However, while compliance functions are growing across these sectors, a common theme is lack of specialised industry knowledge on shipping, AIS and, more broadly, the maritime supply chain.

The guidance issued by sanctions authorities have also been light on detail, particularly on what the 'high-risk areas' are.

It might seem complex to navigate all these guidelines. However, there are several ways to identify red flags indicative of deceptive shipping.

Key risks to monitor

Based on the regulatory guidance, Lloyd's List Intelligence has looked at the world fleet and identified trends, vessel behaviours and key identifiers applied to our Seasearcher Compliance Risk Detection tool for vessels currently trading, listing out key high-risk areas where illicit practices are occurring.

AIS gap, AIS manipulation and voyage irregularities: OFAC's guidance notes that organisations should identify vessels that, in the past two years, have a pattern of AIS disablement or manipulation inconsistent with Safety of Life at Sea measures.

The OFSI recommends counterparties consider using AIS screening and inclusion of 'AIS switch-off' clauses in contracts, contacting vessels that have 'gone dark' (i.e. switched off their AIS), and potentially terminating business relationships with clients that continue to use those vessels or practices.

However, there is a distinction between an AIS gap and AIS manipulation. AIS gaps can be caused by several factors, including high traffic zones or areas with limited satellite or terrestrial AIS coverage. So not all AIS gaps are suspicious or illicit, but they should be queried.

In contrast, AIS manipulation is when a vessel uses the identity of another vessel to mask their own behaviour.

In early 2020, the Seasearcher vessel tracking team detected a product tanker using the Maritime Mobile Service Identity number of another vessel.

Seasearcher enables us to detect and split AIS messages, tracking vessels using another vessel's MMSI number.

In this instance, the vessel could be monitored moving into Iranian waters. The destination and ETA marker of this vessel was not updated – a classic pattern of deceptive behaviour and voyage irregularities.

STS and validation of cargo documents:

Like legitimate AIS gaps, there are several designated STS areas where STS transfers can be completely legitimate. The challenge is to detect those that are indicative of illicit activity.

In October 2020, Lloyd's List Intelligence's Seasearcher platform identified an STS

Seasearcher shows key high-risk areas where illicit practices are occurring.

between a sanctioned product tanker, *Faxon* and a non-sanctioned product tanker, *Laura*.

Detecting STS operations can be hampered by one or both vessels turning off their AIS transceiver. However, by spotting ship movements and monitoring draught changes in high-risk areas, it is easier to identify dark STS operations, especially when cross-checked against cargo documents and vessel movements.

Draught changes, like ETA records, are manually entered by the crew, which explains why you may see a draught change several days after an STS transfer or in AIS records.

However, before the vessel's next port call, the draught must be accurately reflected for navigational safety reasons, so it tends to be correct. Understanding this aspect of AIS data is key.

For buyers, recognising that purchases of crude, refined petroleum products or petrochemicals are at rates significantly below market prices may be red flags indicating potential illicit behaviour from an STS operation.

Ownership and flag hopping: Ownership due diligence does not stop with the registered owner of a vessel; it is where it starts.

As noted by Mikolaj Stoma, vessel risk manager at Lloyd's List Intelligence: "The registered owner is the legal title holder of a vessel. However, the principals who are benefiting from this asset and manage its deployment are often hidden behind several other holding company entities. It is our role as researchers to identify who, in our opinion, are the beneficial owners of this asset."

That is also the expectation of sanction bodies, who require counterparty due diligence to stretch far beyond what is listed on the surface.

Ownership change and flag-hopping often goes hand in hand, as seen with the Venezuelan shipments identified, making frequent flag changes another red flag to monitor. Maintaining a watch list of these vessels can be crucial to protect your organisation from 'at risk' vessels.

Ultimately, staying on top of AIS gaps, AIS manipulation, operational patterns and port calls in sanctioned or high-risk areas, frequent flag changes and detecting STS transfers are key to any company compliance function for those insuring, chartering, financing or servicing vessels.

Seasearcher can help you put together your own watch list.

For more information about Lloyd's List Intelligence's Seasearcher Risk & Compliance product, please visit:
<https://pages.maritimelligence.informa.com/seasearcher>
or contact:
client.services@lloydslistintelligence.com

Vessel Name	Risk Rating	Vessel Type	Flag	IMO	DWT	Draft start	Draft end	First draft change	STS start	STS end
Faxon	High	product tanker	Iran	9283758	35118	18.47	18.00	18.00	08:07	08:00
Laura	Low	product tanker	Venezuela	9320609	4990	5.4	5.4	5.6	02:00	02:00

The Seasearcher platform identified an STS between a sanctioned product tanker, *Faxon* and a non-sanctioned product tanker, *Laura*.

Sebastian Villyn is head of risk and compliance data at Lloyd's List Intelligence



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The effects of climate change demand environmental issues remain a high priority for the marine market.

Regulatory risks of green shipping are issue for insurers

Insurers ignore at their peril the changing nature of risks in the maritime sector as the range of environmental regulations affecting the sector expands, **Akshat Arora**, of Standard Club reports

The year 2020 marked the implementation of the much-anticipated global 0.5% m/m sulphur cap regulation from the International Maritime Organization.

However, the potential consequences from the fallout of IMO-2020 were overshadowed by the impact of the Covid-19 pandemic.

The pandemic also forced the IMO meetings, which were planned to be held between March and July 2020, to be postponed and reconstructed on a virtual platform during the latter part of the year, which effectively slowed down the pace of some important work being done on the regulatory front.

Even though the challenges posed by Covid-19 remain a crucial issue for the maritime sector, it is not the only one, as the effects of climate change demand environmental issues to remain a high priority.

During a meeting of the IMO's marine environment protection committee (MEPC-75), held on November 16-20, 2020, measures to reduce greenhouse gas emissions from international shipping were deliberated.

This deliberation was in line with the ambition of the initial IMO greenhouse gas strategy, which was adopted in 2018. It envisages a reduction of the average carbon

intensity (CO₂ emissions per transport work) of international shipping by at least 40% by 2030, pursuing efforts towards 70% by 2050, as compared to 2008 levels; and total annual greenhouse gas emissions from international shipping reduced by at least 50% by 2050 compared to 2008.

Shipping emissions

The maritime sector accounts for between 2% and 3% of global greenhouse gas emissions each year at present.

Left unchecked, shipping emissions are expected to grow between 50% and 250% by 2050, putting the sector on track to become a major contributor of global emissions.

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The year 2050 represents an important milestone in the 2015 Paris Agreement, which the IMO explicitly references in its strategy.

The MEPC-75 approved mandatory measures to cut the carbon intensity of existing ships, which marks a major step forward, building on existing mandatory energy efficiency requirements to further reduce greenhouse gas emissions from shipping.

Under existing energy efficiency regulations, ships need to have an energy efficiency management plan in place, looking at aspects like improved voyage planning, cleaning the underwater parts of the ship and the propeller more often, introducing technical measures such as waste heat recovery systems or even fitting a new propeller.

Moreover, the Energy Efficiency Design Index to improve the design efficiency of new build ships has been in place since 2015.

Additionally, under the IMO Data Collection System and EU Monitoring, Reporting and Verification, ships of 5,000 gt and above have to collect data on fuel consumption.

These ships account for close to 85% of CO₂ emissions from international shipping. The data collected will provide a firm basis on which future decisions on additional measures will be made.

The amendments approved at MEPC-75 require ships to combine a technical and an operational approach to reduce their carbon intensity. These are expected to be adopted at the MEPC-76 session in 2021, with entry into force on January 1, 2023.

Achieving compliance

Essentially, this leaves shipowners with an immense task of achieving compliance by reviewing operational efficiencies such as voyage optimisation, slow-steaming, technological advancements in ship design, retrofitting propulsion improvement devices and/or use of alternative fuels with a lower carbon footprint.

Some of these options may require more extensive changes to a ship and greater investments. With these developments, more emphasis on uplifting the skills and knowledge of crew will be needed as well.

As some of the ageing fleet may not be operationally efficient, these measures may lead to regulatory-driven acceleration in demolition. On the other hand, shipowners



The pandemic forced IMO meetings to be postponed and reconstructed on a virtual platform, slowing down the pace of some important work on the regulatory front.



Arora: need to consider an approach to evaluate risks and opportunities.

that are planning to order newbuilds will need to start thinking about 2030 and 2050 greenhouse gas targets.

While it may be tempting to assume the timescale of any change is long, given the evolving market conditions, there will be a need to consider ways to achieve operational efficiency and maintain competitiveness/profitability.

The maritime finance sector has already recognised the significance of its role in making shipping greener by creating the Poseidon Principles – a framework for financial institutions ensuring their portfolios are aligned with the targets set out in the IMO's greenhouse gas strategy.

As the way ships are fuelled and operated

“
Left unchecked, shipping emissions are expected to grow between 50% and 250% by 2050, putting the sector on track to become a major contributor of global emissions

”

in future is going to change, a similar viewpoint will need to be considered by the insurers as well.

Given the number of different environmental regulations that are already impacting shipowners and the scale of upcoming challenges, there will be a need to consider an approach to evaluate risks and opportunities in line with the climate change mitigation policy, which will effectively affect the way underwriters carry out the risk profiling of vessels and operators.

Akshat Arora is a senior surveyor of loss prevention at the Standard Club

This article first appeared in Insurance Day

IMO 2020: the disruptor that never was

Shipping began 2020 focused on environmental issues, in particular the IMO's sulphur restrictions that came into force in January. **Beth Bradley**, of Hill Dickinson, examines what effect this legislation has had in this rather interesting year

Regulation 14.1.3 of Annex VI of the Marpol Convention came into effect on January 1, 2020. The regulation forbade the burning of fuel oil on board vessels not fitted with exhaust gas-cleaning systems (scrubbers) that exceeded a sulphur content of 0.5% m/m (the sulphur cap), unless operating in an emission control area where the maximum sulphur content remained 0.1% m/m.

The regulation was buttressed by the non-compliant fuel carriage ban that came into force on March 1, 2020. This prohibited the carrying of marine fuel on board (even if not being used) that exceeded the sulphur cap.

From the introduction of the sulphur cap, there has been a high degree of compliance, reflective of the seriousness with which the majority of stakeholders (shipowners, charterers, insurers and suppliers) have viewed their responsibilities.

There have been few publicly available reports concerning non-compliance or enforcement action being taken in respect of breaches of the regulation.

The extent to which that reflects the additional pressures brought to bear on those responsible for enforcement caused by Covid-19 remains to be seen; but, for the time being, implementation has been far less painful than anticipated.

Implementation has not, however, been without teething troubles.

While reports of breaches are few and far between, quality issues relating to the constitution of very low-sulphur fuel oil, as well as the question of what action should be taken and by whom when a commercial sample indicates a breach of the sulphur cap, are giving rise to disputes and are likely to continue to do so.

Enforcement of the regulation takes aim both at the shipowner and at the supplier of fuel; but it is the shipowner who, in the first instance, faces the prospect of fines and adverse publicity where there is a finding of non-compliance.



Khalkinullin Aleksandr/Shutterstock.com

From the introduction of the sulphur cap, there has been a high degree of compliance.

Owing to the structure of the regulation, the enforcing authorities are encouraged to ensure that where non-compliance is established, meaningful fines are issued.

It is for those responsible for enforcement to determine what is meant by "meaningful" in this context. Consequently, in the run-up to implementation, one of the main areas of concern was uncertainty in relation to applicable sanction if the regulation was breached.

That uncertainty remains an issue. Therefore, when fresh bunkers are stemmed, owners are best advised to arrange for a sample to be tested, prior to the fuel being consumed, to check whether the fuel is compliant with the sulphur cap.

Usually – and in the absence of contractual terms in the time charterparty to the contrary – it is one of the commercial samples that is tested.

Where an indicative test returns a result indicating a sulphur content above 0.5% m/m problems can occur, at that point an owner is on notice that the fuel on board may not be compliant; but neither the regulation nor most time charterparties make express provision as to what steps should be taken.

Where there is an indicative result that suggests the fuel supplied breaches the sulphur cap, it is appropriate for owners to immediately alert the time charterers (who ordinarily are responsible for providing fuel to the vessel) and for the time charterers in turn to put the suppliers on notice that there is an issue with the fuel. It is also open to owners to seek guidance from their flag administration.

As previously noted, an indicative result based on a commercial sample is not a breach of the regulation.

Establishing breach of the regulation involves the enforcing authority testing the Marpol sample (although there are circumstances in which the enforcing authority may test the in-use sample).

Unless there are provisions in the time charterparty that deal with joint testing in circumstances where there are question marks over the fuel supplied, owners are on notice of a potential breach of the sulphur cap, but without a mechanism to resolve it.

The problem is deepened where the indicative result is in the range of 0.5% to 0.53% m/m, owing to margin of error arguments that will assist the supplier of the fuel (where often that margin is

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contractually specified), but which puts the owners at risk of breach of the regulation, since no margin applies to the Marpol sample.

This presents at least two broad problems: first, to what extent are owners permitted to carry the fuel, in light of the carriage ban, to a place where it may be debunkered or other steps taken to reduce the sulphur content of the fuel?

Secondly, where ownership of the bunkers ordinarily resides with time charterers, how are owners to remove the fuel without co-operation or agreement?

There are no easy answers and, as yet, no case law that can assist resolving the legal uncertainty.

On a practical basis, resolving these issues requires co-operation between the parties to enable either further joint testing to be carried out, with the aim of sensibly resolving whether the fuel does or does not breach the sulphur cap – or to enable the fuel to be discharged.

It also favours additional time charterparty clauses that clarify both parties' responsibilities where there are circumstances that indicate a potential breach of the sulphur cap, but where there has not been a finding of a breach of the regulation.

In the run-up to the implementation of the sulphur cap, there were concerns regarding the ease of availability of compliant fuel.

So far, and in most areas, supply has not been a large concern.

However, there have been a range of quality issues reported relating to very-low-sulphur fuel oil that appear to be related to the methods – blending particularly – by which the sulphur content in marine fuel has been lowered.

While not strictly a sulphur cap issue, new quality issues have arisen as a consequence of lowering the sulphur content.

The quality concerns so far include a propensity to sediment, instability, contamination, flash point and cold flow properties.

These all can pose risk to the engine and components, leading to a potential loss of power and propulsion.

On the whole, marine fuel is specified in accordance with ISO 8217 (2005/2010/2017), but interestingly – and perhaps frustratingly – quality issues can arise without the fuel necessarily being off-specification.



Bradley: the first year of the sulphur cap has been successful.

From a charterparty point of view, a time charterer providing marine fuel is under an absolute obligation to supply bunkers that are of a generally reasonable quality.

Additionally, and in practice, most time charterparties include terms containing a specification for the fuel. The time charterer's obligation is therefore two-fold: to supply fuel that is both of the contractual specification and is of a generally reasonable quality.

Consequently, even if the fuel supplied is on-specification according to ISO 8217, there may still be a breach on the time charterer's part if that fuel is not suitable for use.

However, in contrast, suppliers' obligations are almost always confined to supplying on-specification fuel and their terms and conditions will frequently exclude fitness for purpose requirements.

This can leave a time charterer in a difficult position where, on the one hand, they may face quality claims arising out of the fuel supplied to the vessel – but on the other, may not have a right of recourse against the supplier.

Neither the issues around indicative testing nor quality of marine fuels are easy to resolve.

Without clear contractual provisions that set out how the parties are to respond in circumstances where there is a prima facie concern relating to the marine fuel supplied, delay and costs can quickly mount.



On the whole, the introduction of the sulphur cap has been less disruptive than anticipated and there have been fewer reported instances of the regulation being breached than expected



On the whole, the introduction of the sulphur cap has been less disruptive than anticipated and there have been fewer reported instances of the regulation being breached than expected.

This is a reflection of the preparedness of suppliers and owners alike, although it may also reflect the practical difficulties to which Covid-19 has given rise, insofar as regular action by the enforcing authorities may have been suppressed.

To the extent that Covid-19 has impacted on regular testing by the enforcing authorities, it may be that if conditions ease, more breaches of the regulation will be reported. That said, suppliers will no doubt have been using the time to iron out any technical issues.

On the whole, however, the first year of the sulphur cap has been successful.

This suggests that some optimism can be had in relation to the Initial IMO Strategy on reduction of greenhouse gas emissions from ships adopted in 2018 – the initial strategy of which is to reduce the carbon intensity of international shipping by 40% by 2030 and by 70% by 2050 (compared with 2008 levels).

How these ambitions are to be translated will be fleshed out in the coming period by the Marine Environment Protection Committee – watch this space.

Beth Bradley is a partner, Hill Dickinson

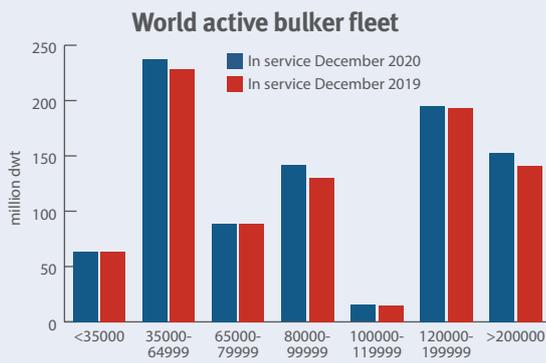
This article was first published in MRI, an Informa publication: www.maritime-risk-intl.com

The global active fleet of bulkers totalled 12,193 vessels comprising 894.2m dwt in early December 2020, according to Lloyd's List Intelligence. In carrying capacity, this was a rise of nearly 4% against last year.

Ships with a capacity greater than 200,000 dwt continue to be the main fleet driver of growth, climbing 8.7% on the year-ago level. This is in addition to an

8.8% jump in smaller dry bulk units in the post-panamax sector, or between 80,000 dwt and 99,999 dwt, on 2019 levels.

The dry bulk orderbook stood at 1,605 units at the start of December, with a combined capacity of 156.6m dwt. In 2020, 545 more ships were still due for delivery, with an additional 816 vessels due in 2021, and a further 244 from 2022 onwards.



Depressed capesize market trails other bulker segments

China's boycott of Australian coal provides added weakness to the capesize market, but this has been partially offset by increased appetite from Indian utilities, writes **Nidaa Bakhsh**

The depressed capesize market is keeping spot earnings for the largest of bulkers behind the smaller-sized dry bulk vessels, at least for now.

Brokerage Fearnleys said that levels for the big ships were "still depressed as major Brazilian iron ore miners remain far behind production/export targets".

Brazil's mining giant Vale lowered its production guidance for the full year to 300m-305m tonnes from a previous estimate of 310m-330m tonnes.

The revised estimate was due to heavy rains, according to the company's head of ferrous minerals Marcello Spinelli.

He added that production would be in the vicinity of 315m-335m tonnes in 2021, which was a conservative figure, given it was targeting a capacity ramp-up to 350m tonnes, aiming for 400m tonnes by the end of 2022.

The capesize average weighted time charter on the Baltic Exchange stood at \$11,889 per day at the close on December 11, 2020, making a slight recovery from the six-month low figure of \$10,607 on December 9.

The average weighted time charter for panamax was at \$13,183 on December 11, up from



Bauxite trade from Guinea in West Africa was one of the drivers for capesize demand in 2020.

\$11,924 on December 7, while supramaxes were at \$11,337, a 2% gain over the same period, Baltic data shows. Handysizes, meanwhile, reached the highest figure since October 18, 2019, quoted at \$12,024.

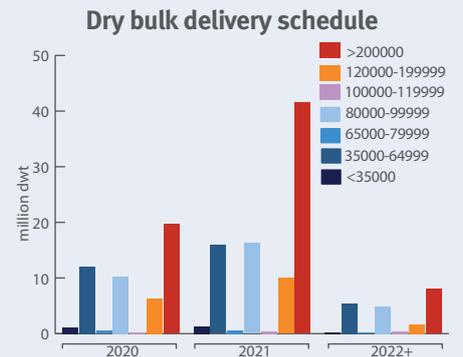
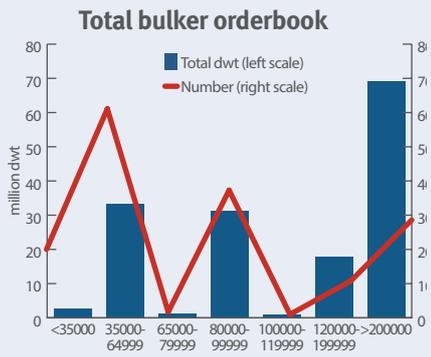
While capesizes trailed the other segments in mid-December, spot earnings had averaged \$13,011 per day in the year to date, the highest of all bulker segments amid extreme volatility, followed by panamax at \$9,821 per day.

Supramaxes averaged \$8,064 per day, while handysizes managed an average of \$7,848 per day in 2020 through to December 11.

While China's boycott of Australian coal was providing added weakness to the capesize market, it was partly offset by alternative sources, including increased appetite from Indian utilities, according to Fearnleys.

Candidates for the period market were aplenty, although

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conclusions were limited, it said, as the forward curve gave little direction.

Braemar ACM said it expected to see a decline in the capesize forward freight agreement market following “the first wave of a short cover frenzy”, while panamaxes “turned a positive leaf”, with FFA rates moving from strength to strength.

The first quarter of 2020 was the most popular contract in the panamax segment, while full-year 2021 seemed to be the focus for the supramax segment, which saw the emergence of buyers across the curve.

FFA's trading volumes surged in 2020, with a total of 1.5m lots traded.

Panamaxes were the most actively traded, with 722,439 lots to December 9, up 11% from the same period in 2019, followed by capesizes at 566,952 lots, a gain of 9.7%.

Supramaxes, however, made the biggest leap, with an almost 30% increase to 213,915 lots.

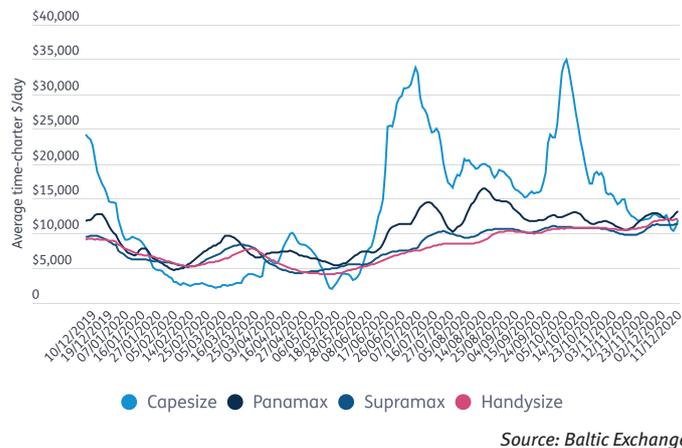
Bauxite trade

Bauxite trade from Guinea in West Africa was certainly one of the drivers for capesize demand in 2020, a trend that is set to continue.

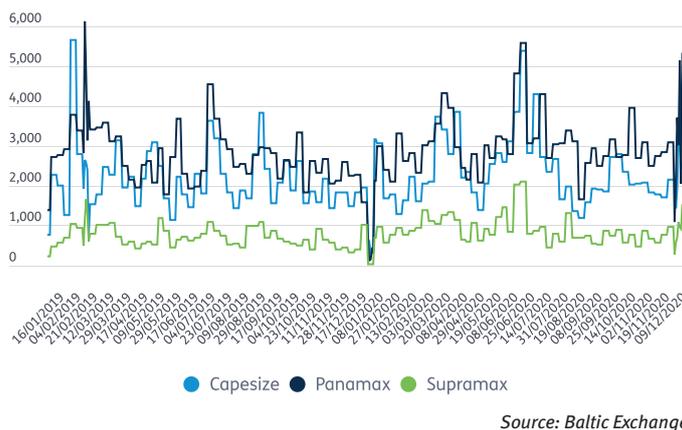
In 2019, the commodity, which is used in aluminium production, constituted 6.7% of the demand for capesizes, 3.6% of the demand for panamaxes and only 2.7% of the demand for supramaxes, according to Torvald Klaveness.

That prompted it to call for bauxite to move out of the

Baltic dry indices (Dec 2019-Dec 2020)



Dry bulk FFA volumes in lots (Jan 2019-Dec 2020)



minor bulks segment, which is dominated by the smaller geared vessels.

In the first 10 months of 2020, global exports rose 13% compared with the same period in 2019.

Klaveness head of research Peter Lindstrom was confident that the bauxite trade would grow at a healthy rate in 2021 and in the coming decade.

This would be driven by supplies from Guinea and Australia to China, as the leading demand hub, followed by destinations in the EU and North America.

Minor bulk export volumes, excluding bauxite, dropped 3.1%, or 40m tonnes in the January to October 2020 period, according to Klaveness, mainly attributed to Indonesia's ban of

“ Braemar ACM said it expected to see a decline in the capesize forward freight agreement market following ‘the first wave of a short cover frenzy’, while panamaxes ‘turned a positive leaf’, with FFA rates moving from strength to strength

nickel ore and a drop in global industrial output caused by the coronavirus pandemic.

Cement trade was expected to see a rebound in 2021, according to shipping association BIMCO, as stimuli is directed towards infrastructure projects, including in the advanced economies.

Another trade to watch out for is steel, its chief shipping analyst Peter Sand said, pointing to record production by China, which may want to start to export some volumes again.

“In the end, it will all hinge on the economic activity and stimuli provided across the globe to deliver tailwinds to the post-Covid 19 recovery,” he added.

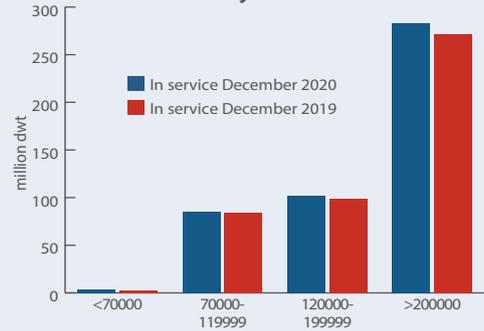
The active crude carrier fleet comprised of 2,469 ships, equivalent to 473.6m dwt, at the start of December 2020, according to Lloyd's List Intelligence. This represented a 3.3% increase over 2019.

Very large crude carriers, of 200,000 dwt or above, continue to lead the growth, with numbers up 4.2% on year to 282.1m dwt. Suezmax

tankers of between 120,000 dwt and 200,000 dwt are also driving fleet advances, up 3% on 2019 levels to 653 vessels, representing 101.6m dwt.

The global orderbook was composed of 516 ships, with a carrying capacity of 95m dwt. A further 19.5m dwt was still due for delivery in 2020, with 48.3m dwt due in 2021 and 27.2m dwt from 2022 onwards.

World dirty tanker fleet



Mystery buyers fuel market for sanctions-busting tanker trading

Tanker owner Frontline was among the first to outline the impact of a secondary fleet of vintage tankers, bought by Venezuelan and Iranian interests, to ship and store sanctioned cargoes, writes **Michelle Wiese Bockmann**

Record volumes of vintage tankers sold to anonymous owners for sanctions-busting trading with Iran and Venezuela has emerged as one of the key reasons for tanker recycling volumes ending 2020 at a 23-year low.

Frontline Management interim chief executive Lars Barstad was the first to publicly discuss the trend, privately acknowledged by shipowners and brokers tracking the sale and purchase market.

The anonymous buyers, located in the Middle East and China, are purchasing elderly tonnage to feed a newly evolved secondary sanctions-busting market, Mr Barstad told an investor conference call on November 30, 2020.

This was the main source of a pricing disconnect of \$10m between recycling and secondhand values for the largest tankers, he said.

The sale and subsequent deployment of aframax, suezmax and very large crude carriers for shipping Iranian and Venezuelan crude for higher prices deterred scrapping.

"The higher amount of sanctioned oil volumes [in floating storage] seems to have



Bruce Raynor/Shutterstock.com

supported the demand for tankers at the tail end of their effective lifespan," said Mr Barstad.

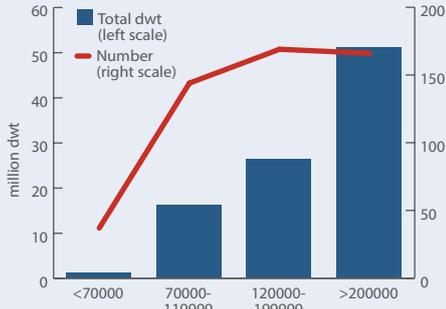
"Selling for alternative use is currently the preferred option for the owners.

"With regard to what these tankers are used for, I would be a little bit cautious to speculate, but obviously there is oil that is transported kind of outside of the normal market," he told investors during the third-quarter results presentation.

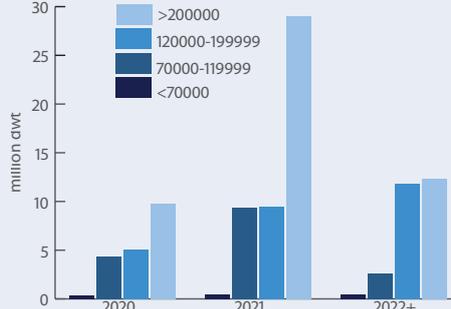


Buyers have been on the lookout for elderly, cheaper tonnage in the tanker market.

Total dirty tanker orderbook

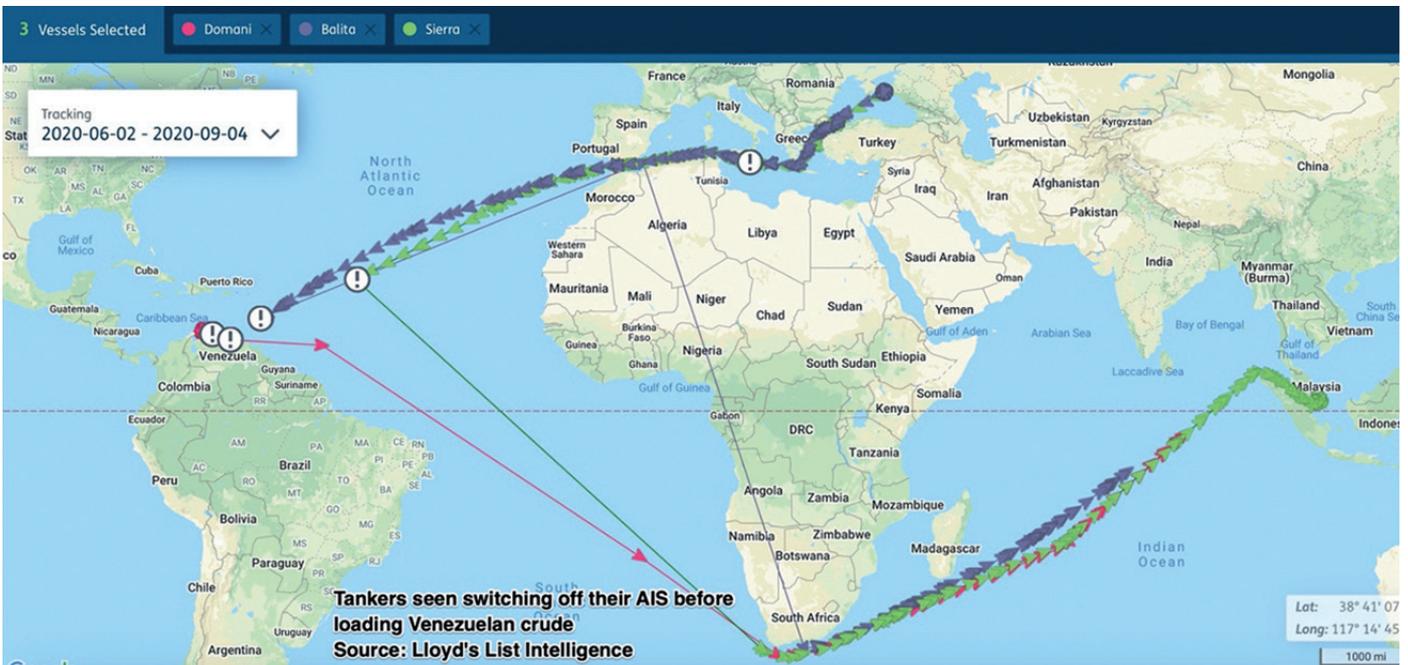


Dirty tanker delivery schedule



Data from:
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“There is quite a large number of sanctioned barrels in the world right now. This needs somewhere to be stored.”

Lloyd's List has identified as many as 60 to 70 resold tankers involved in the storage and shipping of Iranian and Venezuelan crude over the past 12 months that are not formally sanctioned, despite their activities.

The trend has escalated since June 2020, after further US sanctions on Venezuela stopped Greek-owned tankers loading cargoes, and prevented Russian traders from selling crude on behalf of national oil company PDVSA.

The tankers operate in an opaque and clandestine environment, regularly changing

flag registries, names and shell companies and leaving vessel-tracking transponders off for extended periods.

In the latest developments, one VLCC, reported as scrapped by shipbrokers in July 2018, not only spoofed AIS signals to pretend it had beached at Pakistan but swapped identities with another tanker in December 2020 and appeared at Venezuela to load crude.

It had sailed without its AIS for the entire voyage – a serious breach of safety regulations.

Anonymous buyers were paying in the range of \$25m for 18- to 20-year-old VLCCs, based on recent deals, sale and purchase brokers told Lloyd's List.

While a VLCC has not been

“*Lloyd's List has identified as many as 60 to 70 resold tankers involved in the storage and shipping of Iranian and Venezuelan crude over the past 12 months that are not formally sanctioned, despite their activities*”

scrapped in 2020, current recycling rates would value a similar-sized tanker at some \$15.1m.

Lloyd's List has identified 32 VLCCs that were built between 1996 and 2002 that have been sold over the past 18 months and are now operating in trades connected with Venezuelan and Iranian shipments.

Thirteen of the 43 suezmax vessels built between 1994 and 2000 that remain trading are either sanctioned or have been resold to anonymous owners in the past 18 months, Lloyd's List Intelligence analysis shows.

One-quarter of all aframax tankers more than 20 years old are deployed in Venezuelan and Iranian trades, analysis from shipbroker Braemar ACM found.



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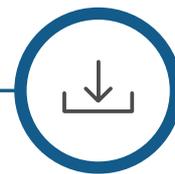
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The global active fleet of liquefied natural gas carriers comprised 591 vessels totalling 90m cu m as of early December 2020, a 6.3% increase on its year-ago total, according to Lloyd's List Intelligence.

The LNG orderbook stood at 182 units, representing 24.7m cu m of carrying capacity. Of this, 1.9m cu m was still scheduled for delivery in 2020; 10.6m cu m in 2021; and 12.2m cu m in 2022 and beyond.

For liquefied petroleum gas tankers, the active global fleet was composed of 1,584 ships, with a carrying capacity of 36.9m cu m, up 5.1% on year.

The LPG orderbook is still dominated by very large gas carriers. Of the 139 vessels on order, 68 VLGCs, or 23.6% of the fleet, are due for delivery.

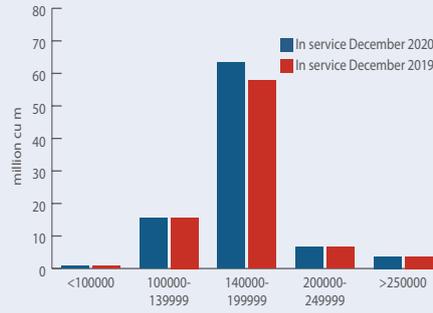
The global fleet of product tankers comprised 8,850 vessels with a carrying capacity of 198.2m dwt, a rise of 2%.

The product tanker orderbook stood at 591 ships, comprising 30.7m dwt: 287 MR vessels, 66 LR1s and 44 LR2s.

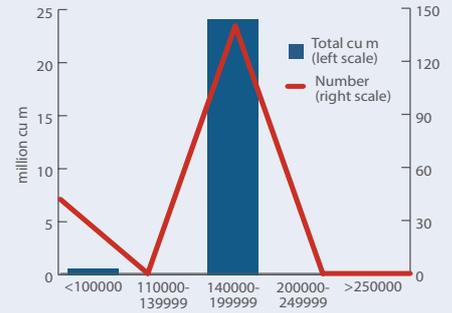
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LNG TANKERS

World LNG tanker fleet

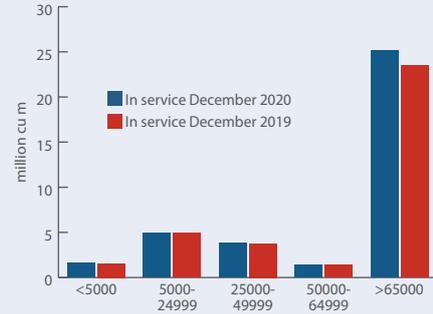


Total LNG tanker orderbook

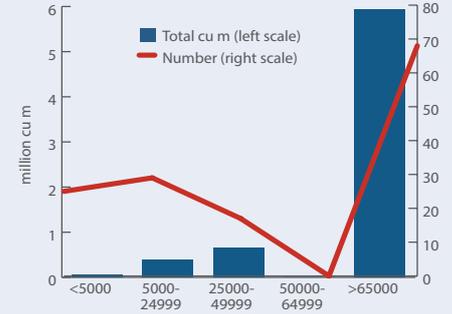


LPG TANKERS

World LPG tanker fleet

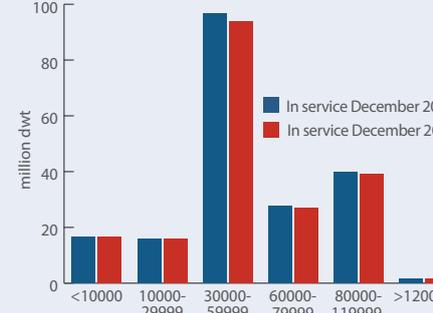


Total LPG tanker orderbook

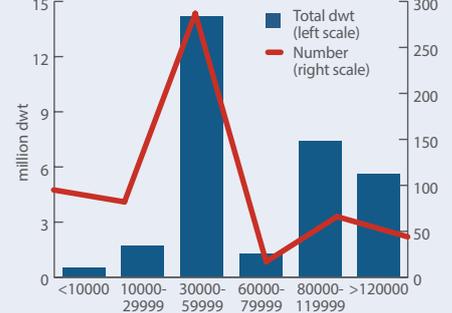


PRODUCT TANKERS

World product tanker fleet



Total product tanker orderbook



Vessels are flagged with registries including Tanzania, Gabon, Djibouti, Sao Tome & Principe, Cook Islands, St Vincent & Grenadines, St Kitts & Nevis, Samoa, Panama, Palau and Belize, data shows.

They also underwent several registered ownership changes in a short period of time to further obfuscate the link between the ultimate beneficial owner – who is mostly unknown – and the seller.

As many as a dozen Greek-owned tankers were sold between June and November 2020 to mystery buyers who immediately deployed them on Venezuelan trades.

Recently sold Chinese owned tonnage has copied this tactic.

The Chinese-flagged VLCCs *Xing Ye*, *Yong Le* and *Thousand Sunny* had been quietly sold



“With regard to what these tankers are used for, I would be a little bit cautious to speculate, but obviously there is oil that is transported kind of outside of the normal market”

Lars Barstad
Interim chief executive
Frontline Management

over the previous six months to anonymous owners, then immediately sailed to Venezuela to load in November.

The evolution of this sanctions-busting Venezuelan fleet followed the brief imposition in June of sanctions on six tankers owned by four prominent Greek families. Until then, Greek owners had shipped 80% of Venezuelan crude.

The US sanctions on crude and energy exports on Iran and Venezuela have been in place for two years. They have resulted in a sophisticated suite of deceptive shipping practices, combined with a complicated logistics chain, to keep flows of crude and fuel oil continuing to key customers, mostly in China and Syria.

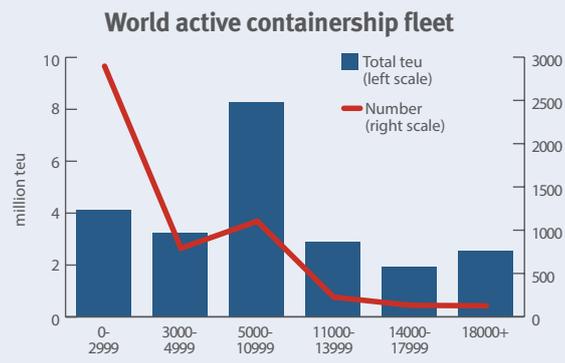
The global containership fleet was largely unmoved at the start of December 2020 on the previous month at just over 23m teu, according to Lloyd's List Intelligence.

Although the global orderbook remains at an all-time low of just over 10%, there have been some significant moves for fresh tonnage.

This includes seven 23,000

teu newbuildings ordered by OOCL in September. And – though still to be recorded by Lloyd's List Intelligence – Daewoo Shipbuilding & Marine Engineering has reportedly won orders for six 15,000 teu containerships linked to Zodiac Maritime.

Lloyd's List Intelligence reported only 5,540 teu sent for recycling during November.



World boxship fleet update: Finding equilibrium

Carriers appear to have put the spectre of overcapacity behind them after the lessons of 2020, writes **James Baker**

The new, more mature box shipping sector that has emerged since 2016 appears to have learned from its previous mistakes.

One of those mistakes was ordering too many ships. Carriers bought more and larger containerships to win market share and lower slot costs, but found they had to decrease rates to fill them when the expected volumes did not emerge.

As the sector prepares to leave 2020 behind it, the orderbook is in a far healthier position than it was during earlier crises.

During the global financial crisis of 2008-2009, the orderbook at one point stood at more than 60% of the existing fleet.

In 2020, according to figures from Lloyd's List Intelligence, it sits around 10%.

"On the capacity side, the orderbook for containerships is historically low," said Sea-Intelligence Consulting chief executive Lars Jensen.

"So looking three to five years out, we could be at the beginning of an upcycle, because the macroeconomics will be OK in the long term and there is low supply.

World containership fleet November 2020*

TEU Size Range	In Service No	In Service TEU	On Order 2020 No	On order 2020 TEU	On Order 2021 No	On Order 2021 TEU	On Order 2022+ No	On Order 2022+ TEU	Total No	Total TEU	%Total Fleet
0-2,999	2,896	4,122,606	116	202,174	128	204,504	15	30,002	259	436,679	10.6%
3,000-4,999	792	3,253,499	14	50,228	5	15,828	0	0	19	66,056	2.0%
5,000-10,999	1,104	8,288,013	6	33,000	2	10,600	0	0	8	43,600	0.5%
11,000-13,999	227	2,885,350	11	130,200	24	281,620	2	23,700	37	435,520	15.1%
14,000-17,999	132	1,939,027	7	104,900	21	318,284	12	178,256	40	601,440	31.0%
18,000+	126	2,546,008	10	214,062	12	273,968	18	417,064	40	905,094	35.6%
Total	5,277	23,034,503	164	734,564	192	1,104,804	47	649,022	403	2,488,389	10.8%

*Excluding newbuilding postponements and cancellations under negotiation

Source: Lloyd's List Intelligence

"If people started ordering large numbers of vessels – and there are no indications of that – we would still be on the upcycle for the next couple of years."

Orders have not gone away completely, however.

In November 2020, Lloyd's List Intelligence recorded the seven 23,000 teu newbuildings ordered by Cosco-controlled Orient Overseas Container Lines, which Lloyd's List had reported in September.

OOCL had signed a \$780m contract in March to build another five 23,000 teu ships at two yards in China.

Those deliveries are scheduled between the first quarter and the early fourth quarter of 2023.

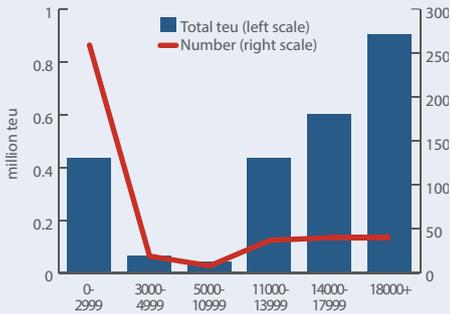
The latest order's deliveries begin in March 2023 and run through to the end of 2024.

While orders for ultra large containerships of up to 23,000 teu dominate the headlines, these ships are only really viable on the long-haul Asia-Europe trade.

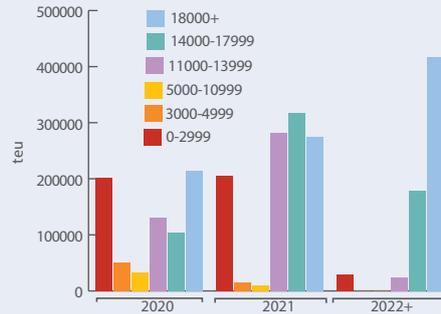
It is notable that while Lloyd's List Intelligence reports a total of 40 ships of more than 18,000 teu on order, there are 77 ships sized between 11,000 teu and 18,000 teu.



Containership orderbook



Containership delivery schedule



Data from:

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It would appear that the container shipping sector is realising that it is not all about size, and that 14,000 teu-class ships offer much greater flexibility than their larger siblings.

At a time when the demand remains uncertain, having ships that can easily be redirected to more profitable trades is a price worth paying — even if the slot costs may be higher.

While not yet recorded by Lloyd's List Intelligence, Daewoo Shipbuilding & Marine Engineering has won orders for six 15,000 teu containerships linked to Zodiac Maritime.

The sextet, worth about \$650m in total, are scheduled for delivery from the first half of 2023, the South Korean yard said in an exchange filing, without identifying the buyer.

Non-operating owner Seaspan has also joined the fray, announcing orders for five 12,200 teu ships in December 2020 on the back of long-term charters with an unidentified carrier.

This marks Seaspan's first entry into the newbuilding market in nearly a decade.

Yangzijiang Shipbuilding also reported a swathe of orders in November 2020. The orders, for nine vessels in total, consist of four 2,400 teu containerships, one 2,700 teu containership and two 1,800 teu containerships, the last of which are options exercised by feeder line SITC on earlier orders placed in August.

The 2,700 teu containership will be delivered in late 2021, and the rest of the vessels will be delivered in 2022.

“Shipowners have adopted a long-term view and planned their fleets accordingly, although the near-term visibility is low as coronavirus sweeps the world”

“Shipowners have adopted a long-term view and planned their fleets accordingly, although the near-term visibility is low as coronavirus sweeps the world,” said the Chinese shipbuilder's chief executive Ren Letian.

He noted an increase in the demand for smaller containerships, as the shipping industry adapts to emerging trends and seeks to meet the heightened demand for intra-regional shipping and more flexible services.

Analysts at Alphaliner warned that as a result of the focus on larger units, the fleet of smaller vessels was now ageing and in need of renewal.

“The issue of fleet renewal is particularly acute in the 4,000 teu-5,000 teu, 6,500 teu-7,500 teu and 8,000 teu-9,000 teu sizes, with no vessels currently on order, either from shipping lines or from non-operating owners,” they said.

“With the fleet of classic panamax tonnage of 4,000 teu-5,000 teu now 13 years old on average and that of 5,500 teu-7,500 teu reaching 14 years, some newbuilding investments will have to be decided at some point, to support the ongoing demand for these sizes.”

Carriers might order tonnage for their own needs, either directly or through long-term bareboat lease agreements with financial institutions, it added.

The increased demand for containerised shipping saw the idle fleet continue to shrink during November 2020.

Figures recorded by Lloyd's List Intelligence from the major

lay-up locations show the idle fleet at just 1.9% of the total fleet.

At a global level, idling has fallen from a peak of around 10% back in May to just 2.7% at the end of 2020, according to figures from Alphaliner.

“Persistently strong demand for tonnage and container equipment amid a scarcity of supply has prompted carriers to deploy every available container vessel,” Alphaliner said.

“Shipping lines compete for charter market tonnage, while some even postpone non-essential drydocking.”

One key element in maintaining and improving the supply and demand balance is removing older tonnage from the market but 2020 has not been good for demolition.

Lloyd's List Intelligence reported only 5,540 teu sent for recycling during November.

According to BIMCO chief shipping analyst Peter Sand, the closure of demolition yards due to the pandemic earlier in 2020 coincided with the high idle fleet and low charter rates, and demolitions did not pick up during these months.

“The reopening of yards coincided with the recovery in demand for containerships, meaning owners considering demolition during the difficult months thought again and fixed their ships at profitable rates.

“Because of the current strength of the container market, BIMCO has revised its demolition forecast down by 100,000 teu to 200,000 teu.”

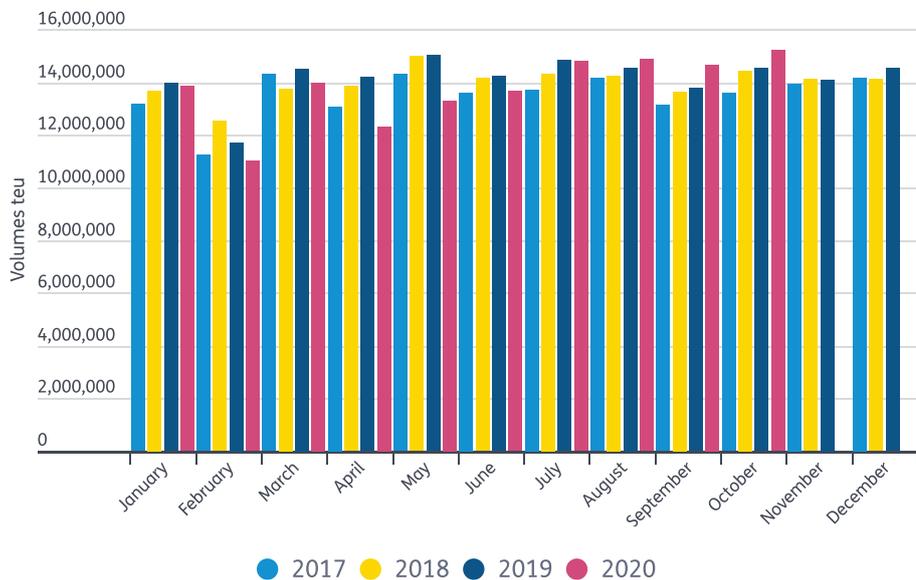


With demand rising and trade unbalanced, the shortage of containers is becoming acute.

Box demand holds firm beyond peak season

Container volumes continued to surge back in October and are now down less than 3% compared to 2019, James Baker reports

Container trade volumes (2017-2020)



Global container volumes continued their upward trend in October 2020, with a total of 15.2m teu shipped during the month, bringing the year-to-date figure to 137.7m teu, down just 2.7% on 2019.

The latest figures from Container Trades Statistics show that the traditional quiet season defied expectations in 2020 and that the peak season was ploughing on through the fourth quarter.

Trade on the transpacific fell back 4% from September levels during October to 2m teu, but remained more than one-quarter higher than it was in the corresponding month of 2019. This was “by no means an insignificant volume”, CTS said.

“Volumes are such that even though carriers have been adding capacity, there is a shortage of equipment. This is reflected in the price index, which has taken on another five points, putting it at 108 – 30 points higher than last year.”

Source: Container Trades Statistics

US retail experts see containerised imports rising into 2021

US containerised imports remain strong after setting new records in the autumn of 2020 as retailers stocked up their stores and warehouses for the holiday season while meeting new demands for quick delivery of online orders, according to retail experts, writes *Eric Watkins*.

Yet the further expectation was that the US economy would see a “sharp revival”, spurred by the introduction of vaccines against coronavirus and by growing consumer confidence that the pandemic is coming under control.

Jonathan Gold, vice-president for supply chain and customs policy of the National Retail Federation, said the pandemic had made 2020 one of the most trying years the supply chain has ever seen, but that retailers had met the challenge.

“We’ve gone from not knowing whether we would be able to get merchandise from China to having a surplus of goods when stores were closed to having to meet pent-up demand as consumers returned,” Mr Gold said.

According to the most recent survey



Containerised imports are on the rebound in the US.

of leading US ports by the Global Port Tracker, the monthly report produced by Hackett Associates for the NRF, October 2020 saw some 2.21m teu of containerised imports.

That figure represents an increase of 17.6% year on year and a 5.2% rise over the 2.11m teu in September, the previous record for a single month since NRF began tracking imports in 2002.

Even with most holiday merchandise already in the country, the NRF said November imports remained strong at an estimated 2.07m teu — a 22.4% jump

year-on-year and the fourth-busiest month on record. The NRF forecasts December 2020 at 1.91m teu, up 11%.

Due to the recent string of record monthly imports, 2020 is expected to come in at 21.8m teu, up 0.8% over 2019, tying with 2018 as the busiest year on record.

January 2021 is forecast at 1.86m teu, up 2.4% from January 2020; February at 1.55m teu, up 2.6%; March at 1.62m teu, up 17.8% and April at 1.74m teu, up 8.3%.

With retail sales rebounding strongly due to continued consumer resilience, the NRF has forecast that holiday sales during November and December will increase between 3.6% and 5.2% over 2019 to a total somewhere between \$755.3bn and \$766.7bn.

The NRF’s Global Port Tracker surveys Los Angeles/Long Beach, Oakland, Seattle and Tacoma on the west coast; New York/New Jersey, Port of Virginia, Charleston, Savannah, Port Everglades, Miami and Jacksonville on the east coast, and Houston on the Gulf Coast.

Demand had also recovered on the Asia-Europe trade, although not as much as on the transpacific. October figures were up 7% on last year to 1.4m teu, but the year-to-date total of 13.9m teu is still down 7% on 2019.

Nevertheless, Asia-Europe was facing the same equipment shortages and pricing pressure as the transpacific trade now.

The CTS freight price index gained two points and, while still just lower than where it stood in January 2020, was up 13 points on October 2019.

Meanwhile, analysts at Sea-Intelligence argued that the surge in North American imports – which accounted for more than 70% of the global growth in October – combined with a fall in US exports was driving the vicious cycle of container shortages that was partially behind the high rates on the main east-west trades.

“It clearly emerges that the current boom in container shipping is, to a very high degree, driven specifically by cargo being shipped from Asia to North America,” Sea-Intelligence said.

“The combination of the Asia to North American boom and the simultaneous drop in North American exports leads to a severe equipment imbalance problem.”

In normal times, trade imbalances

mean there was usually a deficit of around 2.5m teu a month in Asia, which is replenished by the repositioning of empties from other regions. This year, however, that has surged to 3.4m in October, meaning an additional deficit of almost 1m teu.

“This is the key in understanding why we have an extremely tight market presently, where lack of empty equipment is the paramount problem for shippers,” Sea-Intelligence said.

Moreover, the situation was unlikely to change soon.

“There are no quick ways of suddenly shifting a million extra empty containers around – especially not at a point where many ports are already congested and struggling to keep up with handling boxes that are actually loaded with cargo.”

Spot freight rates surged again on the Asia-Europe trades in late November, with the Shanghai Containerised Freight index reporting \$2,374 per teu on Asia-northern Europe trades, up 13.5% in the week. Asia-Mediterranean rates were also up 7.4% to \$2,384 per teu.

On both trades, rates were now more than twice what they were at the end of October.

With pressure on the supply chain likely to remain for some time yet, many

analysts expect the freight rate pressure to continue until at least Chinese New Year, which, in 2021, falls in early February.



Container Trades Statistics Ltd (CTS) has been reporting teu volumes and price indices since 2008.

Appointed independent data service provider to World Liner Data Ltd (WLDL) in 2010, CTS now manages WLDL’s database of global teu liftings and pricing data contributed by WLDL members, which include the top global container carriers.

CTS reports on 49 regional trades, estimating — where necessary — non-WLDL member volumes to produce estimated total trade figures.

On some trades, including Far East-Europe, reports are based on 100% contributed data.

For further information, visit: www.containerstatistics.com



Looking at year-on-year revenue growth, HMM recorded the largest growth of 22.1%.

Carriers reap rewards of extended peak season

With freight rates soaring on nearly all trades and ships sailing fuller than ever amid exceptionally strong demand, the major container shipping lines enjoyed a strong third quarter, writes Sea-Intelligence chief executive **Alan Murphy**

From a financial perspective, the second quarter of 2020 was rather interesting for carriers. Even though the pandemic was at its peak in the early part of the second quarter, the financial impact on liner shipping was not as bad as initially anticipated.

On the contrary, all global shipping lines that publish financial figures recorded a positive operating result – even HMM, which had not returned a positive second quarter since 2010.

The third quarter of 2020 is even more intriguing, as the ‘peak’ cargo season, which traditionally winds down by Golden Week in early October, seems to have extended all the way into December.

Freight rates soared in nearly all trades, unprecedented capacity growth was seen on the transpacific, ships were sailing fuller than ever, containers were getting rolled in hubs, and the overall demand seemed to be exceptionally strong.

In this issue of *Between the Lines*, we will analyse the financial and volume performance of the shipping lines that report on these figures for the third quarter of 2020, and see how they have fared in what looks to be a financially strong third quarter for the shipping lines.

Methodological considerations

This analysis covers all global shipping lines that publish financial figures, either from a dedicated financial report filing, an official earnings release, a stock exchange filing, or any other official sources.

The following are a few major methodological choices made:

- As we wish to compare the operating performance of the shipping lines, we have used the carriers’ earnings before interest and tax if these figures were published. If these were not specified, we have used operating profit or liner segment income.
- Since its inception, ONE has not reported their earnings before interest and tax, choosing instead to report their net result.

However, in the third quarter of 2020, they reported on their ebit, but we have elected not to mention it in table 2 (on page 59) as there is no comparable figure from the previous years.

Furthermore, ONE has a fiscal calendar that runs from April to March. As such, we have taken their second-quarter figures for 2020, matching the carriers that use the conventional calendar.

• Regrettably, Maersk have stopped reporting the ebit of their 'Ocean' segment and are instead reporting earnings before interest, tax, depreciation and amortisation.

While it could be argued that ebitda is a better measure of operational performance in an asset-heavy industry, it fails the more important aspect of comparability, as only a few other carriers report ebitda.

You cannot compare ebit with ebitda, as the depreciation and amortisation costs would seriously disadvantage the companies reporting ebit.

This means that for Maersk, we have had to use the group's ebit from the first quarter of 2017 onwards instead of the 'Ocean' segment, while 2010-2016 is based on the ebit for Maersk Line.

- As CMA CGM had fully integrated CEVA by April 10, 2019, we now have two comparable third-quarter periods where CEVA was fully integrated in both, so we have decided to compare CMA CGM including the financial impact of CEVA.
- Lastly, all figures have been converted to US\$ according to the exchange rate valid on September 30 of the respective years.

The detailed methodology underlying this analysis covers several more pages, and we refer any interested readers to the methodology section of the second article of issue 492 of the Sea-Intelligence Sunday Spotlight.

Carrier revenues

Most of the shipping lines recorded double-digit year-on-year revenue growth in the third quarter of 2020, with Maersk and Hapag-Lloyd the only carriers to record a revenue decline.

With CEVA Logistics fully integrated into CMA CGM, they opened a

Table 1: Third-quarter segment revenue 2010-2020 (\$m)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	On-year 2020/2019	On-year 2020/2019
Maersk*	6,424	6,588	6,961	6,782	7,074	6,018	5,359	5,543	7,321	7,423	7,118	-4.1%	-305
CMA CGM	N/A	3,853	4,200	4,105	4,368	3,977	4,470	5,702	6,062	7,620	8,090	6.2%	470
COSCO**	3,222	2,856	3,032	2,595	2,849	2,499	2,838	3,626	5,395	5,528	6,429	16.3%	901
Hapag-Lloyd	2,420	2,070	2,258	2,253	2,122	2,386	2,167	3,304	3,547	3,538	3,519	-0.5%	-19
ONE	N/A	2,963	3,109	3,181	2.3%	72							
OOCL	1,571	1,441	1,597	1,436	1,518	1,332	1,149	1,453	1,556	1,646	1,914	16.3%	268
Evergreen***	N/A	N/A	1,374	1,217	1,234	932	1,021	1,370	1,473	1,605	1,901	18.4%	295
Yang Ming	N/A	N/A	1,249	1,084	1,225	966	927	1,180	1,270	1,217	1,342	10.3%	125
HMM	1,944	1,602	1,909	1,664	1,658	1,244	981	1,130	1,284	1,207	1,474	22.1%	266
ZIM	1,054	976	1,064	900	854	749	644	817	841	842	1,013	20.3%	171
Wan Hai	N/A	N/A	562	531	578	462	450	522	568	592	679	14.6%	87

*Ocean segment only

**Container shipping segment only

***Evergreen Marine Corp (Taiwan) Ltd

Source: Sea-Intelligence

considerable revenue gap over Maersk, with a top line of \$8.1bn, nearly \$1bn higher than Maersk's revenue of \$7.1bn.

Similarly, with the integration of OOCL, COSCO also opened up a considerable revenue gap over Hapag-Lloyd and, with third-quarter revenue of \$6.4bn, are considerably closer to Maersk.

Hapag-Lloyd and ONE are in a revenue niche of their own, with third-quarter revenues of \$3.1bn-\$3.6bn, while both Evergreen and OOCL recorded revenues of around \$1.9bn.

The next three carriers, Yang Ming, HMM and ZIM, recorded revenues of \$1bn-\$1.4bn, while Wan Hai recorded the smallest third-quarter revenue of \$679m.

Looking at year-on-year revenue growth, HMM recorded the largest growth of 22.1%, followed by ZIM with an increase of 20.3%.

Another five shipping lines recorded an annual revenue growth in double digits. As mentioned earlier, Maersk and Hapag-Lloyd were the only shipping lines to record a revenue contraction, of -4.1% and -0.5%, respectively.

Table 2: Segment ebit/operating profit 2010-2020 (\$m)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	On-year 2020/2019	On-year 2020/2019
Maersk*	1,158	-257	547	567	740	303	-153	21	60	737	1,289	552	4,111
CMA CGM	N/A	N/A	541	271	248	158	-86	568	241	332	1,017	685	3,291
COSCO**	456	-288	-188	-74	94	-183	-253	131	87	219	551	332	384
Hapag Lloyd	358	46	103	83	30	90	74	210	242	276	407	131	1,514
ONE***	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-192	121	515	313	-71
Evergreen****	N/A	N/A	59	2	93	-80	-59	100	33	44	383	339	574
Yang Ming	N/A	N/A	97	57	66	-105	-150	51	-22	-19	143	162	118
HMM	287	-64	14	4	-8	-66	-210	-26	-111	-39	238	276	-202
ZIM	102	-63	81	17	-251	34	-7	54	17	46	189	143	179
Wan Hai	N/A	N/A	31	24	56	3	11	48	8	21	67	46	268

*2017 to third-quarter 2020 ebit of AP Moller-Maersk Group; remainder Maersk Line

**COSCO Shipping Holdings Co Ltd

***Net result

****Evergreen Marine Corp (Taiwan) Ltd

Source: Sea-Intelligence

Carrier ebit/operating results

For the first time since 2012, when we have financial results for all shipping lines (barring ONE, of course), all reporting carriers recorded a positive third-quarter ebit.

Even HMM and Yang Ming, which had profitability issues in the past, recorded a positive third-quarter ebit of \$238m and \$143m, respectively.

Both Maersk and CMA CGM towered above the rest, with ebit of \$1.3bn and \$1bn, respectively.

For COSCO, the past few years have been a noticeable improvement over the 2010-2016 period, where they had only two positive third-quarter results.

While we have included ONE's net result in table 2, as this is what they normally provide, they did provide the third-quarter ebit for 2020, which was \$603m, placing them above COSCO.

Wan Hai recorded the smallest third-quarter ebit of \$67m and, along with Hapag-Lloyd, is one of the only two carriers to not have seen a negative third quarter in the entire period.

“For the first time since 2012, when we have financial results for all shipping lines (barring ONE, of course), all reporting carriers recorded a positive third-quarter ebit

”

Carrier volumes

Global volume developments were very varied across the shipping lines in the third quarter of 2020.

Maersk transported 6.6m teu, recording a -3.6% contraction on year.

CMA CGM, on the other hand, recorded 1.1% growth in global container volumes to 5.6m teu.

OOCL recorded the largest on-year volume growth of 9.5% to nearly 2m teu, followed by COSCO, with volume growth of 5.6% to 5.1m teu.

Hapag-Lloyd transported just shy of 3m teu in the third quarter of 2020, recording a decline of -3.4% on year. ONE transported slightly higher volumes, at 3m teu.

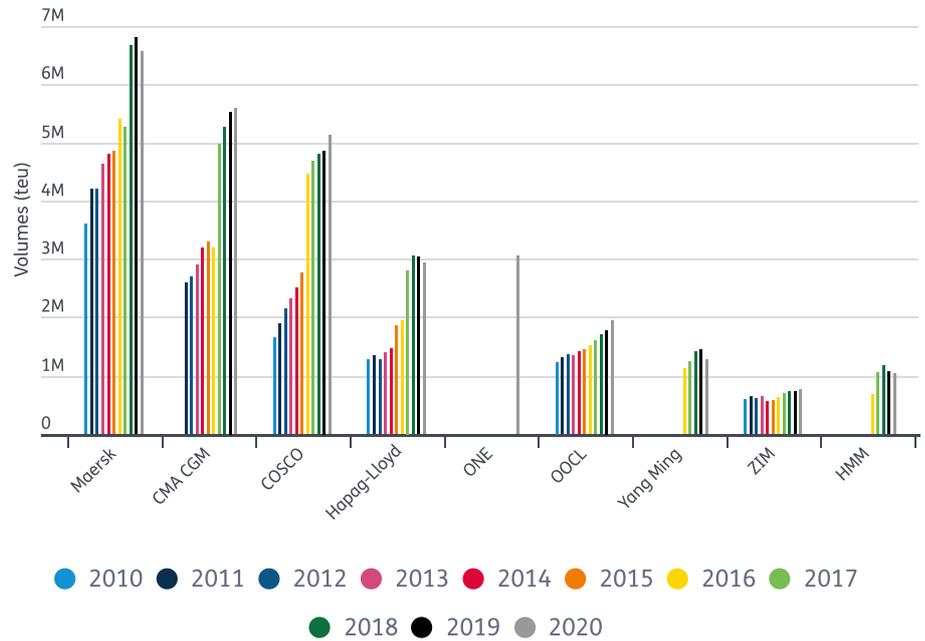
Yang Ming and HMM transported similar volumes of 1.3m teu and 1m teu, respectively, but Yang Ming recorded the largest on-year volume contraction of a significant -11.1%. ZIM grew volumes by 5.1% to 762,000 teu.

Carrier ebit/teu

Looking at the carriers' ebit per teu, the larger shipping lines have had a clear advantage over the smaller carriers, with Maersk, CMA CGM, Hapag-Lloyd and, more recently, COSCO recording positive ebit per teu consistently.

Apart from COSCO, all carriers recorded an ebit per teu of over \$100, with HMM and ZIM recording an even higher third-quarter ebit per teu for 2020 of \$229 and \$248, respectively. Both Maersk and ONE also had a relatively high ebit per teu figure of \$196 and \$197, respectively.

Figure 3: Global transported volumes (teu)



Source: Sea-Intelligence

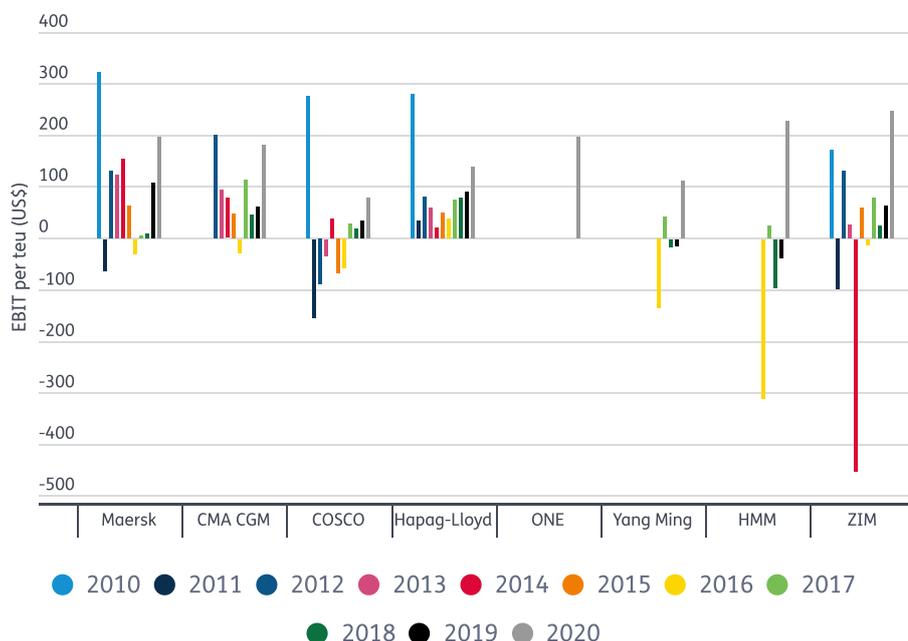
COSCO recorded the smallest third-quarter ebit per teu of \$78.

For carriers like HMM and Yang Ming, there was a sharp departure from earlier years, whereas for carriers like Maersk, COSCO and Hapag-Lloyd, there has been a recent trend of increasing ebit per teu for every passing third quarter.

Alan Murphy is chief executive of consultancy firm Sea-Intelligence

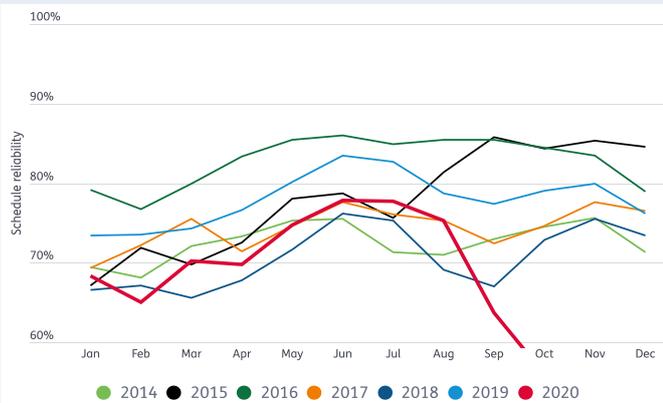
“Looking at the carriers' ebit per teu, the larger shipping lines have had a clear advantage over the smaller carriers, with Maersk, CMA CGM, Hapag-Lloyd and, more recently, COSCO recording positive ebit per teu consistently”

Figure 4: Carrier ebit per teu



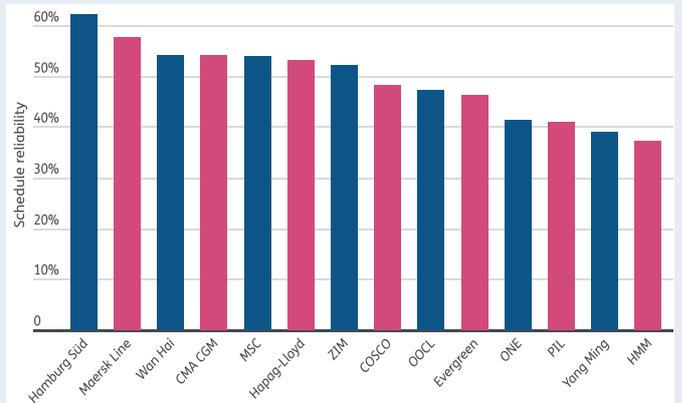
Source: Sea-Intelligence

Figure 5: Global schedule reliability



Source: Sea-Intelligence

Figure 6: Global top 14 carrier ranking (October 2020)



Source: Sea-Intelligence

Schedule reliability in October 2020

Schedule reliability dropped again in October 2020, a trend seen since July, as carriers kept increasing deployed capacity in the lead-up to the holiday season.

The October figure of 52.4% was the lowest recorded figure measured by Sea-Intelligence.

This was also the third consecutive month that schedule reliability was down in double digits on year.

The global average delay for late vessel arrivals was also an increasing trend over recent reported months, although that increase was only 0.09 days month on month in October.

That said, since April, the 2020 average delay for late vessel arrivals has been the highest in every month across any analysed year.

Hamburg Süd was the most reliable top 14 carrier in October 2020, with schedule reliability of 62.3%, followed by Maersk, with 57.6%. It should be noted we have moved to a top 14 ranking as APL has now exited nearly all east-west trades and has been reclassified as a niche carrier.

Another five carriers recorded schedule reliability of more than 50%, with five carriers recording schedule reliability between 40%-50%. Yang Ming and HMM were the only carriers to record schedule reliability of less than 40%, at 38.9% and 37.4%, respectively.

Only Wan Hai and PIL recorded a month-on-month improvement in schedule reliability in October 2020, with Wan Hai recording the largest increase of 14.1 percentage points.

At the other end, HMM recorded the largest monthly decline in schedule reliability of -6.2 percentage points.

On an on-year level, none of the top 14 carriers recorded an improvement in schedule reliability, with all carriers recording double-digit declines of more than 20 percentage points, the largest of which was recorded by HMM, of a staggering -43.1 percentage points.

In line with the schedule reliability trend we had seen so far in 2020, the industry schedule reliability on the east-west trades also declined month on month, by -10.5

percentage points to 51.8%. All three carrier alliances also recorded month-on-month declines in schedule reliability, with Ocean Alliance the most reliable carrier alliance in September/October 2020, with schedule reliability of 51%, followed by 2M with 49%.

The Alliance was the least reliable carrier alliance, with 43.1%.

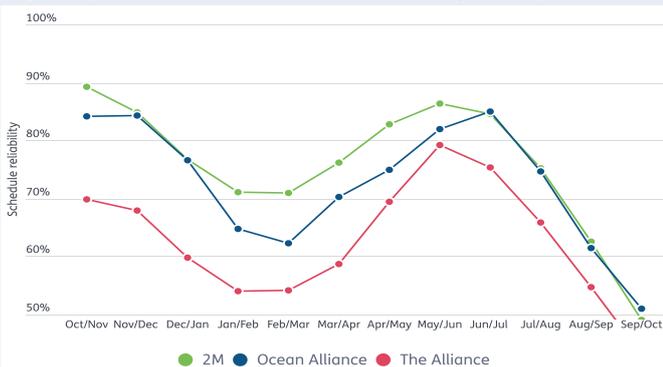
In September/October 2020, schedule reliability declined on year on all six main east-west trade lanes, and by double digits.

Asia-North America east coast recorded a massive -43.4 percentage point decline, whereas Asia-North America west coast recorded a decline of -28.2 percentage points.

Both Asia-Europe trades recorded similar on-year declines, with Asia-North Europe declining by -33.4 percentage points and Asia-Mediterranean declining by -34.2 percentage points, respectively.

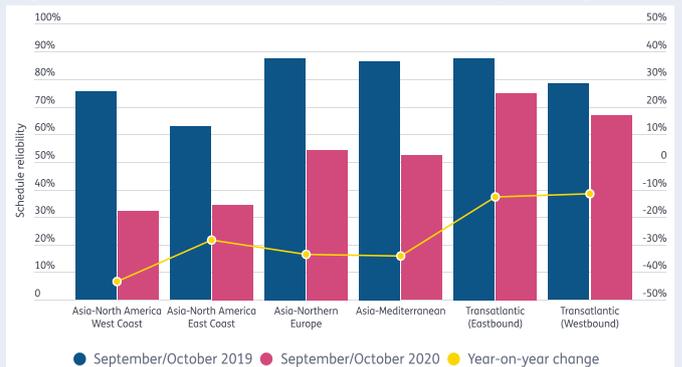
Transatlantic eastbound recorded a -12.7 percentage point decline, while transatlantic westbound recorded a -11.7 percentage point fall.

Figure 7: Alliance schedule reliability (2019-2020)



Source: Sea-Intelligence

Figure 8: Trade lane schedule reliability change



Source: Sea-Intelligence



Yard Talk with Cichen Shen

A regular column that looks behind the news headlines, adding analytical value to coverage of the big Asian shipbuilders and yards around the world

LNG's climate credentials depend on long bridge to decarbonisation

For those who have or are betting on LNG as a bridging fuel to green shipping, the irony is, perhaps, the longer the bridge gets, the better the returns will be

Debate about using liquefied natural gas as a transitional fuel to decarbonise shipping is getting hotter, with more than 150 vessels on order in 2020 opting for LNG or dual-fuel LNG engines.

Energy major Shell has been leading the charge recently with a slot reservation at Daewoo Shipbuilding & Marine Engineering for 10 LNG-fuelled very large crude carriers (see page 63).

The move may also further prove that a key environmental flaw of LNG — methane slip — can be solved, at least on ships.

Braemar said in its latest weekly report in mid-December that “only the ME-GI engine is being considered” in the Shell deal.

The brokerage believed these units will “set a new yardstick for what is possible with regard to the [Energy Efficiency Design Index] Phase 3 VLCC emissions”.

Such a high-pressure, dual-fuel main engine makes methane leakage — which is viewed as much more damaging than CO₂ on global warming — “virtually undetectable”, to quote German engine manufacturer MAN.

Its competitor, Wärtsilä, also challenged widely cited analysis by the International Council for Clean Transport earlier in 2020 that argued gas engines are worse emitters than those burning conventional diesel.

The Finnish giant said the ICCT study used “methane emission levels that do not reflect the latest gas engine technology”.

Of course, nothing is perfect. As ever, one of the biggest shortcomings of a more advanced technology is its price.

Taking an VLCC, for example, the price for fitting the propulsion systems built on the ME-GI engine is about \$13m — \$2m to \$3m higher than applying a typical Otto-cycle, low-pressure main engine, according to brokers and shipyard experts.

Also, with a higher combustion



DSME announced it has signed a letter of intent to build 10 LNG-fuelled VLCCs.

“*No wonder both charterers and shipowners are exercising extra caution on the costs as a result of the residual value risks involving the LNG component. You never know what cleaner fuels will become available*”

temperature, more NO_x is formed, which means the former solution would require additional measures, such as the exhaust gas recirculation, to comply with the Tier III emission standards. That means more costs.

No wonder, then, that both charterers

and shipowners are exercising extra caution on the costs as a result of the residual value risks involving the LNG component. You never know what cleaner fuels being developed at the moment will become available a decade from now and better serve the International Maritime Organization’s 2050 targets.

That is perhaps why Shell would want to team up with owners on the dual-fuel VLCC project so that the asset risks can be shared.

That is also why an internal Shell project, dating back to August 2020, suggested the energy giant was seeking to slash the differential with the price of an oil-fuelled VLCC newbuilding by 25% to 50%.

According to Shell’s internal report, the company found it could save 22% on costs through improvements to conventional plant and materials. However, it found it could boost these savings to 40%, cutting the extra capex of a VLCC newbuilding from \$13m to \$7.6m.

Yet cost savings alone are not everything.

Shell linked to LNG-fuelled VLCC orders at DSME

Shell has emerged as the interest behind the letter of intent signed with Daewoo Shipbuilding & Marine Engineering for 10 very large crude carriers that can be fuelled by liquefied natural gas, *write Cichen Shen and Nigel Lowry.*

Industry sources familiar with the matter said the energy giant, a strong advocate of using LNG as a marine fuel, was now discussing with several owners about working together on the newbuilding project that could be worth more than \$1bn.

"In the past, these have been very lean deals, with the charterer unwilling to take the residual risk of the LNG component," one source said.

A dual-fuel newbuilding VLCC costs more than \$100m, according to previous deals and brokers' estimates. That compares with about \$85m for the same tonnage equipped with conventional propulsion systems.

Shell declined to comment when approached by Lloyd's List.

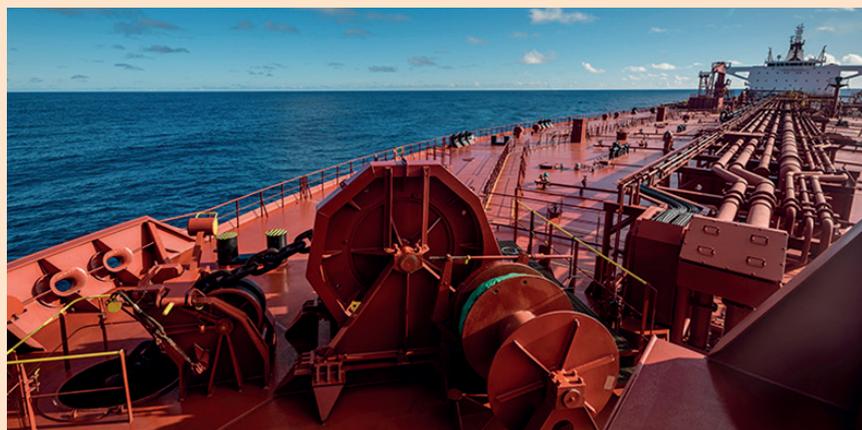
Maran Tankers Management, the oil shipping unit of the Angelicoussis Group, and US-listed shipowner Euronav were said to be involved in the ordering discussion.

However, a spokesperson for Euronav told Lloyd's List the company was not involved in the deal, while a spokesperson at Maran flatly declined to comment when approached for confirmation.

Speculation over Shell's appetite for ordering LNG-fuelled VLCCs has been circulating in the market for months.

Earlier in 2020, the oil and gas major was said to be in talks with several Chinese Leasing companies — including ICBC Financial Leasing, Bocomm Financial Leasing and Minsheng Financial Leasing — with intention to order up to eight supersized tankers of this type.

In April 2020, Bocomm Leasing ordered a dozen LNG-fuelled long range 2 tankers



GValery/shutterstock.com

DSME hopes to finalise the order in the first quarter of 2021.

at Chinese yards backed by time charters from Shell.

An executive from one of the involved lessors said his company remained interested in Shell's ordering plan for the VLCCs and may join the project "if the price is appropriate".

However, he added his company would prefer a "financial lease" as the means of financing the deal. That is because under the quasi-loan arrangement, lessors will not hold the assets upon the end of the bareboat charter over concerns about the current high price of LNG-fuelled VLCCs and the uncertainty over their residual value.

As recently as August 2020, Shell was touting progress towards a VLCC with LNG fuel gas systems to a restricted circle of owners. An internal project sought to slash the differential with the price of an oil-fuelled VLCC newbuilding by 25% to 50%.

Previously the capital cost uplift for configuring a VLCC for LNG as a fuel with a range of 12,000 nautical miles was estimated to be \$13m.

The company's study outlined a number of options that could potentially reduce

the additional cost by 40% to just \$7.6m. Measures included using cheaper high manganese steel for LNG bunker tanks, and configuring the vessel for a single tank instead of two, with a reduction in operating range.

A "more conservative" approach might yield 25% savings on the added cost of a dual-fuel VLCC, while looking ahead, Shell believed that a single-fuel strategy could shortly have the potential to eliminate the cost differential altogether.

One tanker executive, speaking with Lloyd's List on the basis of the configuration concepts he had seen from Shell in the summer of 2020, said the trade-off between cost and redundancy in the design could make some owners wary.

However, he had no knowledge of the plans currently being proposed to owners.

DSME announced the letter of intent in early December 2020, without identifying the buyers. The South Korean builder said formal shipbuilding contracts could be signed in the first quarter of 2021 and expected the deal to help it win more gas-fuelled newbuilding projects in the future, as demand for such type of ships increases.

A stable supply of LNG in future is critical for any LNG-powered vessels expected to have a life cycle of about 20 years.

A recent uptick in LNG bunkering facilities opening in 2020 is a promising indicator that LNG's case as a legitimate stepping stone to meet emissions targets is being supported by port facility investment. However, owners have to take a mid-

term view on their investments. So any suggestion that the gas fuel could become increasingly inaccessible or unaffordable is going to raise eyebrows.

A recent Wood Mackenzie report predicted that winning the world's climate change battle would lead to a significant reduction in the global LNG supply over the next two decades, leaving many

LNG projects that are currently under consideration effectively stranded.

That will have worried many of the owners currently paying a premium to ensure climate compliance.

For those who have or are betting on LNG as a bridging fuel to green shipping, the irony is, perhaps, the longer the bridge gets, the better the returns will be.



Seafarers grow tired of being undervalued

Shipping stakeholders talk the talk about key workers but they appear to have little sympathy for calls to limit working hours

Most seafarers questioned by researchers working on a World Maritime University study admitted they had participated in or witnessed the fudging of records of work and rest hours so there is never any violation of regulations. They do this, the report's authors allege, with the full connivance of shipowners and managers who employ them.

In the case of an accident or incident, evidence of manipulation of work/rest hours records would lead to questions about the due diligence of the shipowner to ensure the seaworthiness of the vessel.

However, there is no evidence. Seafarers who cascade concerns about work hours violations, usually through the designated person ashore, find career progression blocked.

The report, 'A culture of adjustment', exposes systemic abuse of seafarers by stakeholders at several levels of the industry. There is widespread undermanning of vessels, which is especially dangerous where ships call at several ports in quick succession; there is blatant manipulation of records; and, at the root of this sorry state, is "chronic mistrust" between ship and shore.

Underpinning all this is the job insecurity that is characteristic of numerous seafarers' working contracts. This should not come as a shock, apparently, because "all maritime stakeholders seem aware of the existence of a culture of adjustment".

And yet we are told, ad infinitum, that seafarers are key workers, bravely going beyond the call of duty to keep world trade moving.

Coming under greatest criticism is the six hours on/six hours off rotation that fails to allow seafarers time for leisure and proper rest. The result is a crew that has not had time to rest before being called to go into action again.

The 1995 revision of the STCW Convention (which entered into force two years later) required a minimum of 10 hours of rest per day — meaning the possibility of 14 hours of work.



modustolens/Shutterstock.com

Seafaring is notoriously dangerous work and the risk of accidents grows if workers become tired.

This was expanded in MLC 2006 to focus on rest to complement hours of work. Even so, the standard working hours limit for seafarers is almost double the eight hours set as a limit for shore-based workers. Thus the possibility of a 14-hour workday for seafarers appears to have become normalised as a standard.

Most experts find this position incredible. One non-governmental organisation observer described the current regulations as "not based on scientific evidence. It's a social agreement between parties at the International Maritime Organization... nothing to do with human psychology".

Another unnamed expert opined that no other industry would be allowed to get away with this. "The maritime industry is one of the most dangerous in the world and yet we run the most dangerous working hour regime."

In essence, recording work/rest practices has become a paper exercise to suggest compliance with regulations. Even some of the software programmes are deemed to be 'gamed for success' to ensure compliance with regulations and 'incentivise' crews to adjust their records.

Throughout the pandemic, shipping has become overloaded by virtue signalling. There is so much effort going into ensuring green targets are hit, efficiency is maximised, emissions are minimised.

While these should be encouraged, the very same shipping companies, managers, charterers and bankers that pride themselves on getting to zero must not be allowed to blow smoke over abuse of seafarers. Safety of the maritime venture depends more than it has ever done on dedicated seafarers who feel engaged and supported.

Crews who feel trapped on board, unable to admit how many hours they really work and how little proper sleep they get, surely regard the lamentations about key workers as just so much blather.

Lloyd's List

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Published by Informa UK Ltd.

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