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INSIDE

Half-year forecast

Crewing crisis

Carbon crisis

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Founder & CEO



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The editor's letter

LINTON NIGHTINGALE

The tricky business of forecasting

As we produce the half-year outlook at Lloyd's List, attempts to predict the future can only really be second-guessing

It seems a lifetime ago since Lloyd's List peered into its crystal ball to determine shipping's fortunes for the start of a new decade.

Life was simpler six months ago. Little did we know of the proverbial storm that lay in wait.

It has been a tumultuous period, not just for shipping but every walk of life.

The world as we knew it will never be the same, as we adjust to living with a health crisis that has rocked economies and societies the world over.

Many of the forward statements we made last December fell wide of the mark following the coronavirus outbreak. Indeed, the pandemic has rewritten the forecasting rulebook — or rather ripped it up altogether.

So, as we reach the halfway point of 2020, marking the next instalment in our outlook series, spare a thought for our team of journalists tasked once more with trying to second-guess what we as an industry can expect in the coming months.

Forecasting is tricky at the best times — but in today's climate, even Nostradamus himself would struggle to come up with predictions that would hold water.

However, try we must.

Indeed, all our sector forecasts come with the caveat or proviso of an absence of a second wave of infection that could turn everything on its head once more.

Essential reading

Either way, as Lloyd's List looks to make sense of this 'new normal' — as it has now been coined — our latest outlook makes for another piece of essential reading, even if it draws on an old cliché that the only certainty is yet more uncertainty.

However, as the industry yearns for a recovery, it appears that some things haven't changed.

As our chief correspondent Richard Clayton points out, with shipping's fortunes hinging on China, the new normal looks very much like the old normal.

“
In today's climate, even Nostradamus himself would struggle to come up with predictions that would hold water
”

Contents

COMMENT

4 Is shipping to blame for the crew crisis?

6 The sustainability generation

COVER STORY

9 All hopes pinned on China

New normal looks like the old normal

HALF-YEAR OUTLOOK

12 Containers: Crisis? What crisis?

Next six months could be profitable

14 Dry bulk: Over the worst

Fleet expansion and low demand is toxic mix

16 Tankers: Wild ride as depression looms

OPEC cartel navigates geopolitical icebergs

20 LPG: Supply/demand imbalance

Freight rates to remain at depressed levels

22 LNG: Pandemic clouds winter uptick

Threat of a second wave dampens demand

24 Regulation: A slow year for all

Major decisions have been put off or delayed

26 Finance: Are the banks coming back?

Shipping's resilience could win confidence

28 Economy: Further harm if second wave

Pandemic's impact more severe than forecast

30 Shipbuilding: Deliveries delayed

Cancellations of orders are also increasing

32 Half-year in charts: Floating storage

Port calls also hit by coronavirus

ANALYSIS

34 Ask the Analyst: Bankruptcies and risk

Cracks in the market have begun to show

MARKETS

38 Dry bulk: Chinese foreign policy

40 Tankers: First call at US Gulf terminal

44 Containers: World fleet update

46 Containers: Trade statistics

48 Containers: Vessel-sharing deals

50 Containers: Carbon crisis

REGULARS

52 Yard Talk: Tie a knot and hold on

54 Last Word: Going to work



JANET PORTER
Editorial board chair

“*Shipping is suffering the consequences of its own way of doing business, where a ship is effectively stateless because of its ownership, registration and trading structure, leaving those who could make a difference wondering why they should care*”

Is shipping to blame for the crew crisis?

Shipowners who shun publicity and choose to flag vessels in countries with which they have few or no commercial connections, should not be surprised if governments fail to take up their cause

Public opinion is probably the most powerful weapon at the disposal of the shipping industry as it struggles to resolve the crewing crisis and help the 300,000 seafarers caught up in a combination of bureaucracy and disinterest that has left them stranded at sea.

Politicians in the countries with the power and influence to unblock the logjam would certainly take more notice if their constituents — or the popular press — started to protest about the treatment of these “key workers”.

Yet apart from a few articles about those stuck on cruiseships, there has been only occasional media coverage of this scandal — and certainly little understanding about the scale of the problem.

However, is the shipping industry itself partly to blame for the situation in which it finds itself?

The general public probably would be much more sympathetic if they could relate to those on board in some way.

If, say, the crew of dozens of British or US vessels were banned from going ashore, there is likely to be a far greater outcry in those respective countries than if the ships concerned were registered in, for example, Liberia, Panama, or any other flag state that seems remote and irrelevant to many who would readily speak up if they understood the facts

Many shipowners choose to register their vessels in jurisdictions with which they have little commercial connection.

Rightly or wrongly, they are then perceived as doing that to avoid paying taxes in their home countries.

Yet the one fact that is most easy to obtain about a ship is its flag state, not the identity of its owner.

So why would governments, politicians or their voters care about the plight of the crew of a ship that is registered in a country that they may never have heard of?

Below the radar

Usually, the shipping industry is quite content to remain below the radar.

However, right now, it needs to help the hundreds of thousands of men and women who are either unable to disembark, or who need to replace those whose contracts have expired — and, through no fault of their own, are caught up in this nightmare.

The big flag states certainly need to be far more vocal about this humanitarian emergency. Yet shipowners, too, should think about their choice of register and whether — in the longer term — they would be better off flagging tonnage in their home countries, or one with the means to mobilise public opinion when it matters. And right now, it does.

Shipping is suffering the consequences of its own way of doing business, where a ship is effectively stateless because of its ownership, registration and trading structure, leaving those who could make a difference wondering why they should care.

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RICHARD CLAYTON
Chief correspondent

Decarbonisation not enough for sustainability generation

There are 17 United Nations sustainable development goals, which must be addressed together. The sustainability generation is demanding a fair, equal and just society



What makes this BSc in global sustainable development most relevant is that the essence of good global citizenship is that focusing on just one SDG is not good enough. There are 17 colours on my badge for a reason



A couple of years ago, I was given a badge by the good people at the International Maritime Organization. It is circular and has 17 sections, each of a different colour. There is no motto or phrase that gives away its meaning.

Not long afterwards, one of the panellists at a conference I was covering for Lloyd's List wore the same badge. We were kindred spirits of a secret society.

The cause should not be secret, although trying to get this industry hooked into the United Nations' Sustainable Development Goals has been tough.

Partly, the SDG campaign suffers from the very same malaise that afflicts the crew change crisis: while there are plenty of expressions of deep concern and much urging, there is little voluntary commitment to concrete steps.

The launch in July of a bachelor's degree in global sustainable development by MLA College — which started life as a small department within Plymouth University, moved to IMarEST and is now a member of the BAU Global network — is aimed at the 'sustainability generation'.

This is not a reference to age or any given demographic, the course leaders explained; it is all of us.

"This all becomes increasingly important in a world that is finally beginning to understand that sustainability is not an optional extra for the nation state but a fundamental requirement," observed MLA College's head of academic operations Jamie Cross.

No-one could argue that shipping has missed out on calls for a sustainable future. In fact, the calls are becoming louder, year after year.

IMO 2020 was a commitment, by the UN agency, to reducing sulphur emissions as part of a decarbonisation effort.

The Poseidon Principles is a framework for integrating climate considerations into

finance decisions to promote shipping's decarbonisation.

The Getting to Zero Coalition aims to accelerate shipping's decarbonisation with the development of zero-emission vessels.

A natural fit

All three of these initiatives focus on SDG 14, which is concerned with protecting the world's oceans. It is a natural fit for a maritime sector that makes its living on water.

What makes this BSc in global sustainable development most relevant is that the essence of good global citizenship is that focusing on just one SDG is not good enough. There are 17 colours on my badge for a reason.

Nikil Seth, executive director of the United Nations Institute for Training and Research, which covers universities such as MLA College, used his presentation at the launch to make a point shipping might have overlooked in its emphasis on decarbonisation.

"SDGs bring together universal economic and social aspirations, especially around the eradication of poverty, a dramatic reduction of inequalities and improvement of health."

It is, he said, "a quest for a fair, equal, and just society."

However, we should not be unpicking the entwined threads that make that society work in order to solve one problem. They go together.

The eradication of poverty has received a severe setback against the backdrop of the coronavirus.

The World Trade Organisation warns that the downturn of trade caused by the pandemic "will be very severe for the poorest countries which are heavily dependent on export earnings, particularly from one or two commodities," Mr Seth said.

Shipping is part of the problem — and part of the solution.



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Half-year outlook



With all hopes pinned on China, the new normal looks like the old normal



Tam Nguyen/Shutterstock.com

It is plain that China — the driver of almost all markets — is still being considered as the great hope for recovery.

The coronavirus pandemic has exposed shipping market weaknesses, yet resilience within each sector reveals an industry inching its way towards new solutions, **Richard Clayton** reports

To know the future, you must know the past; those who cannot remember the past are doomed to repeat it.

The American philosopher George Santayana, to whom these sayings are attributed, might have had the freight markets in mind as we move nervously forward from the catastrophic second quarter of the year.

On face value, the coronavirus pandemic has devastated almost every sector. Economic shutdown killed demand for goods, which depressed the requirement for shipping capacity, leading to weak rates.

Yet look under the headlines and there are interesting observations to be made about resilience — about adapting to the circumstances — in each sector.

The impact of the pandemic has been so severe and widespread that understanding the past — even the very recent past — appears not to offer much consolation.

Forecasts for the whole of 2020, made just six months ago, have been ditched in favour of assessments lasting a few weeks.

Short-termism is no good for investors. However, it does reveal an industry inching its way towards new solutions.

The financial analyst Ted Petropoulos believes that, all things considered, shipping has “actually performed quite well”.

The container lines have maintained an unusual spirit of discipline that has kept rates healthy, although not robust.

Even in the deeply troubled dry bulk market, analysts believe an historically low newbuilding orderbook and a strong rebound in third-quarter demand will combine to ensure rates climb.

Market analysts are fond of direct comparisons. They are accurate in suggesting that rates in the second quarter of 2020 were significantly lower than in the same period in 2019, but that doesn't tell us much. This pandemic has done more than sweep forecasts aside; it has reshaped the landscape.

The shipping markets of 2019 and 2020 are so different. However, it is plain that China — the driver of almost all markets — is still being considered as the great hope for recovery. In other words, the new normal will just be a return to the old normal.

How China's own economic recovery will play out is as yet unclear. At the end of May, China's Premier Li Keqiang unveiled a package of measures valued at Yuan4trn (about \$559bn) — the largest economic rescue package China has ever offered.

These measures would focus on ensuring employment, people's livelihoods and helping market entities.

Even so, what optimism there is in the liquefied petroleum and liquefied natural gas markets centres on growing demand for LPG and LNG in China.

Meanwhile, the dry bulk sector will be boosted by China's need to replenish its iron ore stockpiles, and there are hopes that China's increasing first-half coal imports will also strengthen demand among bulkers in the second half.

China's economic past holds clues to its future — and, analysts imply, the future of the freight markets.

Trade tension

Yet even in a coronavirus crisis, during which all shipping sectors and all maritime companies have been hit hard, the other 'known known' is trade tension — especially with the US.

How Washington and Beijing act and react to statements and pronouncements — particularly with a US presidential election in November — will influence the smooth flow of trade between the world's two largest economies.

And it is in these actions and reactions that Santayana's caution about those who fail to heed the past are doomed to repeat it become most clear.

Policy decisions by governments trying to keep their weakened economies alive could play the greatest role in supporting or destabilising the various freight markets.

Watch out for a rise of protectionist measures — not only in the US — and a growing sense of regionalism in trading patterns.

Globalisation has been a feature of the shipping markets for 50 years, but the focus is slowly shifting.

Vessel orders

Besides political decisions, the most significant factor influencing the profitability of shipping in the second half of 2020 and the first half of 2021 will be the delivery from Asian shipyards of vessels ordered before the pandemic.

There were very few new orders during the second quarter, while ships scheduled for delivery in the quarter were delayed.

However, the spectre of overtonnaging was active throughout 2019 and has not been exorcised with a few months' respite.

The pandemic has exacerbated longstanding supply problems in container shipping, but the fleet is continuing to grow with every delivery.

The sector is essentially kicking the



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Even in a coronavirus crisis, the other 'known known' is trade tension, especially with the US.

“Covid-19 has exposed weaknesses that have never been properly addressed ... Nevertheless, the coronavirus pandemic has revealed a resilience in shipping markets, with shipowners working with charterers to overcome the obstacles”

problem down the road. It is still a major concern — only it is one for 2021 or 2022.

This mid-year outlook is heavily influenced by the coronavirus pandemic, but Covid-19 has exposed weaknesses that have never been properly addressed.

Chief among these are the dependence on China; the obsession with market share; the continuing importance of coal in spite of its environmental impact; and the inability to pass on to the consumer the costs associated with green shipping.

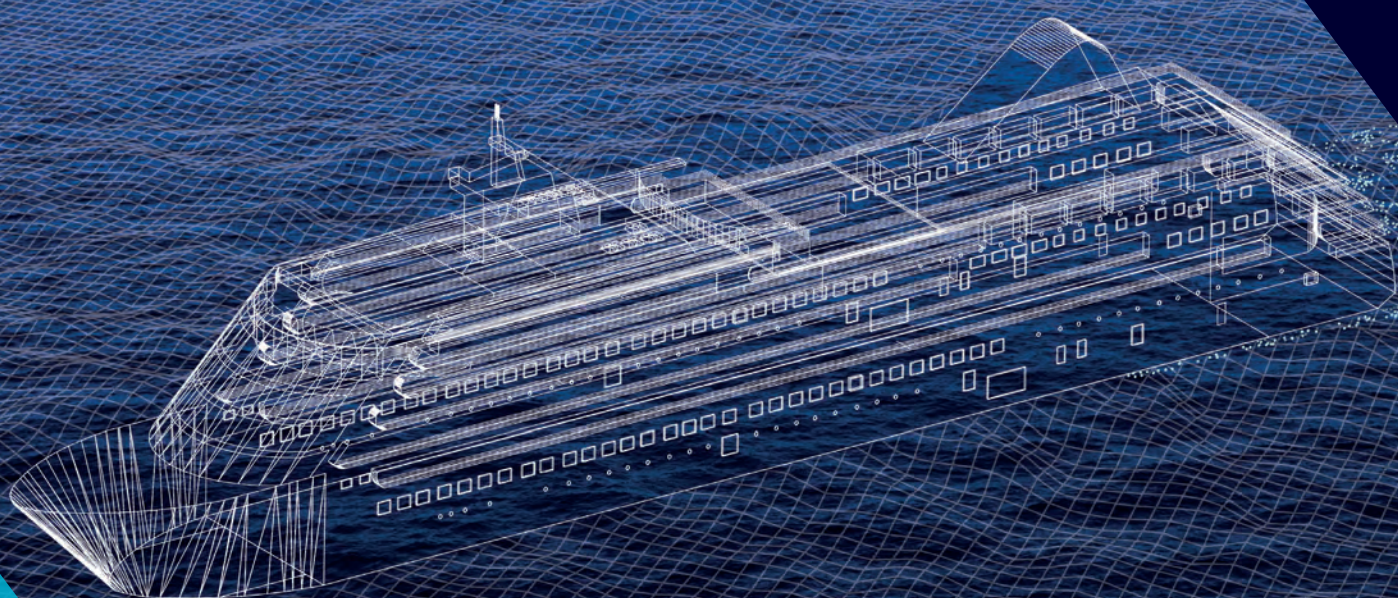
Nevertheless, the coronavirus pandemic has also revealed a resilience in shipping markets, with shipowners working with charterers to overcome the obstacles.

“Covid-19 has been a bit of a revelation [for bankers],” Ted Petropoulos tells Lloyd's List in this report.

“Despite the increased volatility of the markets, shipping has shown itself to be a lesser risk.”

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Box shipping has had a better than expected year.

Containers: Crisis? What crisis?

If container lines can hold their nerve, the next six months should remain profitable, even with a weak peak season, **James Baker** reports

If 2020 has taught us anything, it is the utter irrelevance of forecasts. A mere six months ago, the main concerns in container shipping were the impact of the trade war between the US and China, and whether or not carriers would be able to pass through the increased costs of low-sulphur fuel to their shipper customers while still maintaining freight rates.

That was 180 days ago. It may as well have been a lifetime ago.

Since then, the darkest of black swans has descended on container shipping and a big disease with a little name has changed the forecasts beyond recognition.

The coronavirus pandemic that has wreaked social and economic devastation on nearly every economy in the world has seen containerised freight fall by the largest amount since the global financial crisis of 2008-2009.

The most recent figures from Containers Trades Statistics show laden box volumes were down by 7.7% in the first five months of the year. Drewry's port throughput tracker expects a 7.3% decline across the year.

Yet these figures are better than some initial projections, which had seen volumes falling by 10% or more.

It is true that the worst may be over, but as the past has shown, that "may be" is doing a lot of work. No-one can any more tell the course of the pandemic now than they could in January, when Chinese authorities closed down a market in Wuhan.

Flattening the curve

While the worst of the volume decline may have occurred during the severe lockdowns of April and May, for container lines, these are the inconsequential months that follow the Chinese New Year factory closures.

What is of consequence is the summer peak season, as retailers stock up for the back-to-school sales in September and the Christmas spending frenzy.

Some have looked at the spike in rates on the transpacific trade as a sign that demand is returning and that a peak season could soon be upon us.

However, that has more to do with a sharp reduction in capacity by container lines that may have gone beyond what was strictly required.

Shippers, seeing blanked sailings announced on an almost daily basis, paid over the odds to secure their cargoes on limited sailings, pushing up rates. Yet port throughput figures show no corresponding surge in demand.

According to SeaIntelligence Consulting chief executive Lars Jensen, the traditional peak season has already been discounted and any rebound is unlikely to come until 2021 at the earliest.

"The peak season exists because that's when we ship the goods for Christmas," Mr Jensen said.

"In order to have a rebound in the peak season, it means that we need to believe a scenario where all the importers in Europe

and the US sit down in the next month and decide there will be a strong Christmas sales season, and order goods accordingly.

"I cannot see a realistic scenario where a lot of companies now would believe in strong Christmas sales."

Drewry analyst Simon Heaney is also doubtful of a recovery in volumes any time this year.

"Our assumption is that activity will improve through the second half of the year as lockdowns are lifted and stimulus packages kick in," he said.

Mr Heaney is forecasting no return to growth until 2021 at the earliest — and even then, a 10% increase in volumes next year would only take liftings to where they were in 2019.

Mr Jensen also sees a return to form in 2021. "There are many different opinions out there, but mine is that when the rebound comes, it will come extremely hard and extremely fast. It always does. That happens when inventories need to be revamped."

However, as Drewry warns, it will be the pandemic that calls the shots. Its baseline scenario is based on the pandemic subsiding.

"No-one is in control of the pandemic and the economy will go as the virus does," Mr Heaney said.

"If there is a failure to contain the virus this year or a fresh outbreak next year, then you will quickly see the forecast for next year slip into negative territory."

Breaking ranks

If there is one forecast the carriers will have been happy to prove wrong, it was of their imminent demise following the collapse of global economic growth, on which they depend.

Early assessments forecast that carriers could lose as much as \$20bn collectively this year, if rates followed the same trajectory they had in 2009.

However, not only have the leading lines failed to collapse, they appear to be taking the business school advice of turning a crisis into an opportunity.

Box lines have shown an unprecedented fortitude in managing capacity since the outbreak of the pandemic.

By pulling capacity out of the market as a group, they have avoided the price war and rates collapse that has characterised every other container shipping crisis over the past 60 years.

That has been attributed to both the smaller number of lines now competing with each other, as well as the existential threat they face individually.

Yet now there are hints of if not a recovery, at least a bottoming out of the collapse in demand, it remains to be seen

if they can keep their collective wits about them or whether the age-old drive for market share will lead to capacity being added to the market before the demand is fully realised.

Drewry expects that as volumes increase over the next few months – albeit from the lows of April and May – rates will come off the boil as more capacity is added.

Yet still they come

Carriers’ ability to control capacity during the crisis has surprised many industry observers.

The pandemic has seen new orders shrink to virtually nothing this year, but ships ordered before the crisis are still coming into service – albeit with delays.

Drewry reckons that only 65% of the ships due for delivery will actually join the fleet this year, but this is still more than is warranted.

“The containership fleet continues to grow, even though most carriers would prefer that it didn’t,” Mr Heaney said.

“Covid-19 has exacerbated the industry’s longstanding oversupply problem. By the end of this year, the fleet will have grown by about 2.6%, which

is about 9% above our port handling forecasts, which is adding to the existing oversupply pressure.”

There was likely to be more slippage of deliveries over the next 18 months, he added. “Essentially, we are just pushing some of this problem down the road until it is less of a problem.”

However, the delivery of up to 30 ultra large containerships a year in the latter part of the decade has left a shadow of overcapacity over the market, according to BIMCO shipping analyst Peter Sand.

“As in the other shipping sectors, the past decade saw a worsening of the fundamental balance in the shipping market,” Mr Sand said.

“This led to a challenging outlook even before the Covid-19 crisis. With demand set to fall this year, while the fleet continues to grow, 2020 will prove a painful year for carriers, even if freight rates are held up by record high containership idling.”

Nevertheless, it appears the lines will come out of the crisis chastened but not unduly disturbed, at least for this year. Forecasting anything beyond that, as 2020 has taught us, would be a fool’s errand.



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Dry bulk: Over the worst

The dry bulk fleet is expected to expand this year, while demand is likely to fall, leading to a toxic mix for the market, **Nidaa Bakhsh** reports

There can be no doubt in anyone’s mind that the second half of this year will be stronger than the dismal levels seen during the first six months.

That is, if no new wave of infections forces key consuming countries such as China into calamitous lockdowns again.

The biggest driver for the July-December market is a recovery — albeit small — in China, where iron ore inventories are lower than usual. Long-haul shipments are keeping freight rates buoyant for the larger sizes, while some bright spots in certain regions are keeping smaller-sized bulkers busy.

Elsewhere, however, things do not look so rosy. Slowing economic activity, following coronavirus closures, is looking likely to lead to a contraction in global demand for dry bulk commodities this year, by up to 3%.

“The economic damage from Covid-19 now — and in the coming months and years — leaves a huge hole,” BIMCO’s chief shipping analyst Peter Sand said.

“China’s stimulus packages, announced



Australian iron ore exports to China have been strong in the first half, with shipments from Port Hedland reaching a record 235.8m tonnes.

“*The economic damage from Covid-19 now — and in the coming months and years — leaves a huge hole*”

after its lockdown restrictions were lifted, are unlikely to boost the dry bulk market as they did a decade ago,” he said, adding that the higher spot rates expected in the second half will not be enough to offset the heavy losses experienced earlier in the year.

Fleet growth, meanwhile, is expected around the 3% to 4% mark this year, which, when combined with lower demand expectations, makes for a toxic cocktail.

The uncertainty in the market right now is feeding into investor sentiment, with most publicly listed dry bulk companies trading below net asset values.

Banking analysts, who have a bullish view on the market for the coming months, say this is a good time to invest in the sector.

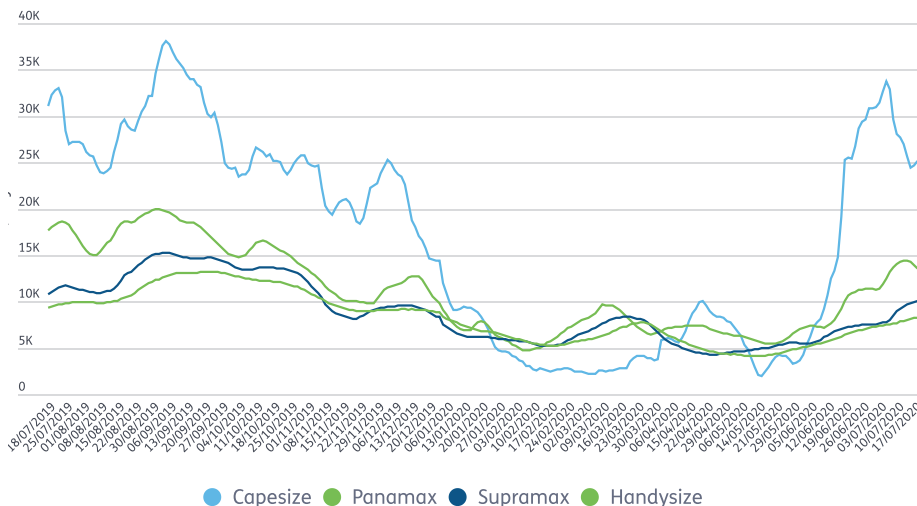
However, while the outlook for the second half is encouraging, full-year earnings estimates will most likely sit below the 2019 average in all segments, according to analysts, who envisage brighter prospects in 2021 on even lower fleet growth — around 2% — and an anticipated rebound in demand.

Earnings expectations

US bank Jefferies, as well as Norwegian outfits Cleaves Securities and Torvald Klaveness, are all positive for a stronger second half due to sequential growth in demand from the halted first half amid relatively low fleet growth.

Combined with that is an historically low orderbook, while about 7% of the fleet is over the age of 20 years, making these vessels ideal demolition candidates.

Baltic dry indices (July 2019-July 2020)



Source: Baltic Exchange

London-based consultant Maritime Strategies International also forecasts higher figures for the third and fourth quarters versus the first half, although the earnings are well below the same periods last year.

MSI forecasts average spot capesize rates at about \$19,000 per day in the third quarter. That is some \$10,000 below the same time last year, while the final quarter should average about \$15,500, down from \$21,900 in the year-earlier period.

Panamaxes, meanwhile, are forecast at \$9,000 per day, moving up to \$9,700 by the year's end. That is 25% to 50% below the corresponding periods in 2019.

Supramaxes and handysizes paint a similar picture, with the fourth quarter being their strongest months.

Fleet growth vs demand

Supply and demand fundamentals look weak for the full year and, according to some analysts, will start showing signs of being overtonnaged.

Lloyd's List Intelligence's Shipbuilding Outlook pegs dry bulk and general cargo fleet growth at 4% this year. Other analyst estimates range from 2.3% to 3.6%.

June was the busiest month for new deliveries since the start of the year, while high spot rates in July will have quashed demolition activity.

Meanwhile, dry bulk trade could contract by 1.9%, according to Lloyd's List Intelligence. Other analysts expect negative growth in the range of 2% to 3%, based on the effects of the coronavirus pandemic and rising protectionism.

Coal

Specifically, coal faces the steepest fall — especially of the thermal or steam coal variety — due to lower manufacturing output. Overall, brokerage Howe Robinson expects a 6.8% drop in global seaborne imports to 1.2bn tonnes.

Although China's imports were strong in the first half, up about 13%, there was talk of a possible import quota as Beijing tries to incentivise domestic producers.

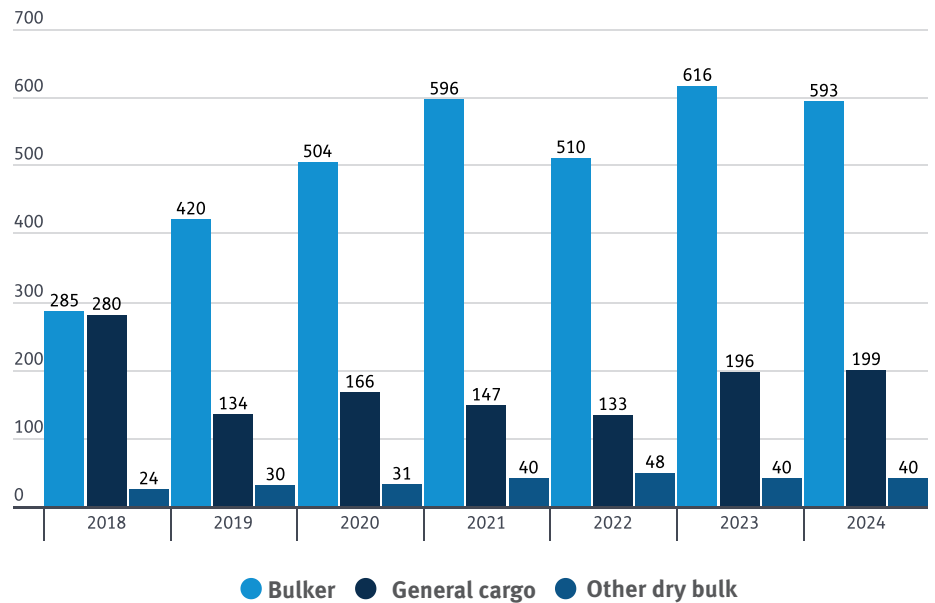
A heightening political spat with Australia may hit shipments going forward, with the slack taken up by Indonesia or Russia.

Minor bulks

Cement and steel products are also expected to see falls due to the slowdown in global economic activity. The World Steel Association expects that steel demand will shrink by 6.4% this year, recouping some losses next year.

Bauxite may be one commodity that

Bulker and general cargo orderbook (number of vessels)



Source: Lloyd's List Intelligence

“
On a positive note, grains should provide a necessary boost to the market, with Black Sea and Brazilian volumes faring well
”

props up the market as the long-haul trade from Guinea in West Africa to China has somewhat helped the capesize segment so far. Sugar trades, too, are seen as a boost to the smaller bulkers in the coming months, as Brazil elevates its exports.

However, overall trade volumes are expected to slip by 2.7% to 1.9bn tonnes, according to Howe Robinson.

Grains

On a positive note, grains should provide a necessary boost to the market, with Black Sea and Brazilian volumes faring well. Smaller-sized bulkers benefit from this, as well as panamaxs.

The US exports season, which begins in September, also looks positive, with a 24% rise expected, according to the US department of agriculture. However, with China and the US still at loggerheads over policies, it is unclear where cargoes could be diverted.

Howe Robinson expects a 4.2% rise in global grains trade to 602m tonnes this year versus 2019.

Iron ore

Iron ore trade, meanwhile, could increase by 1.1% to 1.6bn tonnes, the brokerage said.

Australian exports to China have been strong in the first half, with shipments from Port Hedland reaching a record 235.8m tonnes, official figures show. That is a 10% rise over the same period last year.

Volumes from Brazil should be in line with last year, MSI said, if Vale, the largest Brazilian miner, can ramp up supplies sufficiently to meet its full-year guidance of 310m to 330m tonnes, following a weak first half due to heavy rains and coronavirus shutdowns.

There is potential for strong iron ore shipments in the second half, it added.

The recent capesize rally may not hold at the \$30,000 per day rate through the rest of the year though, as the drivers that led to the spike were deemed to be short-term tonnage tightness.

In short, fundamentals remain unfavourable in the dry bulk market this year as fleet expansion continues amid a backdrop of what will prove to be a demand contraction given the pandemic that closed off much of the world.

Brewing political tensions around the world are also a risk factor to any meaningful recovery.

There is hope, however, that next year's earnings will sit comfortably above 2020, provided there is no second or third wave of coronavirus infections that will lead to renewed lockdown measures.

The OPEC cartel is navigating geopolitical and economic icebergs as the oil market rebalances during 2020's second half, **Michelle Wiese Bockmann** reports

The tanker market's wild ride is not over. There is a pick-and-mix of volatile, disruptive and dramatic variables that could either send rates soaring or crashing in the final half of 2020.

Economic fallout from the Covid-19 pandemic and the possibility of further lockdowns suggest another oil demand shock cannot be ruled out until a vaccine is widely available.

If a pandemic and global economy in depression were not enough, there are oil market share wrangles, a contentious American presidential campaign, and diplomatic ruptures between the US with Iran, Venezuela and China. For good measure, add a proxy war in Libya between Middle East countries, Turkey and Russia.

So where to begin? Most of the world's trading fleet of crude and product tankers working the spot market saw rates spike to records in March and April, only to fall to the lowest for 2020 as crude demand plunged by one-third.

Middle East crude shipments fell 4m bpd below earlier 2020 volumes over the second quarter, equivalent to 60 fewer very large crude carriers each month.

Middle East Gulf exports

This reflected historic cuts by Organisation of the Petroleum Exporting Countries and their allies to remove 10% of production from the global market to stabilise prices.

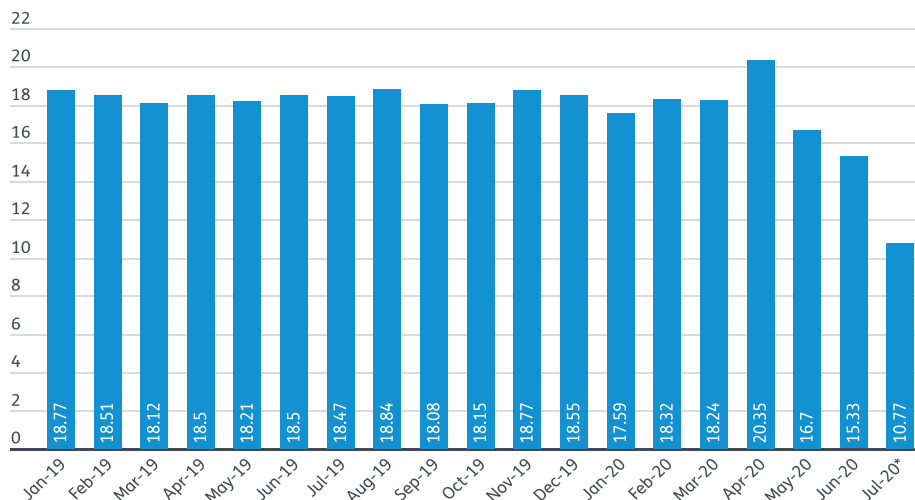
Although quotas rise by 2m bpd from August, an equivalent recovery in export volumes is not expected over the third quarter.

Swing supplier and largest exporter Saudi Arabia signalled at a July OPEC meeting that domestic summer demand will soak up its own increased production, leaving exports flat.

Other producing nations that have not fully complied with targets must compensate with extra cuts in the second half of 2020, the meeting heard.

The unwinding of floating storage and the pace and scale of crude and refined product inventory drawdowns are also crucial to tanker earnings direction over the last half of 2020.

Iraq, Saudi, Kuwait, UAE crude exports (mbpd)



* Figures for July 2020 do not include figures for the full month

Source: Lloyd's List Intelligence

Tankers: Wild ride as pandemic fallout and global depression looms

Floating storage

Drawdowns signal how swiftly demand for crude and refined products is rebounding and whether the oil market is rebalancing. That floating storage volumes remain persistently high is not a good sign.

Months after the oil price contango narrowed, removing any economic incentive for floating storage, volumes of refined and crude products remain at a record.

Lloyd's List Intelligence data shows floating storage volumes topped 300m bbls over July. That is 167% higher than late January, shortly before news of the coronavirus outbreak in Wuhan emerged.

To be fair, July figures remain skewed by Chinese port congestion as land-based tanks there quickly fill. Crude imports to China hit fresh records in June and July as refineries maxed out oil purchases at 21-year-low prices.

Refineries also processed record volumes and stored excess refined products as exports to regional markets

dropped. A repeat buying frenzy is therefore unlikely this year.

Oil prices are recovering. Brent crude gained 68% since late April, trading at \$44 bbl by late July.

The oil market is forecast to rebalance over the last half of 2020, but this is not necessarily good for the tanker market — especially for product tankers. Inventory drawdowns can kill tonne-miles.

When floating storage unwinds, tankers will be added to an already overtonnaged market, which can also weigh on rates.

The March oil price war between Saudi Arabia and Russia that dragged oil prices to 21-year lows is easy to forget, given the cascading lockdowns across the world that began shortly afterwards. It had the desired effect on debt-burdened US shale producers, which typically need prices at around \$50/bbl to break even.

Forty oil producers collectively wrote down \$48bn worth of assets in the first quarter of 2020, according to the US Energy Information Agency.

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US crude exports and imports

However, shale is down but not out. The US ended 2019 as a net exporter of crude and refined products, returning to net exporter in April as exports fell.

Yet EIA figures show the US briefly exported more than it imported for a week over July in the US Gulf region, suggesting energy independence is again within reach.

US crude production (excluding Alaska) dipped by 2m bpd or 15.5% since February, reaching just over 11m bpd from April. Crude exports did not fall by the equivalent amount.

Exports from the US Gulf coast region averaged 2.9m bpd since April – 600,000 bpd below the 3.5m bpd seen over the first quarter – based on EIA figures.

Additional pipeline capacity added from the Permian basin to US Gulf coast ports added over the past 12 months will keep exports moving. Some 2m bpd in capacity has gone to Corpus Christi alone since late 2019.

This presents OPEC-plus members with a dilemma they may need to resolve later in 2020. Along with Brazil, the US remains the fastest-growing exporter, displacing their OPEC rivals in key Asia markets.

The OPEC agreement to maintain production cuts and prop up prices is rebalancing the market. However, it is also allowing US shale exports to return to prior volumes at a time when any surplus will depress prices.

So, OPEC needs to find an as-yet elusive recalibration over the next 12 months. The agreed cuts must still keep prices high, at a point where they compensate for lost sales from producing less crude.

Yet the cartel must do so without yielding market share to non-member rivals like Norway, Russia, the US and Brazil – all the while navigating a myriad of complex geopolitical and economic icebergs.

This is most clearly evident in China, the world's biggest crude importer. Average 2020 imports from the US are double last year, at 250,000 bpd.

The opening of a new field last year off Norway has seen imports at 270,000 bpd, from less than 3,000 bpd last year.

There are few positive factors that can support crude tanker rates in the final half of 2020. Sanctions on Venezuela and Iran have removed 4m bpd from export markets over the past 18 months.

Libya, gripped by a civil war that has closed its ports since January, accounts for another missing 1m bpd.

China crude imports

China has boosted imports from non-OPEC members in 2020 including the US, Brazil and Norway at the expense of Saudi and West African producers

Country	2016	2017	2018	2019	2020
 Saudi Arabia	0.97	1.04	1.06	1.57	1.37
 Angola	0.73	0.94	0.91	0.93	0.76
 Iraq	0.67	0.72	0.80	1.01	1.10
 Oman	0.64	0.59	0.59	0.63	0.58
 Russia	0.47	0.52	0.57	0.65	0.65
 Iran	0.62	0.68	0.65	0.31	0.08
 Brazil	0.20	0.30	0.48	0.68	0.72
 Kuwait	0.30	0.37	0.44	0.43	0.42
 Malaysia	0.20	0.35	0.26	0.27	0.56
 UAE	0.22	0.21	0.27	0.28	0.46
 Venezuela	0.25	0.33	0.25	0.20	-
 The Congo	0.11	0.16	0.24	0.23	0.17
 Singapore	0.16	0.24	0.18	0.19	0.11
 US	0.01	0.13	0.25	0.12	0.25
 UK	0.08	0.11	0.11	0.22	0.12
 Panama	0.06	0.10	0.09	0.17	0.20
 North Korea	0.10	0.10	0.18	0.10	0.09
 Uruguay	0.14	0.15	0.13	0.09	0.04
 Libya	0.01	0.05	0.15	0.18	0.04
 Gabon	0.04	0.06	0.08	0.14	0.10
 Colombia	0.05	0.03	0.09	0.12	0.10
 Indonesia	0.12	0.09	0.03	0.03	0.12
 Sudan	0.11	0.07	0.07	0.07	0.04
 Ghana	0.03	0.07	0.07	0.08	0.07
 Norway	0.02	0.01	0.01	0.03	0.27

Source: Lloyd's List Intelligence

Lifting of sanctions would flood the market with crude, depress prices, and recreate the market contango that supports floating storage for crude and refined products.

Even if the US presidential election removes Donald Trump from office, the foreign policy status quo is expected, making this scenario unlikely.

Fourth-quarter demand is the seasonally strongest, although the likelihood of reimposed lockdowns over winter weighs heavily on any outlook.

Like US oil production, US refinery utilisation appears to have bottomed out by May. US Gulf export refineries are now at 81.4%, from 72% two months ago, as demand for transport fuels – particularly gasoline – lifts.

Weekly exports are the highest since early May, though the transport fuels demand picture for key buyers Mexico and Brazil is not recovering as rapidly as the US. This is keeping demand for medium-range tankers, the workhorses of these trades very poor. In Asia, there is a similar picture.

Domestic US gasoline demand is

heading for 8.5m bpd, from a low of 6m bpd, while distillate inventories are at the highest since 1982, EIA data shows. Commercial crude storage also remains close to record levels, mirroring trends in global floating storage.

Refinery margins in Europe remain under pressure, reflecting the oversupply of transport fuels there, even as demand slowly recovers. Utilisation rates of 72% are the lowest in 37 years, according to the IEA. The EU28's 78 refineries are configured to produce some 48% jet fuel and diesel and 18% gasoline.

Even with low utilisation, refineries overproduced in April and May and will have to run at lower levels from June to redress the overhang, according to the International Energy Agency.

Tanker rates in the spot market remain highly sensitive and volatile in such an environment. Wild swings in demand and supply will be determined partly by foreign policy administered by the mercurial, populist or unselected world leaders of Saudi Arabia, Russia, China and the US, and partly by any further outbreaks of the Covid-19 virus.



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The number of newbuilding LPG tankers expected to hit the market in the final two quarters of the year is a threat for freight rates.

LPG: Supply/demand imbalance smothers earnings

Shipowners and operators are buckling in for tougher competition as the supply/demand picture puts the liquefied petroleum gas segment at a disadvantage, while freight rates look set to remain at depressed levels in the second half, **Inderpreet Walia** reports

Optimism is lacking in the liquefied petroleum gas markets, where charter rates have slipped to roughly one-third of the levels seen at the beginning of 2020.

Shipowners and operators are buckling in for tougher competition on regular routes that have steadier earnings, as longhaul arbitrage becomes scarcer.

Initially, the year looked resilient for the LPG segment. Spot rates remained well supported through the first quarter, amid a global pandemic that has otherwise wreaked havoc on most other sectors of the global economy.

However, freight rates witnessed a steep decline to five-year lows in June.

The general consensus is that tonnage overcapacity will eventually have to catch up with slow demand growth, with most shipowners anticipating rates to remain at depressed levels for the second half of the year.

Supply-side pressures

The number of newbuilding LPG tankers expected to hit the market in the final two quarters of the year is a looming threat for freight rates.

This year, the LPG fleet is expected to grow by 17 units to 1,150 units, according to Poten & Partners' data.

Another 32 vessels are expected to join the fleet in 2021.

The very large gas carrier fleet is expected to increase from 296 vessels currently to 303 vessels by the end of 2020 and to 320 vessels by the end of 2021.

With increasing vessel supply, freight rates have been on a shaky ground.

On the positive side, around 30% of the trading VLGC fleet is due for drydocking over the next 18 months, which should support charter rates.

Poten LPG shipbroker Peter Stebbing pointed out in a recent webinar that drydockings will continue to play a supportive role for freight rates over the next 18 months. He anticipates that the 80 VLGCs built in 2015 and 2016 will need to drydock this year and 2021.

Mixed signals on demand

Until May this year, the LPG shipping market momentum had persisted, even amid the onset of the coronavirus pandemic as continued growth in US exports, combined with growing demand in India and China, supported optimism for LPG tonne-mile increases.

However, a decline in Middle East liftings — largely due to OPEC+ production cuts on declining demand for refined

“*The threat of a second wave of the virus and an economic recession are the big points of concern for the remainder of the year*”

products due to lockdowns, as well as unworkable arbitrage economics to ship US barrels to both Asia and Europe — weighed on LPG shipping markets, said Poten’s LPG consultant Shantanu Bhushan.

Mr Stebbing noted that US production is key for future freight rates, combined with a continued healthy global economic recovery.

However, lower US output and exports on the back of reduced shale production due to the recent low oil-price environment has put a halt to the rapid pace of export development that had been a boon to LPG vessel owners.

Meanwhile, the loosening of lockdowns in Europe and northeast Asia should drive recovery in LPG use as autogas, while petrochemical use remains dependent on the interplay between LPG and naphtha prices, MSI analyst Stuart Nicoll conceded.

“With wider propane-naphtha discount, many petrochemical units — especially in the Europe-Mediterranean region — have started considering switching back to LPG cracking, thus helping markets to recover,” Mr Bhushan said.

Drewry’s gas shipping analyst Aman Sud forecasts shipping rates to recover marginally during the second half of the year but said rates “will be much below the 2019 level”.

He pointed out that the threat of a second wave of the virus and an economic recession are the big points of concern for the remainder of the year.

“On the VLGC supply side, we finally see the impact of owners reducing their ballast speeds and opting to take the longer Cape route to reposition vessels back to the US Gulf from Asia, thus supporting freight rates,” Mr Stebbing added.



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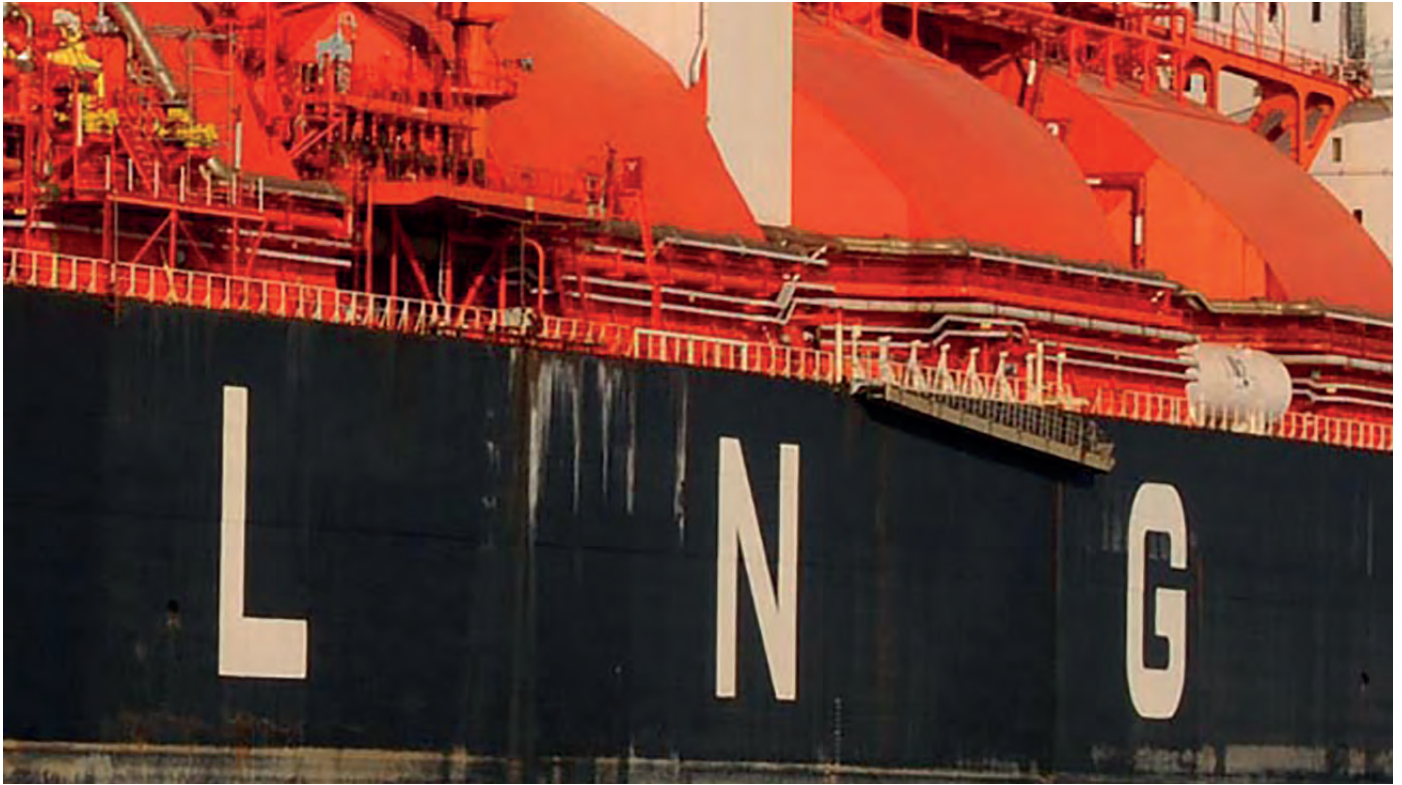
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Global LNG trade struggled with the double whammy of the pandemic-led demand disruption and a milder-than-expected 2019-2020 winter.

LNG: Pandemic overhang clouds winter uptick

The threat of a second wave of coronavirus has dampened LNG demand and depressed prices to persistently low levels, which do not support ramp-ups at liquefaction plants, **Hwee Hwee Tan** reports

Liquefied natural gas demand may have staged a rebound in two of the world's most populated countries but growth in the commodity trade has slowed to a crawl following a benign winter and coronavirus-led demand disruption, holding back commodity prices and shipping rates.

China's LNG imports sharply rose in May, clawing back losses triggered by the coronavirus pandemic, to post a 7.8% year-on-year increase for the first five months of this year, data released by China's customs department showed.

Separately released data from India's oil ministry also showed the country's LNG imports edging up by just 0.5% to 1.83m tonnes in May, a marked improvement from levels seen in April when stricter lockdown measures were in place.

These developments in two large, fast-rising LNG importing countries did not significantly boost rates for oceangoing LNG tankers.

Shipbrokerage Fearnleys assessed shipping rates for spot trades in the east of Suez at \$32,000 as at July 20, 2020, up \$1,000 on the previous week but down from \$58,000 as of July 29, 2019.

One-year term charter rates were flat week-on-week at \$44,000 on July 20, 2020, just over half of the going rate of \$84,000 as of July 29, 2019, according to Fearnleys' assessments.

LNG shipping was not spared the bruising damage of the coronavirus pandemic, extending the pain of a lack of seasonal boost from a milder-than-usual 2019-2020 winter in the northern hemisphere.

What did not help bolster trade and shipping demand is the fact that LNG spot prices in the two largest regional markets, Asia and Europe, fell to record lows, vastly compromising the margins supporting cargo flows, particularly from the US — the third-largest LNG exporter after Qatar and Australia.

Still, S&P Global Platts' manager for Asian LNG Analytics, Jeff Moore, noted that US exports to Asia have continued despite a surge in US cargo cancellations.

Qatar, on the other hand, "sent their lowest-ever volumes to Asia in April, delivering just under 3m tonnes in that month".

He argued that these changing trade flows should have been "positive" tonne-mile wise, but shipping rates may have been hurt by excess vessel supply and lower global liquefaction utilisation.

The Paris-based International Energy Agency projected that global liquefaction utilisation would fall to about 90% this year, down 6% from 2019.

Fears of a resurgence

Economies worldwide have slowed and struggled to lay to rest fears of a resurgence in the pandemic.

This has dampened LNG demand and depressed prices to persistently low levels, which do not support ramp-ups at liquefaction plants.

Brokerage Poten & Partners projects a decline of 6.7m tonnes in LNG demand this year from 2019 levels, with potential for this loss to widen to 13.8m tonnes on taking in the risks of secondary waves in the pandemic and economic recessions.

Demand falls would be widespread, save for China and some European countries that may still see marginal growth, head of global business intelligence, Jason Feer, said.

Poten also expects monthly global LNG imports to average 29m tonnes during May-December, down from 32m tonnes for January-April.

Platts has, however, held on to the view that the LNG market will still expand this year by less than 9m tonnes on year, to 363m tonnes.

This increment is less than one-quarter of more than 40m tonnes added to global trade in 2019 over 2018 levels.

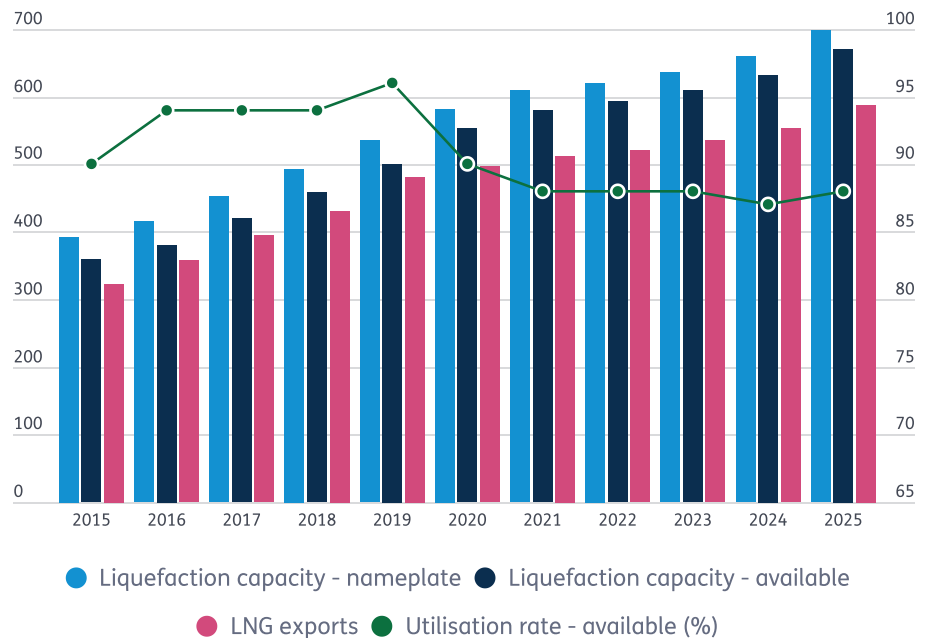
Meanwhile, any trade expansion this summer looks likely to be challenged, both by demand- and supply-side factors.

Wood Mackenzie projected that the first 'annual season-on-season' contraction in eight years would take place this summer, with demand expected to fall 2.7% or 3m tonnes, research director, Robert Sims said.

The US Energy Information Administration has already flagged a fall in exports from the country now considered as the swing producer in the LNG sector.

The US exported just 4bn cu ft per day of LNG in June, less than half of some 9.8bn cu ft per day posted in March.

LNG trade and liquefaction utilisation rate (2015-2025)



Source: EIA

“The IEA’s forecast showed growth in new liquefaction capacity plateauing at least through to 2023, suggesting that term charters for LNG tankers would be harder to come by in today’s market”

These numbers, based on inter-basin price spreads, change on a daily basis and have been even more volatile since the start of the pandemic.

While LNG prices in Asia and Europe are still trading at depressed levels, the inter-basin price spread has widened in favour of trades in Asia over Europe.

This has encouraged Asian importers to buy cargoes from the spot market, fueling an increase in short-term hires of LNG tankers.

India-based companies issued 65 buy tenders for spot cargoes during the first half, up from 37 for the year-ago period.

Buyers in Thailand issued another four during the six months to June 30, having issued none during the first half last year, according to Platts global LNG director, Ciaran Roe.

Spot fixtures

Spot fixtures on oceangoing LNG tankers in the first quarter have doubled to 102 over the previous year’s level, GasLog separately noted, citing Poten’s data.

The IEA’s forecast showed growth in new liquefaction capacity plateauing at least through to 2023, suggesting that term charters for LNG tankers would be harder to come by in today’s market.

Poten estimated that 41 out of 117 conventional LNG tankers on order, or 35% of the newbuild backlog, were uncommitted to charters as of March 31, 2020.

Tankers on backlog are likely to pressure spot charter rates when and if they get delivered according to their contracted schedules.

Poten’s chairman emeritus Michael Tusiani said: “A lot is riding on the opening of arbitrage opportunities as we approach the winter months.

“Short of that, despite some bright spots in LNG demand, a low price environment will continue for months to come.”

Drawing on prices of LNG futures traded during Euro-zone afternoon hours on July 22, Mr Tusiani said the arbitrage for US cargoes “was closed into October” but “prospects are improving significantly for November and December, given winter prices are much stronger than fall”.

Arbitrage for US cargoes into Asia Pacific “appears open from September onwards”, he said.

Maritime regulations: A slow year for all

The coronavirus disruption means major decisions have been put off or delayed – and the rest of the year is unlikely to change that, **Anastassios Adamopoulos** reports

A lot can happen in maritime regulation over the course of six months. For the remainder of 2020, though, it could be closer to nothing.

Much like with everything else in the world, the coronavirus pandemic has halted progress on decarbonisation regulatory negotiations.

The International Maritime Organization postponed official meetings until further notice in March – and, with the world still very much in a precarious situation with the pandemic, it is likely that there will not be any conventions at the London headquarters of the global regulator for the rest of the year.

This has already caused a delay in crucial decisions around short-term greenhouse gas emissions-reducing measures that were expected to be taken this year.

While a missed year will not derail the long-term decarbonisation regulatory trajectory, it does add to regulators' workload and could complicate the agreed timeline in the short term.

There are efforts to keep the momentum going so the pressure of delivering in time is not lost on countries.

IMO governments and organisations held an informal meeting in July to exchange views on short-term measures, generating a positive reaction from non-governmental organisations, which are often among the IMO's biggest critics.

Although IMO member states appear to be converging on what short-term measures they would like to adopt, with technical and operational efficiency measures on the table, without an official meeting, there will not be any new regulations agreed upon.



The IMO has postponed its meetings until further notice.

“*While a missed year will not derail the long-term decarbonisation regulatory trajectory, it does add to regulators' workload and could complicate the agreed timeline in the short term*”

There is still hope yet.

Green NGOs have been pushing the IMO to hold the missed meetings virtually. The organisation initially said it did not have the capabilities to do that.

However, NGOs hope the informal virtual talks held earlier in July are a good start – and, with some more work, it could be feasible.

Environmental obligations

The IMO has been clear that its biggest priority in the middle of the coronavirus disruption is attending to its environmental obligations.

Difficulty doing this means it is even less likely that any official work on matters of security, safety and crewing regulations will be achieved in 2020.

With international regulations in induced hibernation, regional actors will take centre stage.

For the rest of the year, the single biggest regulatory development for maritime will be the discussions of emissions regulations at the European Parliament in September.

MEPs of the environment committee have proposed that ships calling at EU ports not only reduce their carbon intensity by 40% by 2030 — based on an undefined year for now — but also that maritime should be part of the EU Emissions Trading System.

This is a move the industry has vehemently opposed and previously fended off successfully.

However, this time is different — and, with the full backing of a vigilant European Commission, shipping will almost certainly become part of the ETS. The question is when and how.

The European Parliament, which has long wanted shipping in the ETS, could demand amendments to the MRV proposal, before approving it, potentially yielding a less stringent text.

Regardless of when it happens, though, the parliament will support the reform proposal and amendments are unlikely to be major.

“
Despite things moving forward, there will not be any agreements this year out of the EU either
 ”

Negotiations with EU governments, where shipping lobbies will have more influence, will follow.

Despite things moving forward, there will not be any agreements this year out of the EU either.

Trilateral negotiations are known to be cumbersome and long, but these early stages will no doubt be consequential to the final outcome.

Keeping an eye on developments out of Brussels, shipowners should also be ready to comply with new rules starting on January 1, 2021.

Ships of 500 gt and above must have an inventory of hazardous materials on board if they want to call at an EU port or anchorage.



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The single biggest regulatory development for maritime will be the discussions of emissions regulations at the European Parliament in September.

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BNP Paribas became the world's largest shipping lender coming into this year, with a portfolio of nearly \$18bn.

Finance: Are the banks — finally — coming back?

Shipping's comparative resilience in the face of the coronavirus pandemic could help it gain more confidence among financiers used to seeing other businesses as a safer bet, **Nigel Lowry** reports

European banks, traditionally the mainstay of global ship financing, have seen their market share tumble for more than a decade, ever since the global financial crisis sparked in 2008.

However, to use a phrase much in vogue, they may be flattening the curve — albeit in a financing landscape that, like much else, has been thrown out of its normal rhythms by the coronavirus pandemic.

According to analyst and ex-banker Ted Petropoulos, who regularly measures global ship finance portfolios through his Petrofin Research house, lending by the top 40 banks in the industry fell to \$300bn at the end of 2019, the lowest level since Petrofin started monitoring the industry in 2008.

European banks, though, showed a small increase collectively and their share of the global industry portfolio rose to more than 60%, up from 58.7% at end-2018.

Standout names included BNP Paribas, which became the world's largest shipping lender coming into this year, with a portfolio of nearly \$18bn; and second-placed KfW, which also saw its portfolio edge higher.

UK, French and Dutch banks overall increased the size of their shipping

portfolios last year, including Amsterdam-based ING Bank, which sharply increased lending to vault into the ranks of the Top 10 lenders.

At the same time, the Export-Import Bank of China — the world's top lender a year earlier — sank to third place as all the top Asia banks trimmed their exposure to shipping.

In the case of China Exim and fourth-placed Bank of China, this may have been a result of a broader tightening of credit conditions in the Chinese economy since early 2018 — a policy that persisted until June 2020, when the central bank sought to reboot the pandemic-hit economy.

After a long period of growth, ship financing by Asian banks receded by 6.45% last year, according to Petrofin, but Chinese leasing grew by 12.8%, it found.

"The decline of western banks' ship finance appears to have run its course and there was a much smaller reduction in overall lending last year," says Mr Petropoulos.

"I think that the stage was set this year for an increase — but then the coronavirus [pandemic] happened and we had a complete change of scenery."

While the pandemic has hit shipping and its financing in various ways, with banks counting the cost of the damage inflicted on my other business sectors, Mr Petropoulos feels that longer term, the results may not be all bad for shipping.

“Shipping has been perceived as risky and volatile and that is priced into the loan margins to some extent. But Covid-19 has been a bit of a revelation – shipping has actually performed quite well and the numbers asking to restructure have been rather limited.”

Meanwhile, leasing companies have been chastened, particularly due to their exposure to an aviation industry that for several months virtually shut down.

“Aviation was seen as the ultimate in safe lending and it has been a shock to the leasing system,” Mr Petropoulos says.

“A number of ship leasing transactions have been halted or at least delayed.”

For shipping to continue growing, as well as meeting new environmental requirements, there remains a funding gap, Mr Petropoulos believes.

Yet this is not on the scale of past estimations that have been “discredited as huge figures were drawn out of thin air”.

“Markets abhor a vacuum, so these gaps are gradually covered,” he says.

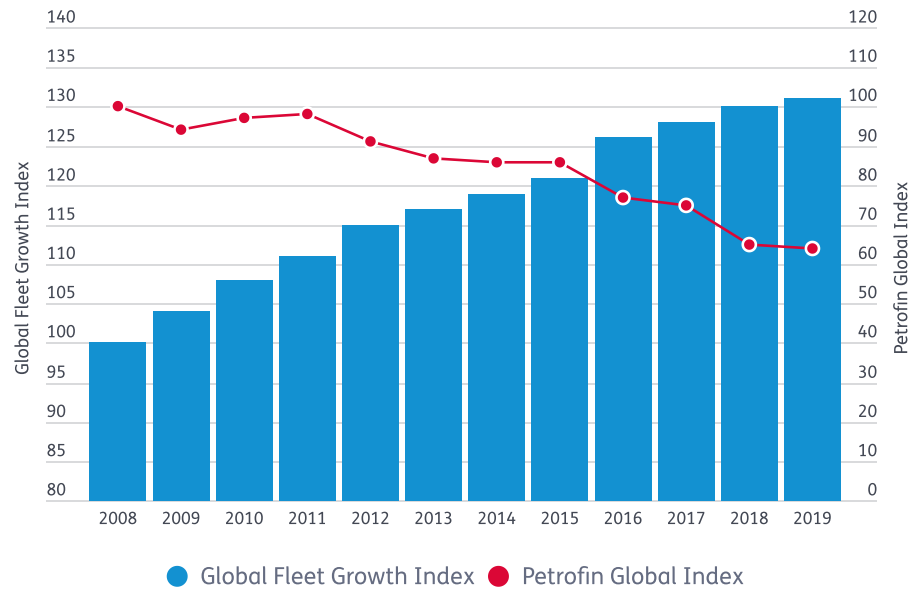
“Ship finance is not all rosy at the moment and I think that finance will continue to be constrained this year, given everything that is going on.

“But I think you can make out a positive case for shipping. If provisions are kept low, then inevitably banks will show more interest again. Despite the increased volatility of shipping markets, it has showed itself to be a lesser risk.

“Now, if existing banks make money, I

Petrofin Global Index compared to the indexed growth of the global fleet

The growth of the global fleet continues to be funded from non-banking sources, such as leasing, alternative lending, private equity from funds and investors



Source: Petrofin Bank Research and Clarksons' World Fleet Register (July 2020)

think you will see ship finance departments get higher budgets over time as well as new banks coming in – although we will probably have to wait for this crisis to be overcome in order for that to happen.”

Apart from the amount of finance that the industry is able to attract, the cost of it is more than of passing concern. Recent developments include examples of alternative finance and one or two new banks moving into the space vacated by some traditional lenders, but providing loans at a significantly higher cost.

That is a concern that applies, too, to

the capital markets' reduced interest in shipping deals.

The US stock markets have been closed for initial public offerings from within the industry for several years, while institutional private equity's fascination with shipping deals has also waned.

According to financial sources, funds may still be receptive to equity participations or clearly distressed shipping deals, but their ideas about returns on equity are higher than ever – with a 15% internal rate of return goal.

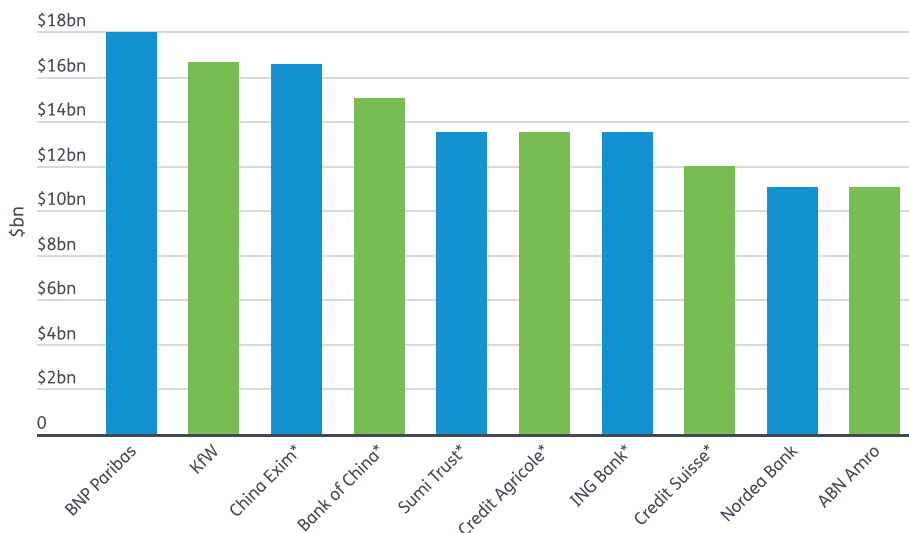
At the same time, several smaller US-listed shipowners have shown this year that they can still raise double-digit million-dollar amounts from the markets – albeit diluting existing shareholders and usually at discounted share prices.

The variety of financing activity being conducted in the market only goes to underline the mantra that funding will continue to be available to shipping and remains a question of cost.

Comparisons between the present – as the world battles the coronavirus pandemic – and the global financial crisis of a decade ago are inevitable.

However, analysts and shipping pundits have largely agreed on two underlying positives in today's situation: that the banks are better capitalised than they were back then; and that in the interim, more shipowners have learned the lesson that reserves of liquidity are needed for precisely such difficult days.

Top 10 lenders to shipping (portfolios as of end 2019)



*Market estimate

Source: Petrofin Research

Economy: Further harm likely if second coronavirus wave hits

The impact of the coronavirus pandemic on the global economy has been more severe than initial forecasts predicted and will result in a year-on-year decline in seaborne trade for the first time since the global financial crisis,

Niklas Bengtsson reports

According to the latest estimate from the International Monetary Fund (IMF), the global economy will contract by 4.9% in 2020, which is 1.9 percentage points below the April 2020 World Economic Outlook (WEO) forecast.

Growth in the advanced economy group is projected at -8.0% in 2020, also 1.9 percentage points lower than the April estimate, while China is the only major economy that could see any growth in 2020.

The reason the IMF has cut its forecast is because the Covid-19 pandemic, with accompanying lockdowns and travel restrictions, has had a more severe impact on global activity in the first half of 2020 than originally anticipated, while the recovery will be more gradual — particularly if any second wave of the virus is nearly as bad as the first.

The IMF's inflation projections have generally been revised downwards as well, with substantial cuts in 2020 and even more so for more advanced economies. This usually reflects a combination of weaker activity and lower commodity prices, although in some cases this is partially offset by the effect of exchange rate depreciation on import prices.

In China, inflation rose to 2.5% in June 2020 from a 14-month low of 2.4% in the prior month. The annual inflation rate in the euro area picked up to 0.3% in June 2020 from a four-year low of 0.1% in May. In Germany, the consumer price increased



Creative Images/Shutterstock.com

Most eyes in the industry will be on China for signs of the global economy bouncing back.

to 0.9% year-on-year in June 2020 from 0.6% during May. Brazil's annual inflation rate rose to 2.13% in June 2020 from a more than 21-year low of 1.88% in May.

These economic developments obviously have a knock-on effect on global trade and decreased trade means lower revenues for shipowners, as well as impacting other operations, from reducing capacity to lower new ship ordering.

Trade effects

Total seaborne trade volume in 2020 is forecast to fall by 3% versus 2019 and represents the first year-on-year decline since 2009.

For 2021, though, under current forecasts, growth will rebound to 5% and in 2022-2024 Lloyd's List Intelligence forecasts a yearly growth of 3%. That gives a compound annual growth rate over 2020-2024 of 2.4%, compared with 3.7% in the 2015-19 period.

Dry bulk will fare slightly better than others in 2020, only decreasing by 1.9%, mostly due to the Chinese dominance as an importer of dry bulk.

For liquid bulk, 2020 volumes will be 4% lower than in 2019, held up by floating storage of crude oil.

Container volumes are set to decrease by around 4% as well, but that is again dependent on a less-severe second wave of the virus outbreak than the first one.

Oil market

Longer term, annual crude oil trade is expected to continue to increase but at a modest 0.8% until year end 2024 — compared to 3.7% in the previous five years.

The refined product trade is expected to grow by 2% on average per year, compared to 5.5% yearly in 2015-2019.

According to the International Energy Agency, oil demand may not recover to pre-pandemic levels until 2022 at the earliest.

The IEA suggests that oil demand in 2020 will fall by 8.1m bbl/d to 91.7m bbl/d — the largest drop in history — before recovering by 5.7m bbl/d in 2021.

Reduced jet and kerosene deliveries will impact total oil demand until at least the year after next. Transportation fuels will remain under pressure during 2020 as lockdowns in the US, Europe, India and the Middle East reduce demand for gasoline and jet fuel, and air travel and distances travelled are expected to decline compared with a year earlier.

On top of that, the reduction in manufacturing activity will limit industrial fuel demand compared to 2019.

However, the agency said China's "strong withdrawal from the lockout measures" brought China's demand back to almost normal levels.

Global oil supply fell by 11.8m bbl/d in May, driven by a record OPEC+ cut and the shutdowns in the US, Canada and elsewhere.

The IEA estimates that after dropping by 7.2m bbl/d in 2020, global oil output is set for a modest 1.7m bbl/d recovery in 2021, assuming that the OPEC+ cuts ease. US supply is forecast to fall by 0.9m bbl/d in 2020 and a further 0.3m bbl/d in 2021 unless higher prices unlock new investments in the shale patch.

Libya's National Oil Corporation briefly lifted the force majeure at the oil port of Es Sider in early July, allowing tankers to load crude oil from storage. However, exports were only able to resume for a single day before a blockade, which has lasted more than six months, was swiftly reimposed by the Libyan National Army.

Parties are negotiating again the reopening of the oil terminal and the restarting of oil production, which has gone down to 100,000 bbl/d, compared to 1.2m bbl/d before the blockade.

The potential return of Libyan barrels on the global oil market is set to give the OPEC+ group another challenge, as its record 9.7m bbl/d collective cut is set to ease to 7.7m bbl/d from August 1.

Focus on China

Most eyes in the shipping industry will be on China for signs of the global economy bouncing back.

The country's economy suffered its first contraction in 28 years in the first quarter of the year as it grappled with the pandemic through extensive lockdowns and travel restrictions.

The world's second-largest economy shrank 6.8% in the opening three months of the year compared to a year earlier.

However, China's industrial output rose 3.9% in April from a year earlier, improving from a 1.1% fall in March, as the country got back to work.

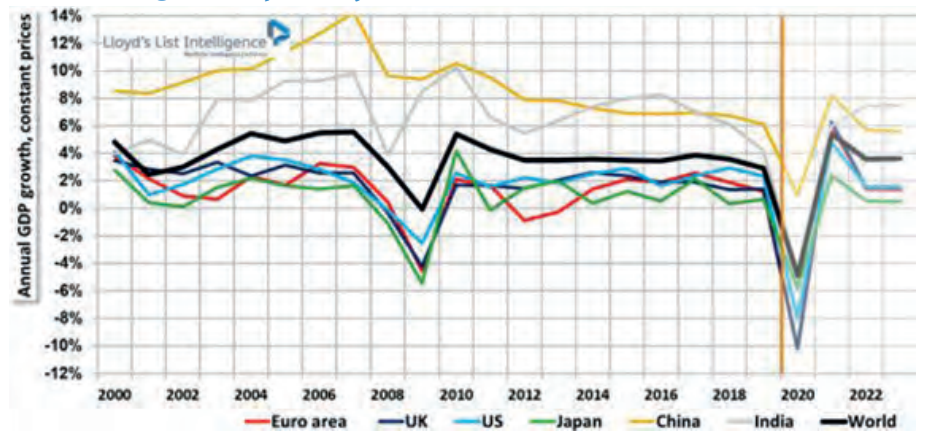
The recovery from that sharp early contraction continues as well and economic growth is projected at 1% in 2020, supported in part by policy stimulus, followed by an 8.2% uplift in 2021.

Imports of key commodities by the country such as iron ore and crude oil, as mentioned above, are also stabilising and showing signs of a return to normality at a time when demand is subdued elsewhere.

One factor that may weigh on China's recovery is its deteriorating relationship with the US. Relations between the US and China have worsened in recent months and the countries have fought over many issues, including the origin of the coronavirus and the autonomy of Hong Kong.

At the end of June, the US Senate passed a bill that would impose sanctions on Chinese officials who undermine Hong Kong's semi-autonomous status, as well

Global GDP growth, quarterly



Source: IMF WEO June 2020

“*Relations between the US and China have worsened in recent months, and the countries have fought over many issues, including the origin of the coronavirus and the autonomy of Hong Kong*”

as the banks and state entities that do business with them.

Hong Kong has a special trading relationship with the US. However, Washington has started to cut back some of the city's privileges under US law.

In addition, on July 22, the US ordered China to close its consulate in Houston, which the Chinese foreign ministry described as an “unprecedented escalation” in tensions.

Meanwhile, tensions are still high in the Middle East, with Iran accused of running a secret shipping network to avoid US sanctions. Iran's oil and refined product revenues are critical to the economy.

The security issue with Iran will continue until a new deal with the US is signed, which is unlikely to happen for as long as Donald Trump is president.

The Democratic Party's candidate in the US election in November, Joe Biden, has previously stated that he is ready to discuss a mark two version of the JCPOA deal signed by his Democrat predecessor, Barack Obama.

Travel restrictions

One potential economic bright spot is the gradual reopening of borders for summer travel.

The EU recently finalised its “safe” travel list, with citizens of 14 countries, including Australia, Japan and Canada, allowed to enter the bloc from mid-July. However, the US, China and Brazil are excluded.

Chinese citizens will be permitted entry to the EU if Beijing counters with access for EU citizens.

In the EU, tourism is critical to the economy and 11% of GDP derives directly from tourism.

Cruise lines, which have been severely harmed by the pandemic, are also aiming to restart activities in the second half of 2020 and there have been collaborative efforts to develop new safety guidelines and recommendations to persuade their usually loyal customer base to return in numbers.

The cruise industry has overcome a variety of health challenges in the past, including norovirus, Sars and Mers, and has experience of getting back to business.

However, Covid-19 is far from gone. At the time of writing, infection figures in the US were increasing and Melbourne in Australia was once again introducing lockdown measures in metropolitan areas.

In Serbia, the government had tried to impose a weekend lockdown amid a surge in coronavirus cases, but after many protests, they were instead going for social distancing measures.

More worryingly, in central Asia, there were signs that a second wave of the pandemic was emerging. If this spreads across the globe, economic forecasts will likely need to be revised again.

Niklas Bengtsson is director of maritime insight at Lloyd's List Intelligence



Oleksandr Kalinichenko/Shutterstock.com

Tanker deliveries are now expected to rise to 633 vessels in 2021 from 496 this year – and rise further in 2022, to 649 vessels.

Shipbuilding: Pandemic fallout delays deliveries and limits orders

Despite the economic impact of the coronavirus crisis, the total number of ships delivered in 2020 is still expected to increase compared with last year, but a high number of deliveries will be delayed to 2021 and cancellations are increasing, Adam Sharpe reports

In 2020, 2,237 vessels (100.5m in dwt) are forecast to be delivered, which is almost 300 vessels more than the 1,938 vessels delivered last year, according to new estimates from the Lloyd’s List Intelligence Shipbuilding Outlook.

Of this total, the bulk and general cargo category will contribute 30% (670 ships, up from 587 in 2019); offshore and service deliveries will account for 23% (505/406 ships); followed by tankers with 22% (496/490 vessels).

As the impact of the coronavirus pandemic on the global economy became more apparent during the first six months of 2020, forecast deliveries for the current year have gradually changed due to cancellations and delays, with many new deliveries being moved to next year or beyond.

For example, bulk and general cargo deliveries are initially anticipated to jump to 827 vessels next year, from 670 in 2020 and 587 last year. Similarly, tanker deliveries are expected to rise to 633 in 2021 from 496 this year – and rise further in 2022, to 649.

One category that has been particularly badly hit by the pandemic is the cruise sector. The Cruise Lines International Association industry group originally predicted that 32 million passengers would

travel on cruise liners in 2020, up from a record 30 million in 2019.

However, with lockdowns, travel restrictions and closed borders, it is now expected that only a fraction of that number will be on board this year, which has already led leading cruise lines to push back deliveries of marque new vessels into next year.

At present, there is a record high of more than 160 cruiseships on order and scheduled for delivery in 2020-24, up from 83 in 2015-19 – but at present, Lloyd’s List Intelligence predicts only 26 will be delivered in this calendar year and, of that total, only eight will be larger vessels (1,000+ berths).

Cancellations and removals

According to Lloyd’s List Intelligence, the total number of vessel cancellations in all categories is predicted to reach 89 in 2020, compared with 23 in 2019 and 24 in 2018.

Of this total, 34 are forecast to be in the bulk and general cargo category, followed by 22 tankers, 16 containers/ro-ro vessels, nine passenger vessels and seven offshore.

This trend of higher-than-normal cancellations is also set to continue in the coming years, with a total of 83 forecast for 2021 and a further 241 over the 2022-24 period.

The coming years are also expected to see an acceleration in the number of vessels being removed from the global fleet.

The forecast for removals in 2020 is higher than in 2019, with 1,228 vessels expected to be removed – an increase of 148 ships. The increase mostly stems from growth in the removals of bulkers (up by 50 vessels) and an increase of removals of passengershops (up 37), while the container and ro-ro removals are forecast to be stable.

Looking further ahead, a total of 6,808 vessels (133 dwt) will be removed from the world fleet between now and 2024, according to Lloyd’s List Intelligence estimates. This is an increase of 33% compared to the previous five years but in terms of total capacity, it represents a decrease of 22%.

In terms of the number of ships, bulker and general cargo vessels will make up 33% of the removals from the fleet during this period; tankers 18%; and container and ro-ro 13%.

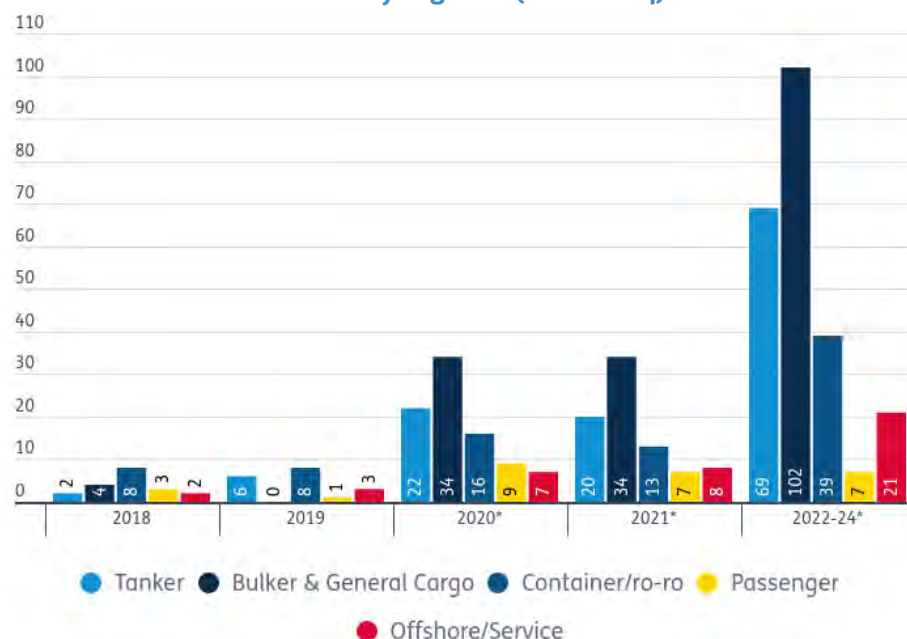
Total fleet size

In July 2020, the total world fleet stood at 129,288 vessels, with a total capacity of 2.21bn dwt.

Of this total, the offshore and service category is the most numerous fleet with 35,241 vessels (27% of total), followed by bulker and general cargo with 32,174 vessels (25%) and 17,345 tankers (13%).

The total fleet will expand at an average annual rate of 3.9% in terms of dwt capacity until the end of 2024, Lloyd’s List Intelligence forecasts, but in the number of ships, the growth will be smaller at 0.8%.

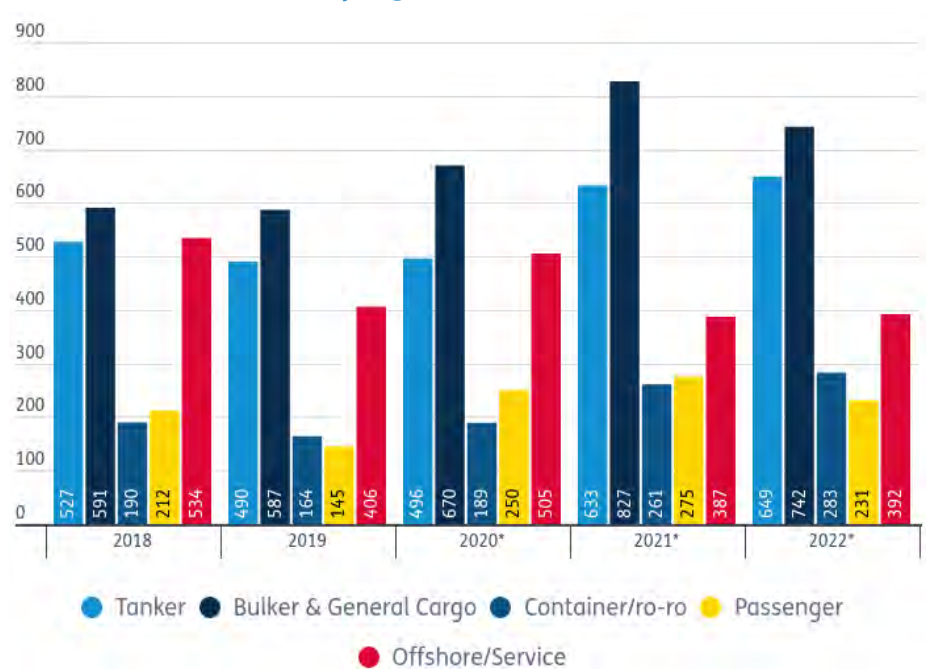
Forecast vessel cancellations by segment (2018-2024)



*Forecast

Source: Lloyd’s List Intelligence

Forecast vessel deliveries by segment (2018-2022)



*Forecast

Source: Lloyd’s List Intelligence

By the end of 2024, the global fleet will increase to 134,218 vessels (2.64bn dwt). In terms of the number of ships, the global tanker fleet will expand by 2%, followed by the container and passenger segments that will grow by 1.4% annually on average, while the lowest growth will be in the offshore and services segment (0.5%).

Measured in dwt, tankers will have the highest growth rate, at 4.5%, followed by the bulker and general cargo (4.1%) and container (3.8%) segments. The passenger

fleet will expand at a lower rate of 3.7% and offshore and service at a meagre 1%.

Shipbuilding regions

China remains the world’s biggest shipbuilding nation and will continue to take the most orders from now until 2024, according to Lloyd’s List Intelligence.

For 2020, some 377 ships are forecast to be placed on order in China, which would represent some 40% of the total orders expected this year.

In all regions, the absolute number of new orders per year will grow over the 2020-2024 period, due to the very low orders forecast expected to be placed in 2020.

China will see the biggest increase and will also raise its share of orders over time. By 2024, the number of new orders placed in China will rise to 1,050 vessels, giving it a 42% share overall.

In July 2020, the world orderbook stood at 6,250 ships through to 2024, with capacity of 340m dwt. The Chinese orderbook contains most orders at 2,199 vessels, ahead of Europe with 943, Japan 816 and South Korea 782.

Seen in dwt terms, the picture is completely different. China still has the largest orderbook, with 147m dwt, while Europe only has 6.6m dwt on order. Second and third are South Korea and Japan, which hold 95m dwt and 61m dwt, respectively, on order.

South Korea is clearly strong in tankers (67m dwt), whereas Japan and China are present in all three larger segments (tanker, bulker and containers).



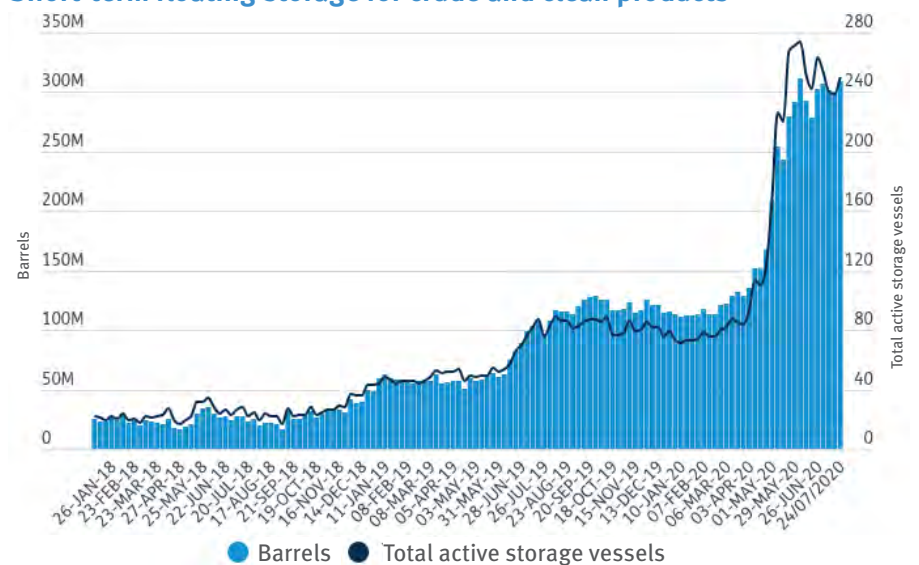
Floating storage market yet to unwind, port calls lag

Against the backdrop of an unprecedented decline in demand and measures by leading oil-producing countries to cut production, the amount of crude and refined products in floating storage hit unprecedented highs. Meanwhile, port calls tell the story of the economic impact of the coronavirus pandemic

One of the biggest stories in shipping in the opening half of this year was the 168% rise in volumes of crude and refined products stored on tankers.

Floating storage accelerated from April

Short-term floating storage for crude and clean products



Source: Lloyd's List intelligence

as traders and refiners scrambled to offload unsold cargoes and land storage rapidly dried up as the oil price hit 21-year lows and global demand plunged by one-third.

Cascading lockdowns and travel restrictions across Asia, Europe and the US hit

consumption of jet fuel, diesel and gasoline just as Saudi Arabia launched an oil-price war with Russia.

With crude prices plunging, the market swiftly moved into a contango structure — when the future price is higher than the spot price. Oil traders bought cargoes for storage on tankers for later sale at a profit.

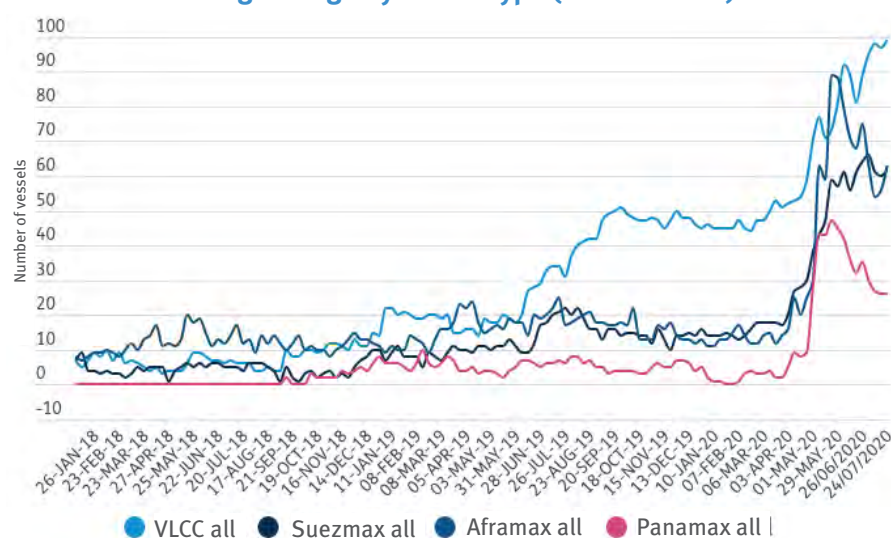
Floating storage is now being closely watched in the tanker market, as the scale and pace of volumes unwinding will impact rates and earnings for the global tanker fleet as these tankers return trading.

The fact that some 250 tankers were storing 300m bbls by end-July indicates that demand in the oil market is not rebalancing as fast as earlier anticipated, despite record production cuts agreed by the Organisation of Petroleum Exporting Countries and their allies that slashed production by 10%.

From August, this deal eases to 7.2m bpd for the rest of the year.

Lloyd's List Intelligence has been tracking floating storage on vessels since 2009 via its APEX service. The methodology incorporates ships from panamax-sized tankers and larger, at anchor for more than 20 days.

Short-term floating storage by vessel type (no of vessels)



Source: Lloyd's List intelligence



According to Lloyd’s List Intelligence, floating storage this year peaked at an all-time high of 311.3m barrels of crude and clean product in the week ending June 5. This volume was spread across 274 tankers in total.

In the most recent week for which full figures were available, the week ending July 24, the total volume had only reduced marginally to 309.5m barrels but the number of tankers was down by 24 from that previous high to 250.

As the chart on the opposite page indicates, the number of very large crude carriers in use for floating storage has increased in recent weeks at a time when the use of smaller tankers, apart from suezmaxes, has fallen.

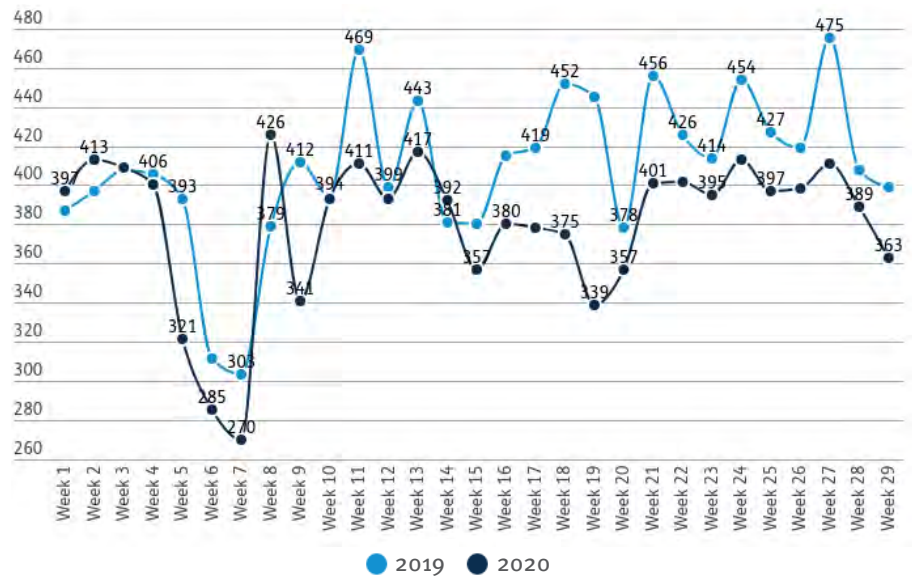
China port calls

One of the indicators that the global economy may be getting back on track to normalcy is in the tracking of port calls at major container ports. Lloyd’s List Intelligence has been following port calls at the leading Chinese container hubs of Shanghai and Yangshan since the start of the year as an indicator of demand in overseas markets for consumer goods.

For the opening few months of the year, there was very little divergence as port calls tracked year-ago levels.

However, that represented the high mark for the year and while for the next few weeks activity remained relatively brisk, as the country shipped out orders placed pre-pandemic, those numbers started to fall further and further behind the 2019 figures as the year progressed.

Shanghai and Yangshan port calls (2019 vs 2020)



Source: Lloyd’s List Intelligence

While there has been signs of optimism in some weeks that things are improving, the following week is often met with a stagnant figure or a decline and, as yet, there does not appear to be a breakaway ‘peak’ season emerging.

US demand

On the other side of the Pacific, the drop in demand for goods can be seen in port call figures for the west coast of the US

The North West Seaport Alliance recently reported throughput figures for Seattle and

Tacoma had fallen by 18.3% in the opening six months of 2020, compared with 2019. This included a 16.4% decrease in June.

While other factors are also in play, such as the ongoing US-China trade dispute and a 4.2% rise in terminal fees levied on truck firms, the executive director of the Port of Los Angeles also struck a pessimistic tone about the impact of the coronavirus pandemic.

Total container traffic this year is likely to be comparable with the numbers seen following the financial crisis in 2008-2010 at less than 8m teu in total, a 15% decline compared with last year.

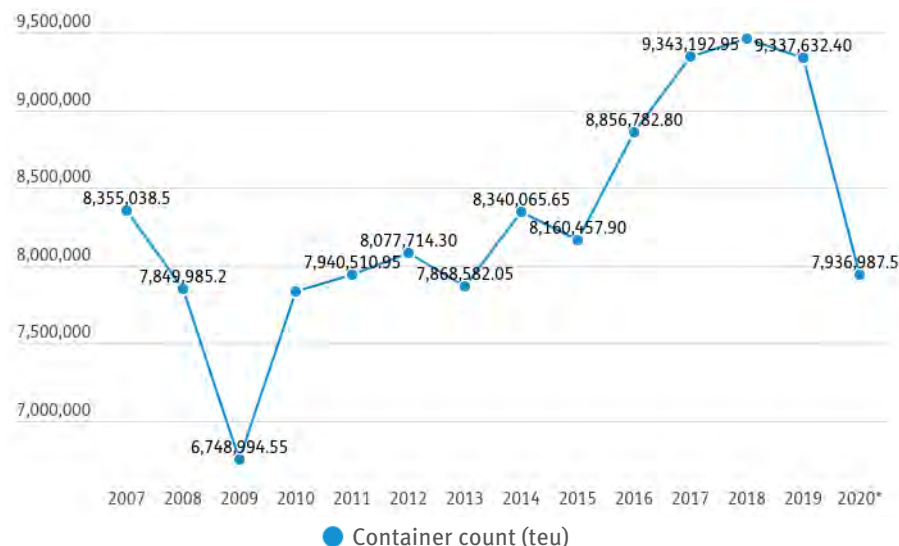
The traditional peak season, which would normally start up in the month of August, would also be “relatively flat — just simply because you and I are not out at the stores on a regular basis”.

There are some signs that worst impacts of the coronavirus pandemic are retreating, however, according to the latest Port Economic Impact Barometer. It showed an improvement in three of the four survey questions it asked the world’s ports.

The number of blanked sailings, which carriers used to offset the dramatic drop in demand, has been reduced and some ports that had experienced a decline of the number of containerships calls reported that an improvement is emerging.

The Half-year in charts is taken from Lloyd’s List’s regular Week in charts, published online each and every Friday

Port of Los Angeles annual container counts (teu)



*Estimate based on forecast 15% drop compared with 2019

Source: Port of Los Angeles



Bankruptcies and credit risk witnessed during lockdown

The coronavirus pandemic will have a profound impact on the viability of several shipping companies. The cracks in the market have begun to show — bankruptcies are at the door, reports **Sebastian Villyn**

Shipping was not anticipating the 2020s to be quite the roaring decade. At the beginning of the year, the industry was braced for companies struggling under the cost of implementing the International Maritime Organization's new sulphur cap rules, a final shot across the bow for a number of shipowners.

Shipowners and operators who found 2019 tough, with old tonnage, weakened cashflows and outstanding supplier payments, were likely to find this year even tougher.

The Lloyd's List Intelligence credit risk team sharpened their pencils and were preparing for a series of credit rating downgrades. Questions were raised throughout 2019 as to who would be the next OW Bunkers or Hanjin?

In January, Lloyd's List flagged that Pacific International Lines (PIL), one of the world's largest container lines, had several ships sitting loaded but idle, unable to source low-sulphur fuel oil (LSFO).

Lloyd's List Intelligence's vessel-tracking data confirmed the status of the vessels. One of our credit risk analysts in Singapore contacted marine fuel suppliers in the market. It became apparent that PIL's woes ran deeper than simply a lack of available LSFO. Bunker suppliers said they were considering vessel arrests due to payment delays.

Since then, Lloyd's List and Lloyd's List Intelligence have been monitoring the situation closely, with credit risk reports published on Pacific International Lines (Private) Ltd in January and June.

In June, a proposed debt restructuring backed by Heliconia Capital Management, an affiliate of Singapore's sovereign wealth fund Temasek, was under review.

By May, bunker prices for very-low-sulphur fuel oil in Singapore had dipped as low as \$200 per tonne and it was not the IMO sulphur cap, but the complete lockdown of the global economy that acted as a catalyst for

bankruptcies and restructurings that will likely ripple well into 2021.

During the first six months of 2020, the Lloyd's List Intelligence credit risk team downgraded the credit guidance for at least 20% of companies reviewed across all regions, recommending secured cash terms for at least 10% of all companies investigated.

A holistic approach is taken, examining 12 core factors contributing to the overall risk of a company.

In late March, our credit risk analysts heard reports of Hin Leong Trading — at the time the third-largest bunker supplier in Singapore — facing financial difficulties.

An updated credit report was released in early April, recommending secured cash terms. Lloyd's List followed up with a series of articles in April and May this year, and in June, PwC released its report detailing alleged fraud in Hin Leong's trades.

There are serious concerns over the viability of several companies in the Asia Pacific region. Hin Leong is just one of more than 250 maritime-related companies that Lloyd's List Intelligence has investigated in the region over the past six months.

"There is an overall ongoing and growing concern around lack of transparency and a weak regulatory framework around commodity and energy trading houses in Singapore, and recent developments may intimate a wave of regulatory changes which may shape the sector going forward," said Vassilis Mitrelis, credit risk manager at Lloyd's List Intelligence.

From a credit perspective, banks with APAC exposure and especially in the aforementioned sectors are cutting losses and reevaluating portfolios.

"Finance costs have been increased, the banks ask for bigger and, in some cases, more liquid collateral, while at the same time reducing or even cutting credit lines completely," said Mr Mitrelis.

Credit Rating

Review Period: 1 Month

Review Date: 31 May 2020

Rating	Rate Code	Rate Description	Additional Factors
Sales Level (1-6)	1	SUS 500 Million+	
Condition (1-6)	5	Weak/Strained	
Performance (1-6)	5	Weak	
Credit Guidance (AAA-)	J	Secured or cash terms only	
Overall Rating (1-10)	7	Moderate to high risk	

Fleet List

Name	IMO	Flag	Built	Type	Gross	DWT	
Kota Anggun	9175602	Republic of Singapore	1999	PST Management Private Limited	fully cellular containership	17,652	23,842
Kota Anif	9175614	Republic of Singapore	1999	Pacific International Lines (Private) Limited (PIL)	fully cellular containership	17,652	23,849
Kota Azam	9182033	Republic of Singapore	1999	PST Management Private Limited	fully cellular containership	17,652	23,650
Kota Bagus	9593660	Republic of Singapore	2013	PST Management Private Limited	general cargo with container capacity	18,189	24,983
Kota Bahagia	9593672	Republic of Singapore	2011	PSI (2) Private Limited	general cargo with container capacity	18,189	24,964
Kota Bakat	9593684	Republic of Singapore	2012	PSI (2) Private Limited	general cargo with container capacity	18,189	24,973
Kota Bakti	9605891	Republic of Singapore	2012	PSI (2) Private Limited	bulk carrier	18,567	24,000
Kota Bangga	9605906	Republic of Singapore	2013	PSI (2) Private Limited	general cargo	18,567	24,000
Kota Bayu	9593658	Republic of Singapore	2012	Pacific International Lines (Private) Limited (PIL)	general cargo with container capacity	18,189	24,976
Kota Bintang	9638616	Republic of Singapore	2012	Pacific International Lines (Private) Limited (PIL)	general cargo	20,886	27,000
Kota Bistari	9695107	Republic of Singapore	2014	Pacific International Lines (Private) Limited (PIL)	general cargo	20,886	27,000
Kota Buana	9638628	Republic of Singapore	2012	Pacific International Lines (Private) Limited (PIL)	general cargo	20,886	27,000
Kota Budaya	9695119	Republic of Singapore	2014	Pacific International Lines (Private) Limited (PIL)	general cargo	20,886	27,000
Kota Budi	9638630	Republic of Singapore	2013	Pacific International Lines (Private) Limited (PIL)	general cargo with container capacity	20,886	27,378
Kota Bunga	9638604	Republic of Singapore	2012	Pacific International Lines (Private) Limited (PIL)	general cargo	20,886	27,000
Kota Canum	9494577	Hong Kong	2011	Pacific International Lines (Private) Limited (PIL)	fully cellular containership	76,097	83,963
Kota Cempaka	9638965	Republic of Singapore	2013	Pacific International Lines (Private) Limited (PIL)	fully cellular containership	76,101	84,332
Kota Cepot	9638977	Republic of Singapore	2013	Pacific International Lines (Private) Limited (PIL)	fully cellular containership	76,101	84,332
Kota Dahlia	9408449	Republic of Singapore	2008	Pacific International Lines (Private) Limited (PIL)	fully cellular containership	6,245	8,150

In January, Lloyd's List flagged that PIL had several ships sitting loaded but idle.

The screenshot displays the Lloyd's List Intelligence interface. At the top, there are navigation tabs: Vessels, Companies, Places, Incidents, Sanctions, and Channel: Credit. A search bar is present with the text "Search by company name...". Below the search bar, there are filter options for Countries & Cities, Roles, Owner types, and Fleet size (DWT). The main content area shows search results for "with credit reports" (15064) out of 235759 total results. A table lists several companies with their respective countries and credit report details. On the right, a sidebar titled "More Filters > Credit Report" provides additional filtering options for various metrics like Operating country, Annual sales size, Financial condition rating, Payment performance rating, Credit guideline, and Overall risk rating.

In the first six months of 2020, the Lloyd's List Intelligence credit risk team downgraded guidance for at least 20% of companies globally.

"This creates a vicious circle and adds extra pressure to sectors that operate with razor-thin margins and have a risky and volatile operational structure."

What to watch for in 2020 and 2021

While the sulphur cap signalled a looming risk of bankruptcies, the coronavirus outbreak will have sealed the fate of many companies.

As reported by Lloyd's List's sister paper Insurance Day, trade credit insurers are bracing for insolvencies and payment defaults on a scale surpassing that of the financial crisis of 2008-2009.

No sector is untouched, including tankers, dry bulk and containers. As witnessed with Hin Leong, traders and physical suppliers, as well as shipowners with older tonnage in all segments, should be monitored closely.

The offshore drilling sector is not ready for another storm. Seadrill, for instance, has just exited Chapter 11 bankruptcy protection but will likely soon find itself in another round. As its share price has traded below \$1 for over three months, it has also announced it will delist from the New York Stock Exchange.

Unexpectedly, the cruiseship industry, which seemed unstoppable, now finds itself in a very precarious situation.

Carnival Cruise Line has been given a significant downgrade in credit guidance and financial condition by the Lloyd's List Intelligence credit risk team, as the team has closely scrutinised the top players in the sector.

“*No sector is untouched, including tankers, dry bulk and containers. Traders and physical suppliers, as well as shipowners with older tonnage in all segments, should be monitored closely*”

Every crisis presents opportunities for the discerning investor. Lloyd's List reported that CMA CGM landed \$1.1bn in state-guaranteed loans, whereas South Korea's HMM raised funds from \$600m convertible bonds issued to policy lenders.

Evergreen and Yang Ming have also revealed they were set to receive loans totalling T\$16bn (\$568m) guaranteed by the Taiwanese government.

The industry has already seen significant consolidation through mergers and acquisitions over the past 10 years. Continued capital injections from respective government funds as salvagers, and private credit investors with a distressed focus, mean more change is to come.

By now there is no doubt the coronavirus pandemic will have a profound impact on the viability of a number of shipping companies, commodity players and traders.

It is the worst global recession since the Great Depression and an industry that was ready for a shake-up now finds itself in a whirlwind. Understanding which companies will stay, and which will fail, may be critical for your own company's weathering of this storm.

For more information about Lloyd's List Intelligence's credit risk reports, please contact:
client_services@lloydslistintelligence.com

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

Problem solving through Covid-19 and beyond

Roger Evans, of the International Salvage Union, provides an assessment of the state of the marine salvage industry

The worldwide coronavirus crisis has caused huge issues and challenges to the shipping industry. Members of the International Salvage Union (ISU), many of which are shipowners and employ their own seafarers, have been affected and salvage operations have been made more complex logistically.

There have been concerns about delay when salvage teams have been forced by quarantine requirements to wait — in some cases for weeks — before being able to proceed to a job or to demobilise and travel restrictions have made crew changes difficult.

The IMO has campaigned for seafarers to be nominated as “key workers” to enable them to move more freely, which ISU supports.

Despite the difficulties, ISU members have continued to provide vital services — recently handling groundings, fires and immobilisations of various classes of vessel and in all parts of the world. It shows their determination to function regardless of the circumstances, while respecting the safety of their teams and meeting the requirements of the relevant authorities.

Salvors are nothing if not problem-solvers and their priorities are always to save lives, protect the environment and save property. So maintaining services to shipowner clients during the pandemic has been important.

Salvors are in fierce competition but often work together in the service of clients and transparency and co-operation between all parties is essential, both at industry level and during operations — particularly in the high-pressure setting of an emergency response — and that appears to have remained the case during these extraordinary times.

More generally, the salvage industry has continued with its drive to reposition itself, showing that it recognises there have been challenges and changes on both the demand and supply side of the industry.

As part of the repositioning, the ISU wanted to better understand, through formal



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It is essential that there remains global provision of a professional salvage capability.

research, what stakeholders think of the Union and the salvage industry. A wide-ranging international survey was conducted last year with respondents from the insurance, salvage, shipowning and professional services communities. The results were positive. The overall satisfaction that respondents had with the ISU was — according to the analysis — high, at 7.44 out of a maximum score of 10.

Competent, reliable and safe

For the overall perception of the professional salvage industry, the highest scores were for the industry being competent, reliable and safe, which was encouraging.

However, of course, all stakeholders must guard against complacency and there is always more that can be done to improve.

The focus of the industry must always be on supporting the client, the shipowner, who must be aligned with their property insurers and liability insurers to create the best conditions for the contractors to use their skills and experience to prevent disaster.

Many ISU members have diversified their offering, but one part of their work remains critical and that is care for the environment, which is socially and politically more important than ever. Shipowners must respond properly if their vessel threatens pollution and professional salvors are the world's foremost resource in protecting the marine environment from disaster. This is demonstrated most clearly in the ISU's most recent pollution prevention statistics.

In 2019, members of the ISU provided 214 services to vessels carrying 2.3m tonnes of potentially polluting cargo and fuel — including 400,000 tonnes of crude oil. The results of this survey show clearly that salvors' operations protect the environment from great harm. Not all of those cargoes was at risk of going into the sea, but many of them could have had significant consequences.

Attitudes to the natural world have changed dramatically in recent years and the environment is now at the centre of political and business decision-making.

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It is essential that there continues to be global provision of expert salvage services to respond to maritime emergencies — and, in most cases, it is only the professional salvors who have the experience and equipment to make those interventions and prevent environmental catastrophes.

In the period 1994 to end-2019, ISU members provided services to casualty vessels carrying 33.7m tonnes of potential pollutants — an average of more than 1m tonnes per year. It is therefore essential that there remains competent, capable provision of salvage services globally.

However, that provision has been eroded considerably by market pressure and we have recently seen the demise of Ardent, joining the famous names of Titan, Mammoet and Svitzer that have all disappeared from marine salvage in the past few years.

Time will tell whether the capacity of the industry remains adequate to provide the professional global response capability that is relied on to mitigate further exposure.

The financial state of the industry is best shown by the ISU's recently published 2019 annual statistics. These are collected from all ISU members by a professional third party, which aggregates and analyses them.

The statistics do not include the revenues of non-ISU members but are the only formal measure of the performance of the marine salvage industry.

The statistics are for income received in the relevant year but that can include revenue relating to services provided in previous years



Evans: salvors are nothing if not problem-solvers and their priorities are always to save lives.

and therefore there is an element of “lag”. The statistics are for gross revenues, from which all of the salvors' costs must be met.

Gross revenue for ISU members in 2019 was \$482m, up slightly on the 2018 figure of \$409m. There were 216 services compared with 234 the previous year. Income has therefore rallied somewhat but numbers are still well below the levels of several years ago, when annual income was typically more than \$700m, driven by large-scale wreck removals.

In 2019, there were 35 Lloyd's Open Form

(LOF) cases for ISU members, generating income of \$49m. It compares with 55 cases worth \$104m in 2018. Average income from each LOF case in 2019 was \$1.4m, representing 10% of the average LOF-salved value.

Revenue from LOF cases represented 27% of all “dry” (emergency response) salvage revenue and LOF cases accounted for 16% of all “dry” salvage cases in 2019. SCOPIC revenue at \$17m was the lowest since 2001.

Revenue in 2019 from operations conducted under contracts other than LOF (commercial terms) was \$131m — up from \$75m the previous year. Average revenue from non-LOF contracts was therefore \$723,000 per case.

ISU members are also excellent project managers and wreck removal continues to be a substantial part of the industry. In 2019, 101 operations were reported, with a gross income of \$284m — 59% of total income.

Rigorous and transparent

The sums of money and financial risks in wreck removals can be huge and the ISU supports the trend for the wreck removal tendering process to be more rigorous and transparent.

We recognise that risk needs to be considered in a methodical way, both during the tendering and execution phase. It will drive up performance all round if the process is transparent, fair and ethical.

This is an area for further high-level discussion and we must ensure there remains a competitive set of contractors able and willing to bid for this kind of work.

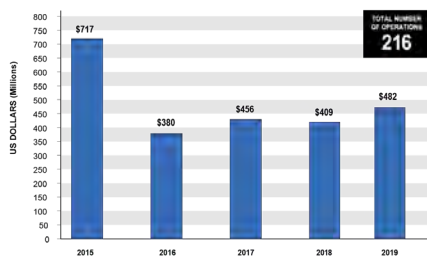
There is economic pressure on the industry, but our members have confidence that they provide critical services for shipowners and insurers — protecting the environment, reducing risk, mitigating loss and keeping trade moving. They are, nevertheless, concerned about the sustainability of their businesses and the model on which their services are historically being compensated.

It is essential that there remains global provision of a professional salvage capability so that owners, insurers and wider society can have confidence that marine casualties will be safely and cleanly managed by contractors with the right skills, experience, people and equipment.

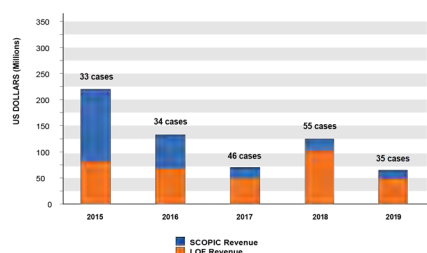
Roger Evans is secretary general, International Salvage Union

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

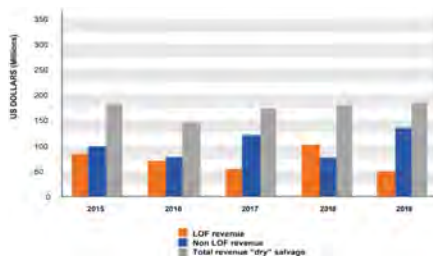
Global sanctions risk



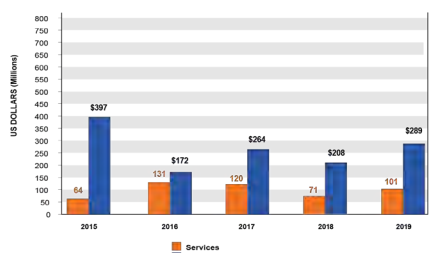
LOF and SCOPIC revenue



'Dry' salvage revenue sources



Wreck removal

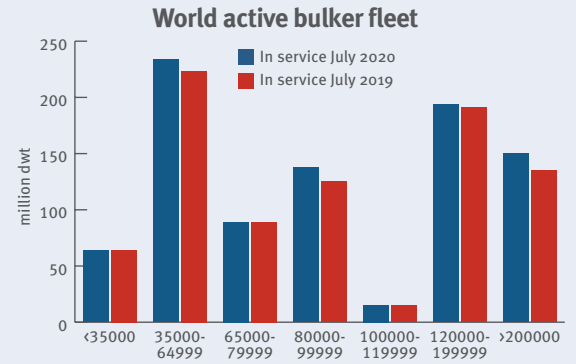


The global active fleet of bulkers totalled 12,082 vessels comprising 883.6m dwt in early July, according to Lloyd's List Intelligence. In terms of carrying capacity, this represented a rise of 4.9% against last year.

Ships with a capacity greater than 20,000 dwt continue to be the main fleet driver of growth, climbing 11.3% on the year-ago level. This was in addition to a

9.9% 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 892 units at the start of July, with a combined capacity of 81.8m dwt. In 2020, 538 more ships are due for delivery, with an additional 300 vessels due to hit the water next year, and a further 54 ships from 2022 onwards.



Changes in Chinese foreign policy could shake up iron ore trades

The Belt and Road Initiative could be one of the avenues for the expansion of Chinese overseas interests in key iron ore-producing countries, writes **Inderpreet Walia**

Given that China's economy is still the most resilient factor in the dry bulk market, any changes in Chinese policy on iron ore imports can have a dramatic impact on the segment.

The backdrop provided by the coronavirus pandemic has ravaged supply chains and economies around the world, giving food for thought throughout many sectors, including resource management and dependency.

This is especially the case in China, which, for its massive iron ore demands, relies principally on Australia and Brazil.

The Chinese iron ore trade is the driver for the capesize and panamax segments and so any shift in demand patterns has the potential to cause considerable disruption in the shipping markets, according to maritime consultants Dynamar.

"In the wake of the first wave of the coronavirus crisis, there was growing talk in China about the future of its iron ore supplies and whether the country and the industry can wean itself away from such a high level of dependency on one or two sources," it said.

These questions have arisen before and previous system



For its massive iron ore demands, China relies principally on Australia and Brazil.

shocks have had a significant impact. Now, if long-term, structural supply changes are planned, the seaborne iron ore market could see major shifts.

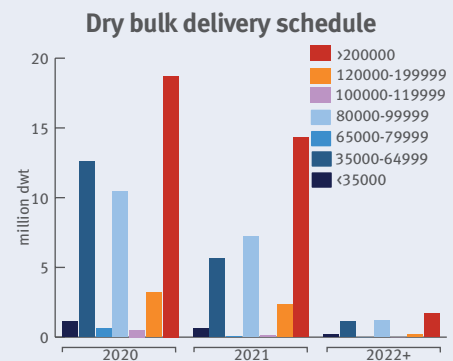
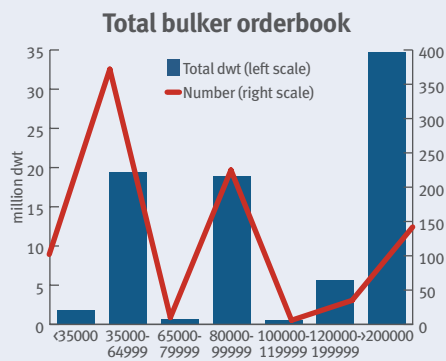
If either one or both of the main producing countries, namely Australia and Brazil, experience some type of supply chain disruption, it ripples throughout the entire market.

While China is not endowed with large reserves of the

key steel-making ingredient, Dynamar noted that many in the industry are pushing for a diversification in the supply sources, with Chinese business entities keen to take a stake in the mining and processing of what is a key strategic resource.

One area of focus is Sub-Saharan Africa, where iron ore deposits remain largely unexplored or have yet to be developed.





Data from:

Lloyd's List Intelligence
Maritime intelligence | Informa

lloydlistintelligence.com

“It has been reported that the Belt and Road Initiative could be one of the avenues for this expansion of Chinese overseas interests in key iron ore-producing countries, similar to the way Chinese companies control much of the cobalt supply chain through countries including the Democratic Republic of the Congo,” according to Dynamar.

Simandou project

In the coming years, the Simandou project in Guinea will come online. This could help reduce the reliance on the traditional sources but it will not end China’s dependence.

“New sources must be found and developed in what, in the long term, could mark a considerable shift in the structure of the seaborne iron ore market,” the consultants at Dynamar conceded.

“In the longer term, such shifts — and the required policy and investment action — could lead to a shake-up of the dominant dry bulk trade.”

Politic friction

Furthermore, Chinese resource policy overseas can also cause friction politically.

There have been grave concerns raised about the means by which China takes control of key strategic infrastructure around the world, such as the handover of the strategic port of Hambantota in Sri Lanka, and the exploitation of key resources in developing countries.

Capesize market sees a slow decline

The capesize market retreated with no improvement in fundamentals during mid-July, Nidaa Bakhsh reports.

The average weighted time charter on the Baltic Exchange slid to \$22,635 per day, at the close on July 21, from \$25,562 a week earlier and \$30,939 at the start of the month.

The market did, however, show some resistance to recent losses, with a small uptick in values before the latest decrease.

It was also a “relatively quiet fixing week” in a backwardated market, reflecting a lack of confidence, the Baltic Exchange said.

“This lack of confidence may be offset, as the recent rally has been driven in part by positional tightness, which is sure to continue in this unique 2020 year,” it said.

Minimal tonnage remains in the Atlantic, making it prone to spiking, while a lack of cargoes from West Africa because of the rainy season was helping to relieve any pressure that may build, the Baltic Exchange said.

The Atlantic basin has thus widened its premium compared with the Pacific market, it noted.

Global miner BHP, meanwhile, reported record iron ore production of 248m tonnes during its financial year, which ended in June. That is 4% higher than the previous 12 months.



BHP reported record iron ore production during its financial year.

BHP expects output to increase to a range between 244m-253m tonnes in the next financial year as it continues its programme to improve productivity, it said in a report.

Metallurgical coal production fell 3% to 41m tonnes because of wet weather and geotechnical constraints earlier in the year. BHP expects output at 40m to 44m tonnes in the next financial year, reflecting “an expected deterioration in market outlook” due to the impact of Covid-19.

Weak demand may also affect thermal coal in the new year, with guidance so far in line with the 2020 financial year, when production dropped 16% to 23m tonnes, BHP said.

Brazil’s mining giant Vale said it was on target to produce between 310m-330m tonnes of iron ore this year, although the lower end of the range was realistically achievable.

It produced 127m tonnes in the first six months of the year,

meaning output will need to ramp up to at least 90m tonnes per quarter to meet that target.

Oslo-based Arctic Securities said the announcement was “very supportive” for dry bulk shipping.

However, Maritime Strategies International, a London-based consultancy, was more sceptical of Vale’s ability to ramp up sufficiently.

Longer-term, US bank Jefferies expects shipments of iron ore and coal to increase at a compound annual growth rate of 1% between 2019 and 2025. The slower growth rate compared with previous years does not necessarily translate to lower freight rates, it said.

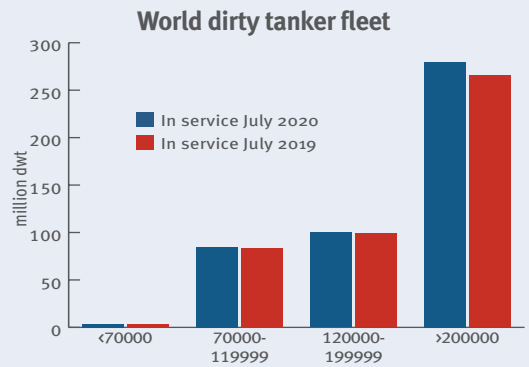
Even with shipments increasing by only 1% to 2% per year, annual tonne-mile demand could rise by 2% to 3% due to longer-haul routes, easily outpacing supply growth in the coming years, it said in a report.

The active crude carrier fleet comprised of 2,444 ships, equivalent to 467.7m dwt, at the start of July, according to Lloyd's List Intelligence. This represented an increase of 3.8% over last year.

Very large crude carriers, of 200,000 dwt and above, continue to lead the growth, with numbers up 5.3% on year to 278.7m dwt. Aframax

tankers of between 70,000 dwt and 120,000 dwt continue to drive advances in the fleet too, up 1.9% on year to 801 vessels, representing 84.7m dwt.

The global orderbook was composed of 257 ships with a carrying capacity of 48.2m dwt. A further 18.8m dwt is due for delivery in 2020, with 21.8m dwt due in 2021 and nearly 80m dwt from 2022 onwards.



First tanker calls at US Gulf export terminal

Extra pipeline capacity from shale-producing regions to the US Gulf — a major constraint to rising shipments until the coronavirus pandemic — prevented exports falling at slower pace than production, writes **Michelle Wiese Bockmann**

Aframax tanker *Minerva Libra* was the first to load on July 17 at the new South Texas Gateway Crude Export Terminal at Corpus Christi, Texas — one of two facilities in the US Gulf now able to accommodate very large crude carriers.

The shipment on the 2007-built tanker is a further signal that shale exports from the US Gulf are facing fewer constraints than Middle East Gulf producers, even as production (excluding Alaska) dipped 15.5% since February.

The terminal is linked to the 700-mile EPIC Crude pipeline operating at 600,000 barrels per day capacity from Crane, Texas, as well as the new Phillips 66 new, 900,000 bpd Grey Oak pipeline, from the Permian, which began commercial operations in April.

The additional pipeline capacity from shale-producing regions to the US Gulf — a major constraint to rising shipments until the coronavirus pandemic — has ensured that exports have dipped at a much slower rate than production.

The 670,000 Cactus II pipeline, which began in late 2019, as well as the EPIC Crude and Gray Oak pipelines, all



Corpus Christi can handle huge vessels.

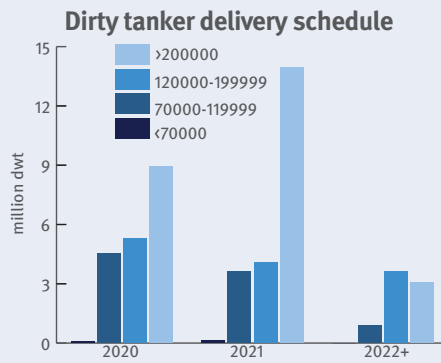
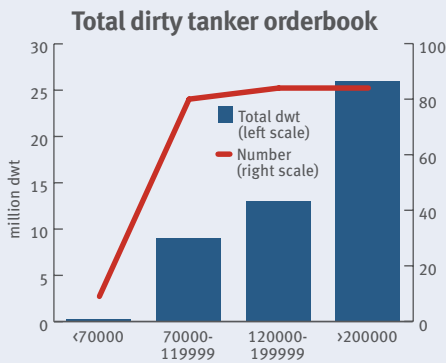
connect to terminals in Corpus Christi, bringing more than 2m bpd of additional capacity to the Texan port.

South Texas Gateway will have 3.4m barrels of storage capacity and another 5.2m barrels is under construction, as well as a second dock due to open later this year, according to US-based oil consultancy RBN Energy.

About 1.25m barrels can be partially loaded on a VLCC — which has a 2m barrel capacity — and this will increase to 1.5m once dredging is completed next year.

When storage is factored in, RBN Energy estimates this will give the terminal some 800,000 bpd capacity, making it one of the largest in the US Gulf.



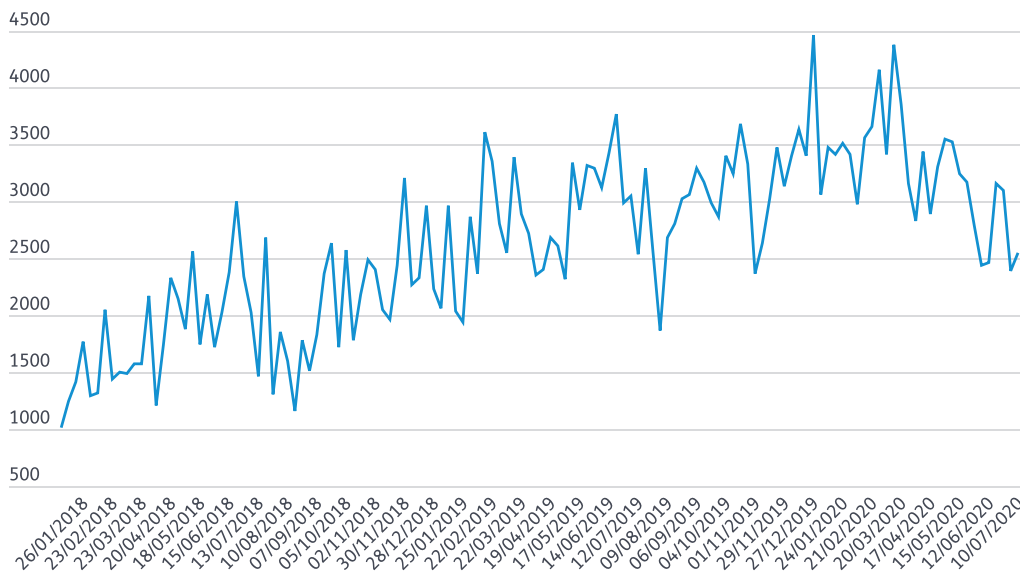


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Weekly US exports of crude oil ('000 bpd)



Source: EIA

Operator Buckeye Partners owns 50% of the new terminal, with Phillips 66 Partners and Marathon Petroleum each having a 25% share.

Only the deepwater Louisiana Offshore Oil Port can fully load the biggest tankers, with Asia-bound cargoes normally reverse-lightered from Aframax tankers at designated anchorages offshore to overcome port logistics.

US field production of oil averaged 11m bpd for the week ending July 10, according to the US Energy Information Administration.

That compared with a peak of just over 13m bpd seen at the end of March, just before a cascading series of country lockdowns saw oil prices and demand plunge.

“*Over June and July, there has been a dramatic 4m bpd collapse in exports from countries in the Middle East Gulf as Saudi Arabia, Iraq, the United Arab Emirates and Kuwait all agreed production cuts over May through to July to stabilise oil prices*”

While US production has dipped by 2m bpd, crude exports have dropped by 600,000 bpd. Since April, exports averaged 2.9m bpd, EIA data showed. That compares with 3.5m bpd over the first quarter.

Collapse in exports

Over June and July, there has been a dramatic 4m bpd collapse in exports from countries in the Middle East Gulf as Saudi Arabia, Iraq, the United Arab Emirates and Kuwait all agreed production cuts over May through to July to stabilise oil prices.

Minerva Libra was chartered by ExxonMobil to ship the 70,000-tonne cargo to northwest Europe, which along with China, is now one of the biggest buyers of the light, sweet shale oil.



India eyes crude oil storage in US

Tanker owners would enjoy a boost to tonne-miles if India imports US crude when domestic demand recovers

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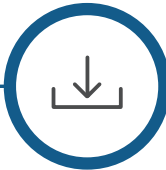
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The global active fleet of liquefied natural gas carriers comprised 575 vessels totalling 87.4m cu m as of early July, a 6.1% increase on its year-ago total, according to Lloyd's List Intelligence.

The LNG orderbook stood at 145 units, representing 21.9m cu m of carrying capacity. Of this, 4.9m cu m is scheduled for delivery in the rest of 2020; 9.9m cu m in 2021; and 7.1m cu m in 2022 and beyond.

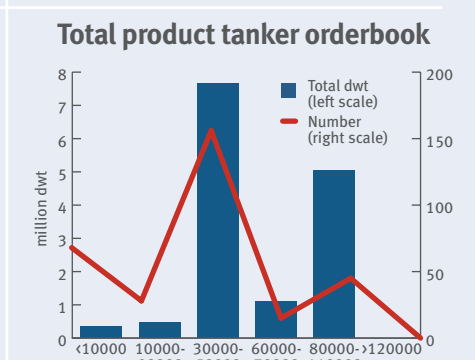
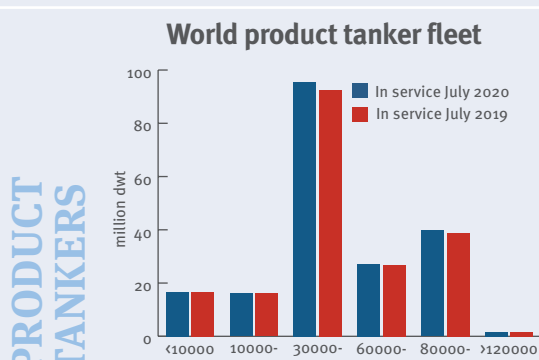
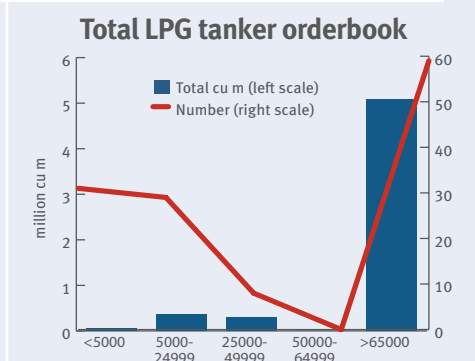
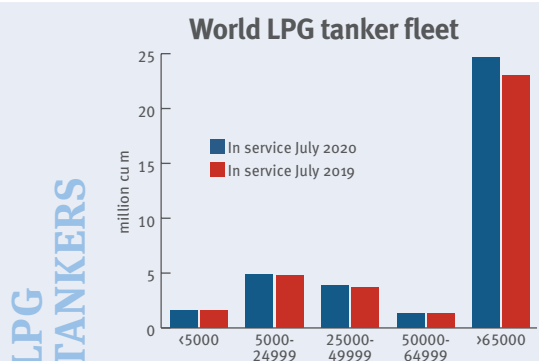
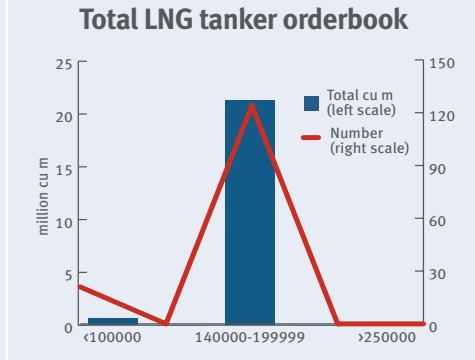
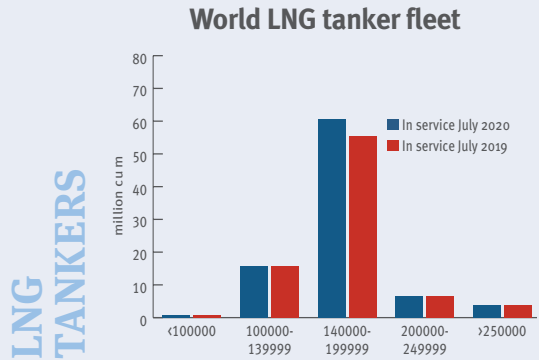
For liquefied petroleum gas tankers, the active global fleet was composed of 1,572 ships, with a carrying capacity of 36.3m cu m, up 5.4% on year.

The LPG orderbook is dominated by very large gas carriers. Of the 127 vessels on order, 59 VLGCs, or 20.6% of the fleet, are due for delivery.

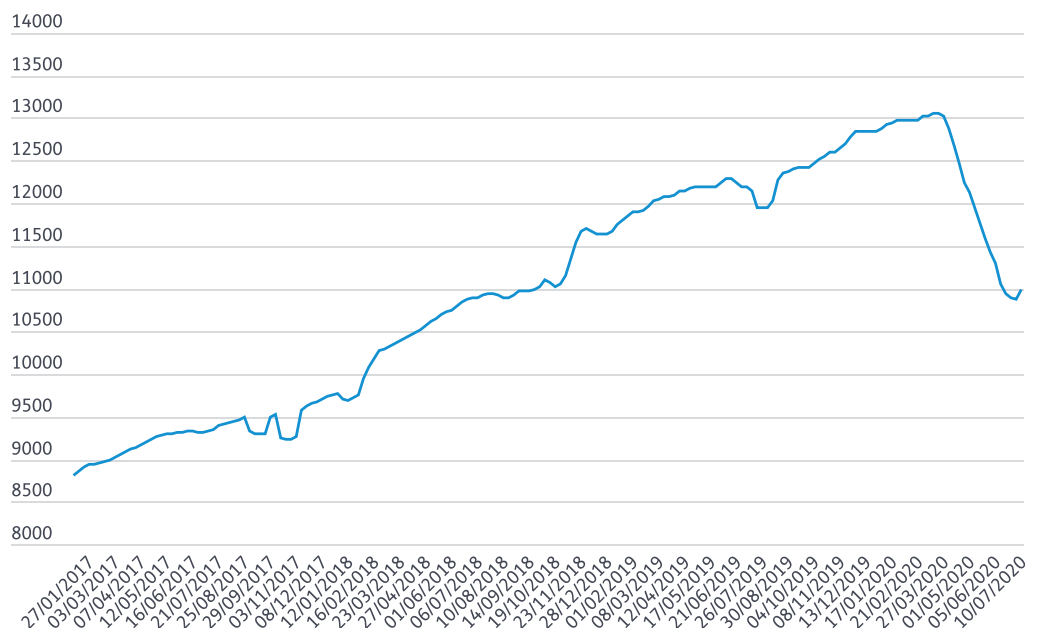
The global fleet of product tankers comprised 8,819 vessels with a carrying capacity of 196.8m dwt, a rise of 2.4%.

The product tanker orderbook stood at 311 ships, of nearly 14m dwt: 150 MR vessels, 15 LR1s and 42 LR2s.

Data from:
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Four-week average US field production of crude oil ('000 bpd)



Source: EIA

Corpus Christi and nearby ports exported 1.5m bpd in the first half of 2020 according to research by RBN Energy.

In 2018, exports from this region were running at about 440,000 bpd.

"Growth in export volumes would not have been possible without expansions at the [Corpus Christi] port's five older crude-handling marine terminals and development of the four new export-focused terminals that have come online in the past 10 months," RBN Energy said in its latest report.

These are the Eagle Ford Terminals, which first loaded in September 2019; EPIC Marine Terminal (December 2019); Pin Oak Corpus Christi (April 2020); and now South Texas Gateway, according to the consultancy.

The world containership fleet grew by just shy of 25,000 teu in June, as deliveries were offset by demolitions related to the reopening of Indian scrapyards.

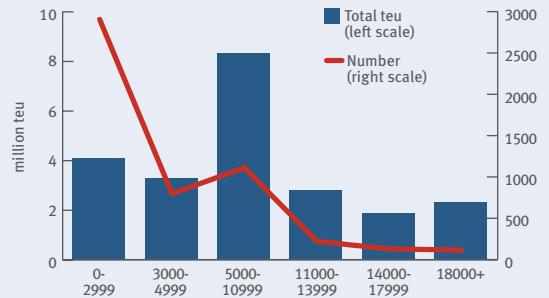
Lloyd's List Intelligence's data showed capacity on the water at approximately 22.7m teu.

Meanwhile, newbuild orders

remain subdued. No further additions to the orderbook were recorded in June, according to Lloyd's List Intelligence.

Clarksons reported just 160,000 teu of fresh tonnage agreed with yards by the halfway point of 2020. This is down by more than one-third against last year's total.

World active containership fleet



World boxship fleet update: A long road to rebalancing

Containership capacity is likely to grow by less than 2% this year. But with volumes falling more than 7% already, the gap between supply and demand will get wider, writes **James Baker**

Despite some encouraging signs of recovery — a few which may be no more than mirages — the 7.7% decline in container volumes during the first five months of 2020 is within the range of early forecasts for how bad things will be for container shipping this year.

While freight markets remain strong, thanks to strict capacity management, fleet developments show the direction of travel.

Figures from Lloyd's List Intelligence show that the world containership fleet remained almost static at 22.7m teu in June, gaining only 24,541 teu of capacity as the resumption of scrapping in the Indian sub-continent removed some tonnage when new ships were delivered.

The number of ships in the fleet even fell by five in June, although the larger capacity of those added meant there was no corresponding capacity reduction.

Owners and carriers stayed away from the temptations of the yards for another month and — unsurprisingly — no new orders were recorded, according to Lloyd's List Intelligence.

Analysts at Clarksons said the 160,000 teu that has been ordered this year is down by more

World containership fleet June 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	2,906	4,103,959	201	379,760	46	64,013	2	3,291	249	447,063	10.9%
3,000-4,999	798	3,283,941	21	72,128	0	0	0	0	21	72,128	2.2%
5,000-10,999	1,112	8,336,693	9	48,900	0	0	0	0	9	48,900	0.6%
11,000-13,999	221	2,819,350	26	304,320	15	173,500	2	23,700	43	501,520	17.8%
14,000-17,999	129	1,894,599	16	239,828	15	227,784	12	178,256	43	645,868	34.1%
18,000+	116	2,312,976	26	579,530	6	137,000	10	232,176	42	948,706	41.0%
Total	5,282	22,751,518	299	1,624,466	82	602,297	26	437,423	407	2,664,185	11.7%

*Excluding newbuilding postponements and cancellations under negotiation

Source: Lloyd's List Intelligence

than one third from last year, and by more than two thirds from the first half of 2018.

"On the supply side, the pace of boxship deliveries has been relatively subdued so far in 2020, with increased slippage expected," Clarksons said. "Boxship capacity growth is projected at 1.6% in 2020."

However, that growth has to be seen beside the decrease in demand. While slow growth in the fleet would normally help the supply/demand equation, when volumes are falling, any growth is unhelpful.

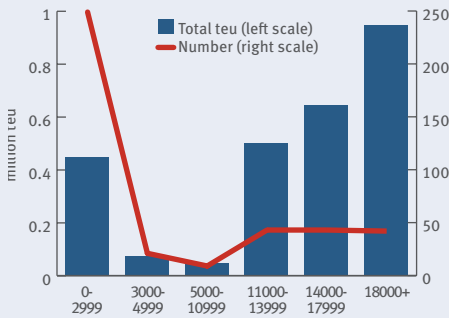
Moreover, even this minimal growth in capacity comes on top of a decade of expansion that has seen the amount of capacity surge to its current level.

According to BIMCO chief shipping analyst Peter Sand, the buying spree of the past decade saw the containership fleet's capacity grow by 75%, while demand has only grown by 46%.

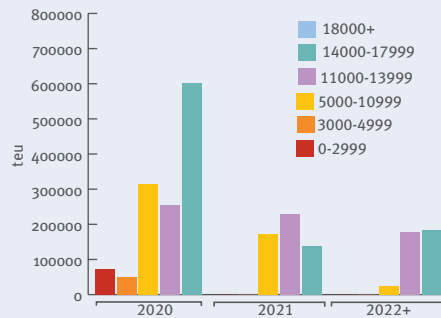
"As in the other shipping sectors, the past decade saw a worsening of the fundamental balance in the shipping market," Mr Sand said.



Containership orderbook



Containership delivery schedule



Data from:

Lloyd's List Intelligence
Maritime intelligence | Informa

lloydlistintelligence.com

“This led to a challenging outlook even before the Covid-19 crisis. With demand set to fall this year, while the fleet continues to grow, 2020 will prove a painful year for carriers, even if freight rates are held up by record high containership idling.”

The biggest change was in the number of ultra large containerships on the water across the decade and the increasing average size of the fleet.

The delivery of up to 30 ULCs per year in the latter part of the decade had left a shadow of overcapacity over the market, limiting the potential growth for freight rates, and highlighting the importance of cost cutting, Mr Sand said.

That cost cutting appears to be on its way and container lines are now responding to the new reality of demand by trimming their operational fleet sizes, according to Alphaliner, which found that 11 of the top 12 carriers had reduced their operated fleet capacity during the first half of the year.

Maersk, the world's largest carrier by capacity, made the largest reduction in capacity, trimming its fleet by 236,000 teu to take it back down under 4m teu.

Maersk's share of the total containership fleet, which stood at 17.8% at the beginning of the year, has since dropped to 16.6%.

Its decision not to follow the example of carriers that ordered ultra large 23,000 teu ships would “not be regretted in these challenging times of reduced cargo demand,” Alphaliner added.

“As in the other shipping sectors, the past decade saw a worsening of the fundamental balance in the shipping market. This led to a challenging outlook even before the Covid-19 crisis. With demand set to fall this year, while the fleet continues to grow, 2020 will prove a painful year for carriers, even if freight rates are held up by record high containership idling”

If carriers no longer need so much capacity, the question becomes what to do with it.

Scraping hiatus

Scraping went into hiatus earlier this year as the much of the Indian sub-continent went into lockdown, closing the breaking beaches in the region.

However, with the easing of coronavirus mitigation measures, those yards have reopened, and ships are queuing up to be recycled.

Lloyd's List Intelligence reported 12 vessels, comprising 32,178 teu, were sold for scrap in June, including four elderly panamaxs.

“The easing of lockdown restrictions across the Indian sub-continent at the end of May has finally allowed many of these vessels to reach the scrapyards,” Alphaliner said.

“Further vessels recently sold for scrap are also rapidly joining the queue. Eight containerships have already beached since the end of May, with 11 more still waiting or soon to arrive at the anchorages.

“In addition, there are at least half a dozen ships anchored off Singapore and Dubai that are waiting to know their scrap destinations, before embarking on their final journeys, with more expected in the coming weeks.”

The size of vessels reaching the end of their serviceable lives is increasing, however. Although not yet recorded in the figures, the 1998-built, 9,600 teu *Sine Maersk* is set to become the

largest containership yet to be scrapped when it is recycled in Turkey. The jumboised containership breaks the record set in June by the demolition of the 1997-built, 7,402 teu *Kokura*, ex-*Katherine Maersk*.

However, the capacity going to scrap still does not match the record highs recorded in 2016, Alphaliner added. Its full-year scrapping forecast remains at just 300,000 teu.

“Even with the current surge and the expected increase in the pace of scrapping in the second half of the year, the full year tally is still expected to remain within the current forecast range,” it said.

The result of this will be a continued high level of idle tonnage.

Idle fleet

According to figures from Maritime Strategies International, the idle containership fleet stood at 2.5m teu in early June, as carriers took short-term measures to manage capacity by suspending sailings.

“Looking beyond the headline statistics of the idle fleet yields a more nuanced picture, showing that the majority of the idle fleet is concentrated in the larger size segments and, as a result — and unusually — liner-owned tonnage dominates idle fleet listings,” MSI said.

Alphaliner noted that the inactive fleet was coming down after its previous peak in May, as carriers began to reinstate sailings they had initially blanked.

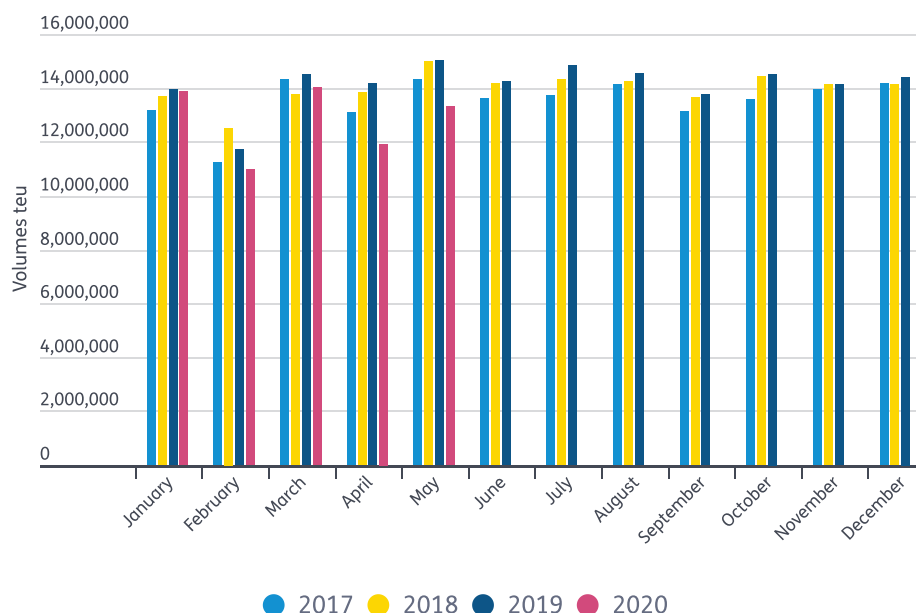


Volumes on the Asia-Europe trade improved in May but were down on last year.

Container volume figures paint a bleak picture

The export hubs of Asia remain the hardest hit by the coronavirus pandemic's impact on global economies, **James Baker** reports

Container trade volumes (2017-2020)



Container volumes bounced back in May from rock-bottom levels the previous month but remain well down on where they were at the corresponding time last year.

Figures from Container Trades Statistics showed volumes rose 11.7% month on month in May to 13.3m teu, but were down 11.4% on the year-earlier period.

The year-to-date total of 64.1m teu is 7.7% down on the same period last year.

Opposite direction

However, with volumes improving slightly, rates have turned in the opposite direction, the data group said.

“Last month [May], the Global Price Index hit a high of 74, but it hasn’t lasted,” it said. “It lost three points this month [June] but even at 71, is five points higher than a year ago.”

The export hubs of Asia remain the hardest hit by the coronavirus pandemic’s impact on global economies. The year-to-

Source: Container Trades Statistics

date total for Far East exports is 34.7m teu, down nearly one-tenth on last year.

While May volumes on the Asia-Europe trade were up 10% on April, with 1.25m teu shipped, that figure was down 14.6% on last year's volumes.

"Given that April was already close to 20% down on last year, the second quarter as a whole may prove to be lower than the first and gives some measure of the impact of the pandemic on demand from Europe, where it was at its worst during April and May," CTS said.

Blanked sailings

Despite the extended programme of blanked sailings, the price index on this trade lost another point and, at 57, was now just three points higher than last year, it added.

On the back-haul Europe to Asia trade, the 65,000 teu shipped in May was the highest monthly total so far this year, down 7.5% on a year ago.

The West Mediterranean and North Africa sub-region contracted by 18% on last year but from northern Europe, the decline was a more manageable 5%.

"If this trade is the bellwether of future trends in the industry, it may not be surprising that some commentators do not expect container trade to return to pre-Covid-19 levels before the end of 2022," CTS said.



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



Claus Bunks/Wikimedia Commons

Import volumes to South America fell further in May.

Patchy recovery leading to trade imbalances

The largest shift in trade balance was on the South America trades, where backhaul volumes were running 20% higher than headhaul volumes, James Baker reports

Carriers could face costly repositioning runs due to an imbalance in container flows across major trade lanes.

While volumes in May recorded by Container Trades Statistics showed an improvement over April, the global headline figures do not give a detailed picture of regional trade flows.

"The decline in May is clearly a severe problem in the container shipping markets, but it also suggests that we are through the worst," said analysts at consultancy firm Sea-Intelligence.

"But one thing is the global development overall; another is how this has impacted different regions and the trade imbalances."

While some trades incurred the worst impact of the pandemic in April, followed by significant improvements in May, others, such as South America, saw volumes decline again in May.

"Given these changes, it raises the important question as to how this has impacted the import/export balances for each of the regions," the analysts said.

"This balance is a key element of the empty container repatriation routines for the carriers. Substantial changes can result in severe equipment imbalances temporarily, as supply chains need to be rearranged."

In the European export trades, there was a significant shift in imbalance as

export went from a baseline of around 88%-89% to 97%.

For Europe as a whole, this meant that for a brief period, there was actually almost a balance between the number of full containers going in and out of the continent, Sea-Intelligence noted.

"This sharp shift can also be seen as the driver underlying the sharp increases on the Europe-Asia backhaul trade," it said.

"We can also see the imbalance reverted back to normal in May, and therefore the Europe-Asia backhaul rates might begin to ease off again."

On the transpacific, however, the situation had remained largely unchanged.

"As a result, we have also not seen the sharp increases on the transpacific backhaul that we have seen in Asia-Europe," Sea-Intelligence said.

The largest shift in trade balance was reported on the South America trades, where falling import figures meant that backhaul volumes were running 20% higher than headhaul volumes in May.

"This will have significant ramifications on the flows of empty equipment, especially when we consider the strong reliance on reefer cargo for South American exports," Sea-Intelligence said.

"Shippers to and from South America therefore need to expect a period of high uncertainty regarding equipment availability."

Are vessel-sharing deals fit for purpose in a digital age?

The Consortia Block Exemption Regulation was adopted in the pre-digital era of 2009. Today, the exchange of much more digital data presents a different landscape, **August Braakman reports**

The European Commission has decided on unamended prolongation until April 24, 2024, of the regulation outlining the conditions under which container line shipping consortia can provide joint services without infringing European Union antitrust rules that prohibit anti-competitive agreements between companies.

This so-called Consortia Block Exemption Regulation was adopted in the pre-digital era of 2009. It allows, under certain conditions, container line shipping operators that possess a combined market share of less than 30% to enter into co-operation agreements to provide joint liner shipping services.

It can be argued that these conditions are not fulfilled with regard to vessel-sharing agreements equipped with logistics solutions with advanced state-of-the-art features that are available in the current digital era.

A VSA is an agreement concluded between lines, whereby the parties to the agreement discuss and agree on operational arrangements relating to the provision of liner shipping services, including the co-ordination or joint operation of vessel services and the exchange or chartering of vessel space.

They are usually reached among various partners within a shipping consortium who agree to operate a container line service along a specified route, using a specified number of vessels.

It is not necessary for each of the partners to have an equal number of vessels. The quantum of space obtained



Janet Porter

The CBER, under certain conditions, allows carriers possessing a combined market share of less than 30% to enter into co-operation agreements to provide joint liner shipping services.

“VSAs ensure reliable schedules and higher frequencies of service. The required co-operation is only for operational purposes. Each party retains its own market identity and pursues its own market strategy”

by each partner may vary from port to port and could depend on the number of vessels operated by the various partners. So the space available for loading and unloading at each of the ports of call is shared among the partners.

Agreements ensure reliable schedules and higher frequencies of service. The required co-operation is only for operational purposes. Each party retains its own market identity and pursues its own market strategy.

This implies that, from a commercial point of view, the parties to an agreement operate entirely separate from one another. Competition among them must remain unaffected.

Slot reallocation

Slot reallocation is the hard core of VSAs. A party to an agreement that has a temporary lack of capacity can purchase slots from another party. The purchase price is set in addition and is based solely on the operational costs.

All other costs, inclusive of initial pricing, are included in the formation of the tariffs that were determined by each party individually.

The market value of a VSA is determined by the quality of its co-ordination of the various operational issues.

The only way to achieve a perfect co-ordination is to make use of logistics solutions with the most advanced state-of-the-art features.

Therefore, when deciding which line will be used, customers will choose for the line — and, as such, for the agreement to which it is a contracting party — that is best able to realise this degree of co-ordination. The decisive criteria are the service features, quality of service and functionality; not the price.

Most lines have moved from supply chain models to commodity-driven logistics solutions, incurring high costs. It follows that they will extend the scope of these logistics solutions to all VSAs to which they are party.

The core element of each agreement that makes use of logistics solutions

with the most recent and advanced state-of-the-art features is the semantic interoperability of the computer programmes used by all the participating lines and possible other actors involved, both towards one another and towards the business and analytics, known as BI&A, system, which stores and processes Big Data and ensures a proper and smooth operation of the logistics chain.

Semantic interoperability can only be achieved if all parties to the VSA use the same information technology standards. This would imply that all computer programmes should either be written in the same language, or be able to process each other's standardised output. These conditions having been met, all the agreements and arrangements — as well as the underlying data that govern the operation of a VSA — form an indissoluble legal entity, in other words, an entity that disintegrates once one of its constituting elements is being removed.

The data that is being exchanged is both structured and unstructured.

Structured data follows a model that defines the various stages of the transportation process, the type of data these stages contain and the way in which they relate to each other.

Traditional platforms for the aggregation of structured data are electronic data interchange, known as EDI, enterprise resource planning, known as ERP, systems and extensible mark-up language, known as XML.

Unstructured data does not conform to a specific model. It flows outside the normal channels and is mined from multiple sources.

As a rule, structured data is confidential, whereas unstructured data is not, unless bound by strict confidentiality provisions. BI&A systems blend structured data with unstructured data.

The Holy Grail is to present the data in high-quality visualisation formats that help laypersons understand what they are looking at and (ideally) make the better decisions based on hard information.

Consortia Block Exemption Regulation

Article 101(1) of the Treaty on the Functioning of the European Union, known as TFEU, catches agreements or practices that make it possible to foresee to a sufficient degree of probability future developments that may have a substantial effect, direct or indirect, actual or potential, on the pattern of trade between member states, thus forming a sufficient basis for each participating company to concert its market conduct.

“*Semantic interoperability can only be achieved if all parties to the VSA use the same information technology standards. This would imply that all computer programmes should either be written in the same language, or be able to process each other's standardised output*”

The CBER ordains that the cartel prohibition of Article 101(1) TFEU shall not apply to activities that have the sole effect of promoting competition and do not affect the separate identity and/or the separate sales, pricing and marketing functions of the parties to a VSA.

Exemptions relate to the following activities:

1. the joint operation of liner shipping services including:
 - (a) the co-ordination and/or joint fixing of sailing timetables and the determination of ports of call;
 - (b) the exchange, sale or cross-chartering of space or slots on vessels;
 - (c) the pooling of vessels and/or port installations;
4. any other activity ancillary to those referred to above which is necessary for their implementation, such as:
 - (a) the use of a computerised data exchange system.

The CBER contains a per se prohibition for “hard core” restrictions of competition. These restrictions include activities which, directly or indirectly, in isolation or in combination with other factors under the control of the parties, have for their object:

1. the fixing of prices when selling liner shipping services to third parties;
2. the limitation of capacity or sale, except for capacity adjustments in response to fluctuations in supply and demand;
3. the allocation of markets or customers.

Application of Article 101(1) TFEU presupposes that restriction of competition is an “object or effect”. The “hard core” prohibition of the restrictions of competition, which are mentioned in the CBER, only refers to arrangements that have this for their object.

Pursuant to the established case law of the European Courts, circumstances

surrounding the attainment of fair and undistorted competition may also be used in interpreting the wording of arrangements for those areas, which are unclear.

This means, for example, that, apart from the fixing of prices, price recommendations and tariff impositions by any person on transport users fall within the scope of the “hard core” prohibition of the CBER, provided they have a similar anti-competitive impact.

Arrangements that do not have a restriction on competition for their object may also be caught by the cartel prohibition because they have it for their effect. This effect does not need to have actually occurred. It is sufficient for it to appear likely in the near future.

This second alternative for application of the cartel prohibition therefore permits the Commission to intervene to prevent distortions of competition at an early stage.

Lines argue that the exemption, which the CBER provides for computerised data exchange systems in support of activities it exempts from the cartel prohibition, allows for the use of BI&A systems with their current state-of-the-art features.

This implies that, in their view, the use of this technology does not prevent lines that are party to a VSA that calls at a port situated within the EU/EEA (i) from maintaining a separate identity, (ii) from having separate sales, pricing and marketing functions and (iii) from having the sole object of promoting competition. This argumentation cannot be upheld.

Vast number of agreements

All lines are party to one or more of the vast number of conference and discussion agreements that exist worldwide.

These agreements serve as vehicles for exchanging strategically sensitive data. They are exempt from the application of antitrust laws in the US and some Asian countries, like Singapore, but they were never exempt from application in the EU.

There can be no doubt that the data exchanged between lines within the framework of these agreements on the key parameters for the non-EU leg of the route provides an important indicator — if not the basis, indeed — for the key parameters for the EU-leg of the route.

In the occurring event, lines participating in a VSA would not meet the criteria of the CBER pertaining to the promotion of competition and the maintenance of a separate identity and/or separate sales, pricing and marketing functions.



Comparing shipping lines with coal-fired power stations is misleading.

Naming and shaming shipping firms will not solve carbon crisis

Shipping is a high-emission industry and is working to improve that situation. Ranking container lines alongside coal-fired power stations makes for a dramatic headline, but aims wide of the mark, **James Baker** reports

That shipping has a problem with carbon emissions goes without saying. Pushing a 23,000 teu containership through the water takes some energy, and burning fossil fuels is still the cheapest and most efficient way to do that.

However, in shipping — as in society as a whole — the continued use and abuse of CO₂ emitting fuels is unsustainable if there is to be any hope of saving the planet from global warming.

Shipping knows this. The International Maritime Organization has set targets for the reduction of carbon for both 2030 and 2050. These are base limits and many are aiming higher. Several groupings are working towards net-zero emissions by 2050.

Whether this is enough or soon enough is endlessly debatable. Yet the issue is known and being addressed across the industry.

It does, however, call into the question the validity of singling out any one

company for opprobrium due to its carbon emissions.

Campaign group Transport & Environment has again placed Mediterranean Shipping Co among the top 10 carbon emitters in Europe, in a list dominated by coal-fired power stations.

Interpretation can be challenged

While the numbers are incontrovertible — MSC itself supplies the figures to the European Union monitoring, reporting and verification system — the interpretation can be challenged. And MSC does challenge it.

Not only does Transport & Environment take into account the carbon emitted across a whole voyage to and from Europe and apply it to Europe as if the whole voyage had taken place in Europe, but it also avoids the rather obvious fact that MSC is not the largest shipping company in the world — and it is not even the largest container line.

MSC argues that only 40%-45% of its

emissions are in Europe. It also differs in that unlike many container lines, it predominantly does its own feeder.

A container coming from Shanghai to Rotterdam, which is then transhipped to Dunkirk, would be counted towards MSC's carbon emissions. Another line using a third-party feeder would only have the main lane leg counted.

Arguably, MSC is being punished for having a comprehensive network of European shortsea services.

Slot-sharing and alliance agreements add another level of complexity that T&E does not take into account. Should an MSC ship carrying the containers of others be counted solely to MSC's total?

MSC's Gülsün-class 23,000 teu ships can move a tonne of cargo one mile for 7.5 grams of CO₂ emissions. This is way below any alternative mode of transport.

No-one would argue that shipping should be let off the hook. The value in singling out particular companies, however, is questionable.

With the world still in the grip of a global pandemic, shipping companies need to reassess the measures they have in place to meet environmental compliance

Container shipping is by far the most carbon-efficient means of transporting goods across the world; but because more than 90% of the world's traded goods are seaborne, the sector still has a major environmental impact.

As a result, IMO regulations to reduce sulphur content in fuels from 3.5% to 0.5% took effect at the beginning of 2020.

However, with the world still in the grip of a global pandemic, shipping companies need to reassess the measures they have in place to meet compliance and determine the best way through the pandemic and beyond.

The Covid-19 impact

One of the primary concerns of IMO 2020 — the availability of compliant low-sulphur fuels — has diminished because the world's air and surface transportation has come to a near standstill as part of the impact of the Covid-19 pandemic.

Container shipping has benefited from an increased supply of low-sulphur feedstocks and can probably expect relatively cheap low-sulphur fuel for at least the next year.

The abundance of low-sulphur fuel and accompanying price plunge has greatly reduced the incentive to buy scrubbers, allowing some shipowners to delay their installation plans. In that sense, the pandemic has given the industry more time to adapt to the IMO 2020 specifications.

As a responsible container shipping business, Ocean Network Express (ONE) has recognised the importance of minimising its environmental impact to ensure its operations remain sustainable in the long term.

Like other ocean carriers, ONE has examined the potential requirements to comply with the new regulations:

1. Convert to low-sulphur compliant fuels;
2. Exhaust gas scrubber installations;
3. Switch to liquefied natural gas (LNG), which contains low or zero sulphur.

As at January 1, 2020, ONE had reached compliance with the new emission limits and continues to review where it can further reduce its impact on the environment and operate in a sustainable manner.

A step in the right direction, but more needs to be done

The sulphur cap only tackles one pollutant



The 14,000 teu ONE Minato (pictured off New York), built at Japan's Imabari Shipbuilding, was the ONE container shipping alliance's first-launched containership.

Container shipping must join concerted 2050 clean-up effort

and does not address other sources of pollution such as particulates, nitrogen oxide or carbon dioxide emissions.

More needs to be done in order to meet the IMO's 2050 target of reducing shipping's total annual GHG emissions by at least 50% compared to 2008.

That would align shipping with the Paris Climate Agreement's temperature goal, which seeks to limit global warming.

Climate change is a major risk factor for shipping. An ambitious target for shipping's emissions reduction is a strong driver to meet the challenge of such risk.

To that end, ONE is intending to cut its CO₂ emissions (in gram/teu-km) by 25% by 2030 and then to 50% by 2050, from a 2018 baseline.

Decarbonisation of maritime transport can also be approached by other means. For instance, existing technology could improve the efficiency in construction and operation of vessels.

Operational measures, such as improving terminal operation efficiency or micro-management of voyages, could also help.

Renewable energies such as biofuels or electricity from wind and solar

power can accelerate the journey towards carbon neutrality.

A concerted effort is needed to drive sustainable change

Cleaning up global shipping is a mammoth task that can only be achieved through the concerted efforts of all stakeholders in the global supply chain.

Businesses must do their part to comply with environmental regulations, looking beyond short-term profits to prioritise long-term sustainable business growth.

ONE recognises that growth and sustainability are not in conflict.

Moreover, ONE believes it is in the alliance's best business interest to ensure it has a strong environmental management system in place.

'Business as usual' is no longer an option, as the longevity and profitability of ONE now depend on a proactive approach to sustainability.

Policy makers, shipping authorities and businesses must work collaboratively to deliver transformative technology and solutions that will lead to a more sustainable industry.

Sponsored by Ocean Network Express



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

Tie a knot and hold on

While the South Korean majors are being vexed by weaker prospects of LNG carrier newbuildings, China's largest shipbuilding group faces the risk of potential US sanctions

We know the shipbuilding market is terrible, but it must be desperate if the president of Imabari Shipbuilding makes a public call for "some form of state support".

The Japanese yards and their government used to be strong opponents to the meddling of state power in this business sector.

It is unclear how they will react to Yukito Higaki's appeal, made during a press conference, but the predicament facing the country's largest builder cannot be ignored.

Imabari only won new orders for 26 ships in the last fiscal year ended March 31, 2020 — about one-third of the volume a year earlier. Its revenue also took a hit because of low-priced orders amid increased competition from Chinese and South Korean rivals, said Mr Higaki.

The results have yet to reflect the impact of the coronavirus pandemic that emerged later in the year. Now ship prices are likely to slide further as demand for newbuildings remains sluggish, according to Braemar.

"Soon the cost of idling large capital assets will far outweigh that of idling yard workers. Tough decisions will have to be made: close or continue," the brokerage said in a recent report.

"For sure, to book the large remaining number of 2022 berths, pricing will have to come off further."

Data from the Japan Ship Exporters' Association shows the backlog of domestic yards had contracted for 15 consecutive months to a 23-year low as of the end of June.

"If circumstances continue as they are, Japanese shipbuilders will not be able to keep standing up," Mr Higaki warned.

If there is any source of relief, at least one can be sure that yard executives in South Korea and China are not scratching their heads any less.

The three South Korean majors — Korea Shipbuilding & Offshore Engineering (formally known as Hyundai Heavy Industries), Samsung Heavy Industries and Daewoo Shipbuilding & Marine Engineering — have only achieved 13.8%, 6% and 20% of



CSSC has been put on a Pentagon hit list.

“*If circumstances continue as they are, Japanese shipbuilders will not be able to keep standing up*”

their 2020 order targets, respectively, for the first six months of the year.

Demand for traditional cargo ships is muted, while the offshore market, where they used to generate high revenue, is almost dead amid low oil prices.

The trio are still pinning their hopes on a raft of contracts for liquefied natural gas carriers to ramp up the percentage completed in the second half — albeit with a challenging outlook.

In March, Clarksons forecast 50 LNG carriers would be ordered in 2020, down from 88 predicted in September last year. Only five have been placed so far this year.

Rather than firm orders, the much-ballyhooed deal with Qatar for more than 100 LNG tankers has turned out to be a slot-booking agreement spanning seven years. These distant newbuilding flows cannot quench the current thirst for work.

Even if LNG projects in Mozambique and Russia generate demand for orders this year, this will still not be nearly enough for South Korean yards to hit their targets.

China faring relatively well

It does appear that the Chinese builders are faring relatively well.

Between January and June, they bagged newbuilding deals totalling 3.5m compensated gross tonnage, versus 1.2m cgt and 600,000 cgt, respectively, by their South Korean and Japanese competitors, according to Clarksons.

However, they cannot rest easy, either.

Firstly, the 3.5m cgt is still an 18% decline compared with the same period of last year.

And a bigger threat comes from the escalating tensions between the world's two largest economies, the US and China.

Qatar signs \$19bn deal with South Korean yards

QATAR Petroleum reserved slots with three South Korean shipbuilders in June for more than 100 liquefied natural gas carriers until 2027 in a deal worth more than QR70bn (\$19.2bn), write *Anastassios Adamopoulos and Richard Clayton*.

The projects will go to South Korea's three main shipbuilders, Daewoo Shipbuilding & Marine Engineering, Hyundai Heavy Industries and Samsung Heavy Industries.

The trio will dedicate most of their LNG shipbuilding capacity over the next seven years for the order.

"With the conclusion of these milestones agreements, we have everything in place to commence the largest LNG shipbuilding programme in history," Qatari energy minister Saad Sherida al-Kaabi said in a statement.

"We have secured approximately 60% of the global LNG shipbuilding capacity through 2027 to cater for our LNG carrier fleet requirements in the next seven to eight years, which could reach more than 100 new vessels with a programme value in excess of QR70bn."

The landmark deal is powered by the ambitions of Qatar, the world's largest LNG exporter, to expand its capacity, particularly through the offshore North Field gas field.

"As I have previously stated, we are moving full steam ahead with the North Field expansion projects to raise Qatar's LNG production capacity from 77m tonnes per annum today to 126m tonnes per



The Mariner 2392/Shutterstock.com

The landmark deal is powered by the ambitions of Qatar, the world's largest LNG exporter, to expand its capacity.

annum by 2027 to ensure the reliable supply of additional clean energy to the world at a time when investments to meet these requirements are most needed," said Mr Al-Kaabi.

The agreements with the Korean shipyards will be part of the largest LNG shipbuilding programme ever undertaken.

The newbuildings will be equipped with the latest generation slow-speed dual-fuel engines, utilising LNG as a fuel.

In April, Qatar Petroleum agreed to reserve LNG vessel construction capacity at Hudong Zhonghua Shipbuilding Group Co, a subsidiary of China State Shipbuilding Corp.

As for the South Korean agreements, a significant proportion of Hudong's

LNG capacity will be reserved for Qatar Petroleum until 2027.

On a webinar organised by the US-Qatar Business Council in June, Mr Al-Kaabi stressed Qatar would not be hampered by geopolitical tension in the Middle East.

"We are in it for the long haul," he said. "We are the most cost-effective producer and can withstand market shocks."

He suggested Qatar might produce even more than the planned 126m tonnes per year of LNG "if and when that becomes possible".

The agreements with the South Korean shipbuilders were signed by Sung Geun, chief executive of DSME; Sam H. Ka, president of HHI; and Joon Ou Nam, chief executive of Samsung HI.

The Pentagon in June put China's largest shipbuilding group, China State Shipbuilding Corp, on a list of the country's companies deemed to be owned or controlled by Beijing's military, opening them up to potential additional US sanctions.

The builder's two leasing units, CSSC (Hong Kong) Shipping and CSIC Leasing, could also be affected. Sources close to the companies said they had already started internal assessments on the fallout from Washington's potential punitive measures.

Meanwhile, major Chinese banks, including their leasing arms, were looking at the possibility of being cut off from US dollars or losing access to US dollar settlements, according to a Reuters report in July.

“*The recent closure of the Chinese consulate in Houston, Texas, following escalations between the naval forces of the two countries in the South China Sea, can only deepen the malaise*”

The alleged institutions also included ICBC Financial Leasing, China's top shipping lessor and a committed financier for newbuilding projects at domestic yards.

The recent closure of the Chinese consulate in Houston, Texas, following escalations between the naval forces of the two countries in the South China Sea, can only deepen the malaise.

Even South Korean and Japanese builders might not feel positive about these ominous signs. Some of them have orders financed by the Chinese lenders, too. More importantly, the US-China decoupling will strike yet another blow to the virus-battered global economy — and it is bound to further dull investors' appetite for new vessels.



Going to work may no longer mean to an office

A survey found people are more productive out of the office. But what about that water-cooler conversation that sparks innovation?

A recent survey in the US asked respondents to reimagine their future work and workplaces in a post-coronavirus world. The assumption was that employees have, on the whole, enjoyed the experience of working from home. Further, video conferencing between employees has kept contacts alive without being in the same room. Yet then comes the question: is it possible that the satisfaction and productivity people experience working from home is the product of the social capital built up through countless hours of water-cooler conversations, meetings and social engagements before the onset of the crisis? Time will tell.

Further, the survey by management consulting firm McKinsey & Co asks whether corporate cultures and communities are likely to erode over time without physical interaction. Would planned and unplanned moments of collaboration become impaired? And has working from home succeeded only because it is viewed as a temporary solution?

There is no simple answer. Some companies will embrace the remote-working culture more readily than others, while some can't wait to revert to the pre-pandemic office culture. This temptation should be resisted.

"Organisations could start by assuming that processes will be reconstructed digitally and put the burden of proof on those who argue for a return to purely physical pre-coronavirus legacy processes," McKinsey recommends.

Significant cost savings

There are implications for the future of 'the office' and significant cost savings to be negotiated if the concept can be reinvented.

There will also be implications for many other areas of business, including overseas travel, networking, physically hosted conferences and seminars — and even commuting.



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Some companies will embrace the remote-working culture more readily than others, while some can't wait to revert to the pre-pandemic office culture.

Working remotely reduces personal commuting time and cost, cuts strain on transport infrastructure and decreases energy used. Significantly reduced levels of commuting would challenge the way many cities work.

McKinsey research indicates that those who make decisions about office space for larger firms expect the percentage of time worked in main and satellite offices to decline by 12% and 9%, respectively, while working from home will increase from 20% to 27% of work time.

We should anticipate a fierce battle in the world of virtual meeting technology.

Much of the shipping industry still depends on humans being in a certain place at a certain time. That will not change, although elements of human interaction might be reconsidered in the light of coronavirus.

However, we should not overlook the importance of "planned and unplanned moments of collaboration" that spark innovation.

Shipping is being dragged through an era of fuel transformation, digital transformation and safety transformation.

A transformation in the way we work and network is surely on the cards — but don't ignore the value of that water-cooler conversation.

Lloyd's List

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A man wearing a blue t-shirt, safety glasses, and a camouflage baseball cap is focused on working on a large, complex industrial machine. He is holding a tool or component of the machine. The background is a blurred industrial setting with various metal parts and machinery.

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