

Lloyd's List



INSIDE

Industry collaboration

Japan outlook

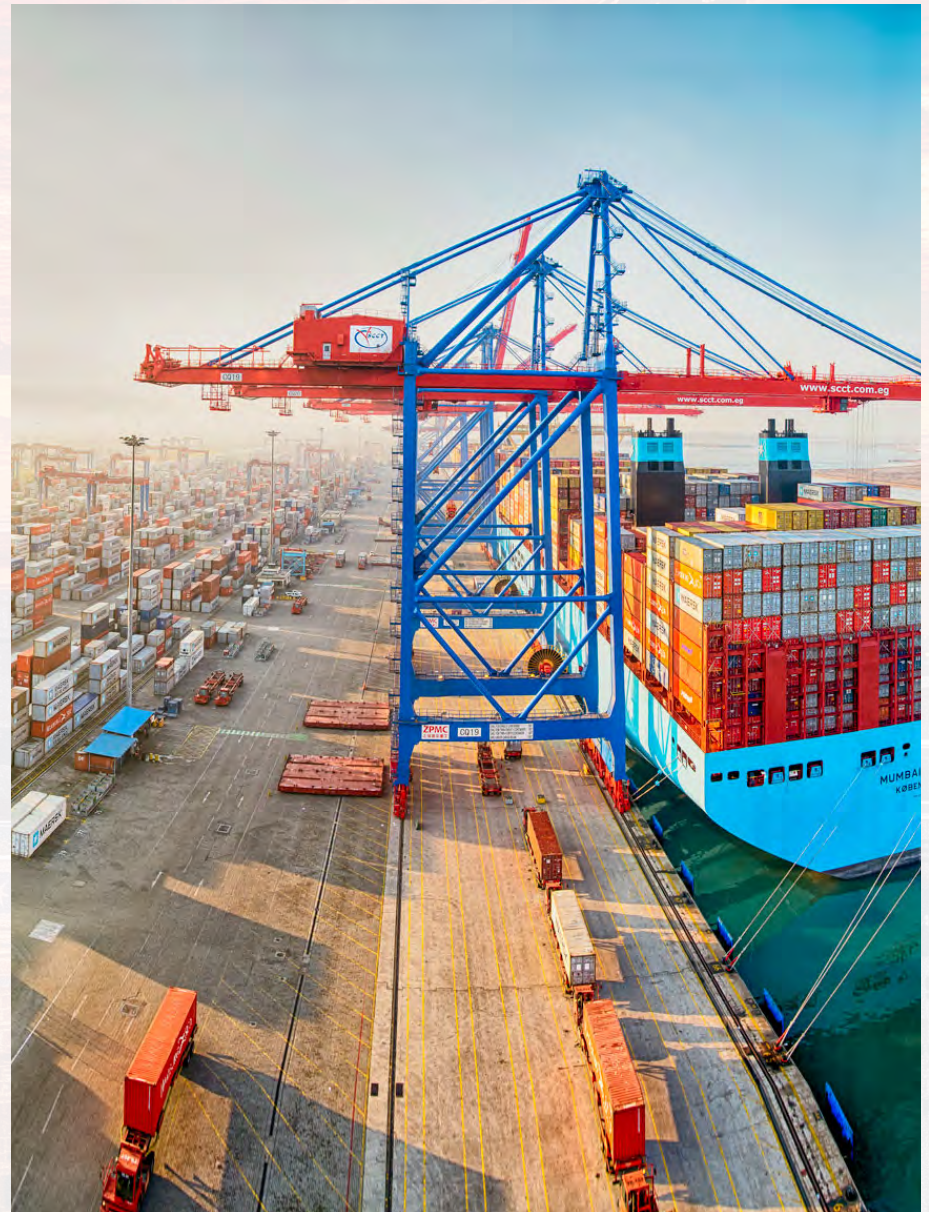
Between the lines

LLOYDSLIST.COM JUNE / JULY 2020

Why shipping
needs to
shout louder
about the
crewing crisis



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The editor's letter

LINTON NIGHTINGALE

A clear message

Heading into July, tens of thousands of seafarers are still stranded amid the health crisis. Lloyd's List is calling on governments to act now to prevent global trade grinding to a halt

Another month on and shipping's crewing crisis continues. In last month's editorial I highlighted the gratitude shown by the industry on International Workers' Day at the start of May, when ships in ports around the world marked the occasion by sounding their horns in honour of the humble seafarer.

The hope, I said, was that these do not fall on deaf ears.

Clearly the message failed to get through.

Heading into July, tens of thousands of seafarers remain stranded worldwide, both at sea and ashore, with efforts to repatriate this vital band of workers during the ongoing health crisis still falling woefully short.

On the day of writing this month's note, it falls on another occasion acknowledging their crucial role: the Day of the Seafarer.

Every year, over the past decade, the shipping industry and its stakeholders come together for this day to celebrate the one

million plus seafarers that play a pivotal role in keeping global trade moving.

However, on Day of the Seafarer 2020, Lloyd's List issues a strong message to spare us the speechifying, and redouble efforts to resolve the crew change crisis.

Indeed, this is no time for tokenism, warm words and platitudes praising those at the coalface. This is the year to do something.

We say that a concrete plan is needed to repatriate those who have already exceeded the 11-month limit on tours of duty set down in the legally-binding Maritime Labour Convention.

Government wording is meaningless on all counts. Action is required. It is now a necessity to ensure global trade, on which we all rely, does not grind to a halt.

I feel like I'm repeating myself here, but let's hope now the message is starting to filter through to those who can rectify the situation.

“
This is no time for tokenism, warm words and platitudes praising those at the coalface. This is the year to do something
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DAVID OSLER
Finance editor

“
Most of us have made some degree of sacrifice as a result of the lockdown. However, there is a qualitative difference between not being able to patronise your favourite local eatery — or even losing a proportion of one’s salary — and what has befallen these excellent men and women
 ”

If seafarers were tourists, crew changes would not be an issue

The alacrity with which many governments acted to repatriate more prosperous nationals, widely evident at the outbreak of the crisis, is nowhere to be seen

The European Convention on Human Rights doesn’t guarantee voters’ long weekends, perusing the Renaissance art of Florence, access to unrestricted DJ-fuelled hedonism in Ibiza, or even a sedate August in a jolly agreeable converted agricultural labourers’ cottage somewhere in the south of France.

Yet as far as politicians are concerned, it may as well do — and plans are under way to ensure that as many of the electorate as possible have a foreign holiday this year, coronavirus or no coronavirus.

The UK, for instance, is negotiating so-called “air bridges” with countries with low infection rates, which will allow them to avoid the current 14-day quarantine restrictions on re-entry.

That’s if the quarantine rules are not scrapped altogether by then. EasyJet, Ryanair and Jet2 were all reportedly hoping to be back in the skies by mid-July.

Compare and contrast the outlook for travel industry customers this summer with the fate of 400,000 of the world’s seafarers, stranded on their ships as a result of the pandemic.

The alacrity with which many governments acted to repatriate more prosperous nationals — widely evident at the outbreak of the crisis — is nowhere to be seen. The number caught in this nasty trap is actually going up, not down.

Many crews have been on board their vessels for longer than the 11 months legally stipulated by International Labour Organization agreements — some for as long as 15 months.

That alone poses very real risks to both their physical and mental health, not to mention the supply chain on which globalisation depends.

Most of us have made some degree of sacrifice as a result of the lockdown.

However, there is a qualitative difference between not being able to patronise your favourite local eatery — or even losing a proportion of one’s salary — and what has

befallen these excellent men and women. Put bluntly, the ongoing isolation, so far from home, to which they are being subjected, is nothing less than inhumane.

Yet the emergency extension to the ILO deal was due to expire in mid-June, at which point prevarication would no longer suffice.

Why should seafarers be denied the entry and exit visas that are being facilitated for tourists?

If those designated key workers still enjoy freedom of movement, which workers are more key?

As many as 50 governments have paid lip service to the need to “do something”, signing up to a 12-point plan agreed by industry consensus back in May. However, as statistics testify, the proposals largely remain a dead letter.

A handful of administrations — such as the Netherlands, Singapore and Hong Kong — have shown themselves amenable to compromise with common sense, not to mention justice.

Yet for most, reopening bars and restaurants is proving a bigger priority — and that is just morally unacceptable.

Packing less political clout

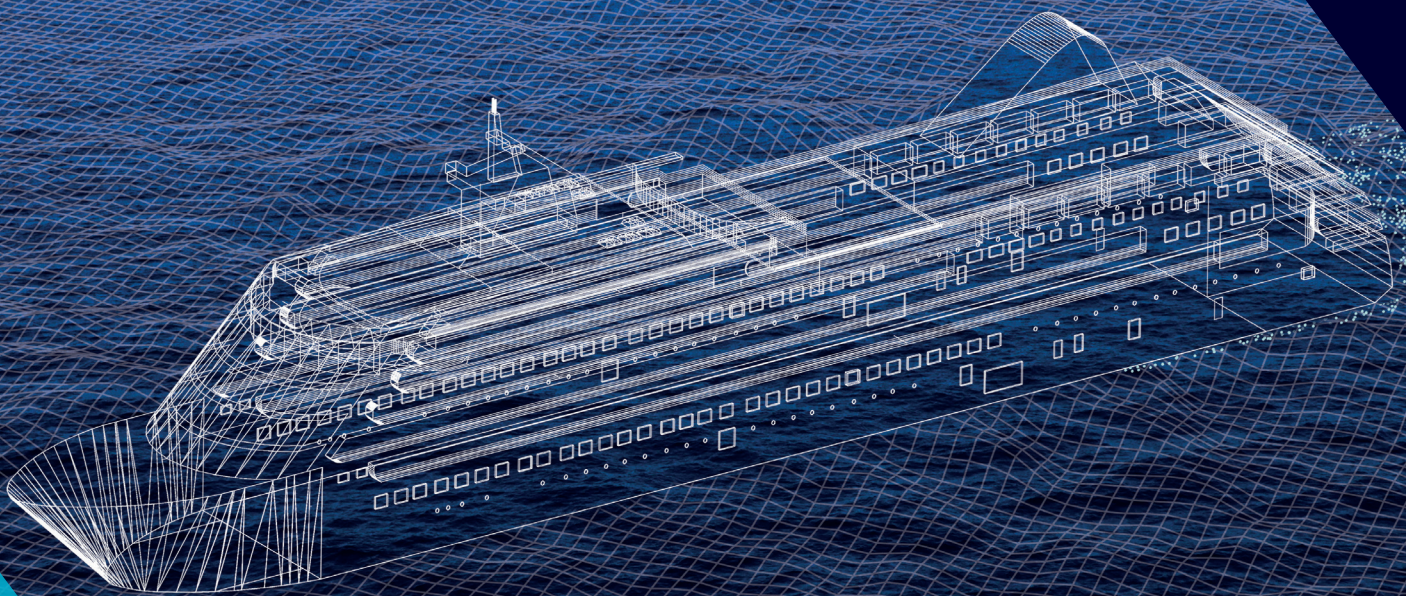
One of the key takeaways here is the shipping industry’s consciously chosen low public profile, which results in it packing far less political clout than other major business sectors.

The tourism lobby is listened to because it is well organised. In the UK, for instance, some 500 travel and hospitality companies have banded together in an ad hoc grouping called Quash Quarantine to press its case, right up to the point of taking legal action against the government.

Where’s the shipping equivalent?

There are many lessons to be learnt from this unprecedented episode. However, perhaps the biggest one is that crews should never again be made to carry the can for the shockingly apparent global collective paralysis of the authorities.

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RICHARD CLAYTON
Chief correspondent

“
The reason why mental health has rocketed up the agenda is because distracted, listless, undernourished seafarers are a safety concern at the centre of a multi-million-dollar asset
”

Pandemic reminds us that crews lie at heart of shipping

As the rush to digital solutions pauses, respect for the role of seafarers has come from an unusual place. It should not surprise us because the human element remains the bedrock of our industry

Even the Pope has found time to pray for stranded seafarers. In mid-June, the Holy Father in Rome expressed his gratitude to them for continuing to supply the essentials of life, despite the challenges of the high seas.

The coronavirus pandemic has forced significant change on ships' crews: long periods at sea without the chance to go ashore; unable to fly home to family and friends at the end of their contracted period.

The crew change crisis is huge. Some estimate 150,000 seafarers are delayed; soon it will be 200,000 if the pace of repatriation does not improve.

Another 200,000 men and women wait for the chance to join their ships and serve the industry at the sharp end. In addition, there are hundreds of crew managers at specialist agencies, from Manila to Mumbai, working long into every night seeking a way to get health and immigration officials to assist.

It has become fashionable to focus on technology in maritime. Digital solutions are the answer to all our problems. We need a deeper dive into the data, improved connectivity, innovative engineering.

Yet shipping is technophobic. Compared to the world of gaming and simulation, where millions of players compete on a single online platform, shipping resembles a dinosaur. If aviation enjoys the speed of the hare, shipping plods along like Æsop's turtle. He's somewhere in the distance, somewhere in the past.

That is, until coronavirus interrupts the relentless pace of change. Now the aeroplanes are grounded, but the ships still trawl around the world carrying the essentials, earning the praise of the pontiff.

Covid-19 has reminded this industry of the importance of the human element. Because about 99.7% of all seafarers went home on or close to the day there were expecting, no-one thought about the 0.3%. Now 99.7% are frustrated, the 0.3% who make it home on time are considered lucky.

The human element is overlooked. During a coronavirus webinar on remote surveying, one of the speakers recalled how, as a young surveyor, he walked on a ship.

"The first five minutes are so important.

You use your eyes and your ears, you touch things, and talk to the crew; you get a good impression of how a ship is run, even before you get to the master's cabin," he said.

Another former surveyor told me of a night he spent on a ship crossing the Bay of Biscay, terrified for his life as the vessel pitched and rolled on its beam ends. He learned deep respect for that particular crew, and for all seafarers who risk their all to supply the essentials.

Anyone who has read Rachel Slade's *Into the Raging Sea*, a human-element account of how *El Faro* was overwhelmed by Hurricane Joachim, will have experienced a similar respect.

It's not that the world's seafarers have been entirely forgotten. A handful of airlines have spent time and effort in finding seating solutions, ensuring each individual seafarer remains healthy and safe; and a handful of ports have gone out of their way to assess difficult situations from the seafarers' perspective.

The problem is that when digital solutions break down, the seafarer is on his own. The computer says no — and that's the end of it.

Reassessment of what's important

The coronavirus pandemic has forced a reassessment of what's important in shipping. Safety at sea, insists one class society chief executive, is "a condition, a living thing rather than a protective layer"; it flows "from the top down", said another. "It's what is done when no-one is watching."

The reason why mental health has rocketed up the agenda is because distracted, listless, undernourished seafarers are a safety concern at the centre of a multi-million-dollar asset.

The human element remains at the heart of shipping: perhaps it needed a global pandemic to remind us of that.

And whatever your position on the digitalisation of shipping, the dramatic events of Spring 2020 have underlined the significant role played by seafarers.

Pandemics rarely drive trends; they merely accelerate what was there before. The trends in maritime have been digitalisation, decarbonisation, sustainability.

We must now strengthen the foundation on which all these are based: the human element.

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Why shipping needs to shout louder about the crewing crisis



Save our seafarers: it's time the message was heard by all

Unprecedented industry unity and press coverage has failed to get the message heard outside of shipping's usual sphere of influence. The industry's lack of lobbying firepower must be bolstered by a collective commitment to utilise every network available, **Richard Meade reports**

Angry chief executives, unprecedented unity between the usual in-fighting and sniping, regular missives from every secretary-general, president and head honcho you care to mention, a front page on the Financial Times and support from the Economist, personal interventions from the UN secretary-general and even divine intervention from the Pope himself... The list goes on.

Nobody could accuse the shipping industry of not pulling out all the stops to get its message heard when it comes to the hidden humanitarian crisis that has left tens of thousands of seafarers stranded at sea, with already extended employment contracts now expired and the threat of strikes looming.

Or could we be doing more?

Shipping is by no means the only industry struggling to outrun a news cycle in overdrive and plant a flag in a political priority list that is being ripped up daily as more pressing matters emerge.

Others are spending their way into national agendas with lobbying budgets already passing the multi-million-dollar stage. Some are lucky enough to have vote-winning narratives.

Sadly, shipping lacks both the centralised firepower or the sway of election-winning demographics to further its cause.



Seafarers should have as much right to travel home as holidaymakers; the logjam of domestic crewing nations' repatriation policies is not broken easily.

There is no easy culprit to demonise here and no single issue on which to campaign. The logjam of domestic crewing nations' repatriation policies is not broken easily.

The widely reported contradictions and confusions that are daily seeing government statements contradicted on the ground by officials confused and overburdened by an unprecedented storm of bureaucratic bewilderment, is no one person's fault.

The fact that flag states are now further extending already extended and cancelled contracts by another three months is not a decision that has an obvious solution.

And while the threat of strike action now looms large, even that comes with its own, even more complex, set of problems that will ultimately only leave the seafarers further imperilled.

These systems were flawed to start with and the current chaos is only exacerbating the red tape that shipping normally navigates through trial, error and deep pockets of pragmatism.

Shipping officials and high-level representatives are doing their bit — but, having quickly won over the industry echo chamber, they are still struggling to get those outside of transport and labour departments to either pick up the phone or understand the problem if they do.

A high-level ministerial meeting at the International Labour Organization had been mooted in June, but it fell over amid an international diplomatic diary meltdown and was replaced by a series of bilateral approaches that will continue to see those trying to engender change shouting at those who have other priorities to deal with.

Keep the pressure on

If that all sounds futile, it's not. The industry needs to keep the pressure on and outrun that news cycle so determined to skip over the fact that the backbone of global trade is about to break and slot it into that "and finally..." section of the nightly news.

The angry chief executives currently talking to Lloyd's List need to keep shouting, but use whatever networks they have to get the message heard outside of their usual echo chambers.

The frenetic pace of diplomatic phone calls being made hourly by the industry's representative bodies, UN officials and secretary-generals, needs to continue.

Shipping needs to keep shouting — but not to itself.

This is a message that needs to be heard outside of the industry and it is our collective duty to turn up the volume.

If holidaymakers are not treated like this, why are seafarers any different?

A bureaucratic logjam continues to see tens of thousands of seafarers stranded at sea in what is fast becoming a humanitarian crisis. Despite unified industry intervention, nothing seems to be able to get the problems resolved. As ever, seafarers are the ones left suffering, **Richard Meade** reports

Despite increasingly urgent industry interventions, support from the UN secretary-general, the International Maritime Organization, the International Labour Organization and even some divine intervention from the Pope himself, the shipping industry is still struggling to break the bureaucratic logjam that has left tens of thousands of seafarers stranded at sea with already extended employment contracts now expired and the threat of strikes looming.

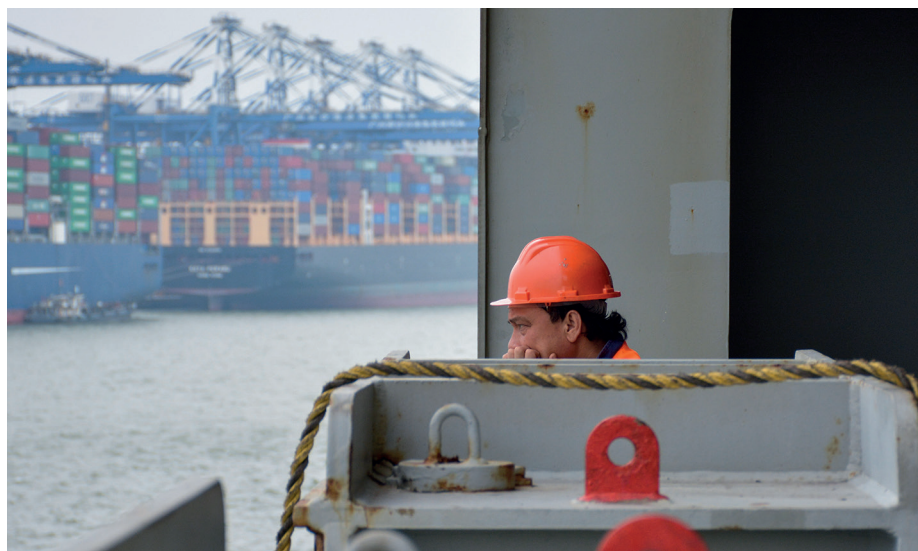
A diplomatic campaign has been under way for weeks, but with limited success. Publicly, the warnings have come thick and fast from senior political figures trying to convey the serious risk to global trade.

Behind the scenes, major flag states, shipowner bodies, unions officials and industry agencies continue to meet privately, aided by bilateral interventions at UN level, as they try to push through pragmatic work-arounds after the unified industry plan to facilitate crew changes failed to gain sufficient traction.

Even the threat of seafarer contracts ending earlier in June was not enough to move national governments into action.

The already extended labour agreements governing seafarers' contracts began to expire on June 16 and, while the official line from most major flags is that they are considering expirations on a case-by-case basis, the reality is yet more extensions, with little hope of a solution in sight for many crew.

Panama has already given the go-ahead to keep seafarers at sea for another three months, meaning some seafarers are now on course to serve a total of 17 months at sea and potentially six months beyond



Adrian Catalin Manea/Shutterstock.com

Industry officials, shipping companies and the ITF all recognise that the levels of anxiety and stress on board vessels are becoming a safety and mental health issue.

Shipping struggles to overcome political inertia as crew change crisis starts to bite

the maximum period specified under the Maritime Labour Convention.

The current union campaign “Enough is Enough” stops short of inciting strikes as a response. Yet the International Transport Workers’ Federation has pointed out that when seafarers have finished their extended contracts, “they are fatigued physically and/or mentally, and feel that they are not fit to continue to safely perform their duties at the level required of a professional”.

“The responsible action at this point is not to extend their contract and request repatriation,” explained the ITF in a statement issued alongside the Joint Negotiating Group, which represents employers.

While the target of the action is directed squarely at getting governments to listen and act on behalf of seafarers, the two sides have sent a clear message to the rest of the

industry that the current situation cannot be sustained.

Nobody is disputing the fact that crew have a right not to extend their contracts and they cannot be compelled to work, but the blockages to crew repatriation remain.

There is also a growing concern that a legal timebomb is being created by fatigued crew being left on board and growing unrest from unions increasingly unwilling to accept the force majeure arguments that have already seen contracts extended as crew start to seek formal support in getting off vessels and ending contracts.

While Singapore, Hong Kong and a handful of ports have started to process seafarer changeovers, the vast majority of ports effectively remain closed to crew, despite more than 50 countries agreeing in principle to the 12-point industry plan to facilitate crew changes issued in May.

In most cases, countries remain mired in bureaucratic blockages due to the lack of co-ordination between immigration, visa agencies and the general red tape of government departments lacking the infrastructure or direction to deal with the logistics of crew change amid new restrictions and lockdown protocols.

The problems are generally the mundanities of big government dealing with unprecedented upheaval: the lack of testing kits for crew; a logjam of personal protective equipment for staff and seafarers in port; shortages of people to process certification; and slow interaction between departmental sign-offs, where confusion over what is and is not permitted is rife.

Co-ordinating ship arrivals with the few remaining flights and an aviation sector in crisis is adding another layer of logistic complexity. In one case reported to Lloyd's List, a replacement crew of Ukrainian seafarers arrived in Amsterdam's Schiphol airport to replace another replacement crew who had been sent back because their visas could not be processed on arrival.

In another, Indian seafarers were temporarily rendered stateless as their passports expired and authorities were unwilling to let them disembark.

While shipowners have had to accept that they are now paying three times the normal price to move a seafarer internationally, co-ordination between landside agencies is at best problematic and even with the agreed protocols and paperwork in place, changeovers are in many cases not happening.

In May, following the release of the industry plan to allow crew changes, the initial response from governments was overwhelmingly positive. However, slow implementation of plans and a lack of political traction at a senior enough level have left the vast majority of seafarers either stranded at sea or stuck at home due to travel restrictions.

We know an estimated 1.2m seafarers are currently in service on about 55,000 maritime ships worldwide. Normally 200,000 of them change each month as their period of service on board comes to an end.

Accurate global figures are hard to come by, but the latest figures released by the Philippines Department of Foreign Affairs on June 21 revealed 29,302 sea-based workers had been repatriated since February.

That figure represents a fraction of the mounting backlog of travel requests now logjammed due to coronavirus restrictions that have left Filipino seafarers unable to leave their ships despite having expired work contracts and in some cases expired visas and passports.

“*Shipping is once again suffering from a lack of political visibility and has found itself well down the pecking order in terms of government priorities*”

According to ATPI, the specialist maritime industry travel agency, out of the 3,000 to 4,000 crew movements normally seen every day, just 10% had been achieved in April, increasing only slightly to less than 20% by the following month.

Public interventions in early May from the International Maritime Organization and senior United Nations figures supported the industry plans urging swift action.

Several weeks later, the lack of implementation from governments required a second round of statements and bi-lateral intervention at senior government level directly from the IMO secretary-general just to get the issue on the agenda.

Recent statements from the UN secretary-general, the UN Conference on Trade and Development and even messages of support directly from the Pope have offered some additional diplomatic heft, but concerns remain among industry officials that these statements often barely make it into a national news cycle focused on more immediate domestic priorities.

Meanwhile, initial hope from industry officials that a ministerial-level meeting could be hastily convened in mid-June under the auspices of the ILO failed to materialise as national agendas and supra-national bodies struggled to keep up with the pace of problems requiring their attention.

While the issue has received some welcome mainstream media coverage, industry figures report a general frustration with the lack of visibility of the issue, having struggled to get the message out beyond the echo chamber of industry forums.

Those industry officials talking daily to national authorities report a willing ear from transport and labour departments within governments that understand the complexities of the issues in play.

However, with much of the decision-making now being led by health officials and cabinet level authority, the crewing crisis is struggling even to make it on the agenda.

Shipping is once again suffering from a lack of political visibility and has found

itself well down the pecking order in terms of government priorities.

Notable front pages in the Financial Times and coverage in the Economist came courtesy of shipping's few friends in high places. Lord Sterling, the former chairman of the shipping line P&O, has been privately counselling industry officials in the UK to stress the trade risk angle and is understood to have brokered the coverage while pushing the message at cabinet level in the UK's political establishment.

Yet most other governments lack such inroads and, while transport departments have in many cases heard and accepted industry interventions, their own recommendations have often failed to percolate up the political food chain.

The limited media attention has been welcomed as a necessary part of the campaign to cure this case of sea-blindness and secure political support, but there is a more delicate process of diplomacy required in the negotiations at industry level, where tensions on board vessels are running high and unions are being urged to act.

The ITF has twice extended contract deadlines for hundreds of thousands of seafarers employed under International Bargaining Forum wage agreements and, according to their latest statement, explored “every diplomatic avenue available but still crew change remains a major issue”.

Industry officials, shipping companies and the ITF all recognise that the levels of anxiety and stress on board vessels is becoming a safety and mental health issue.

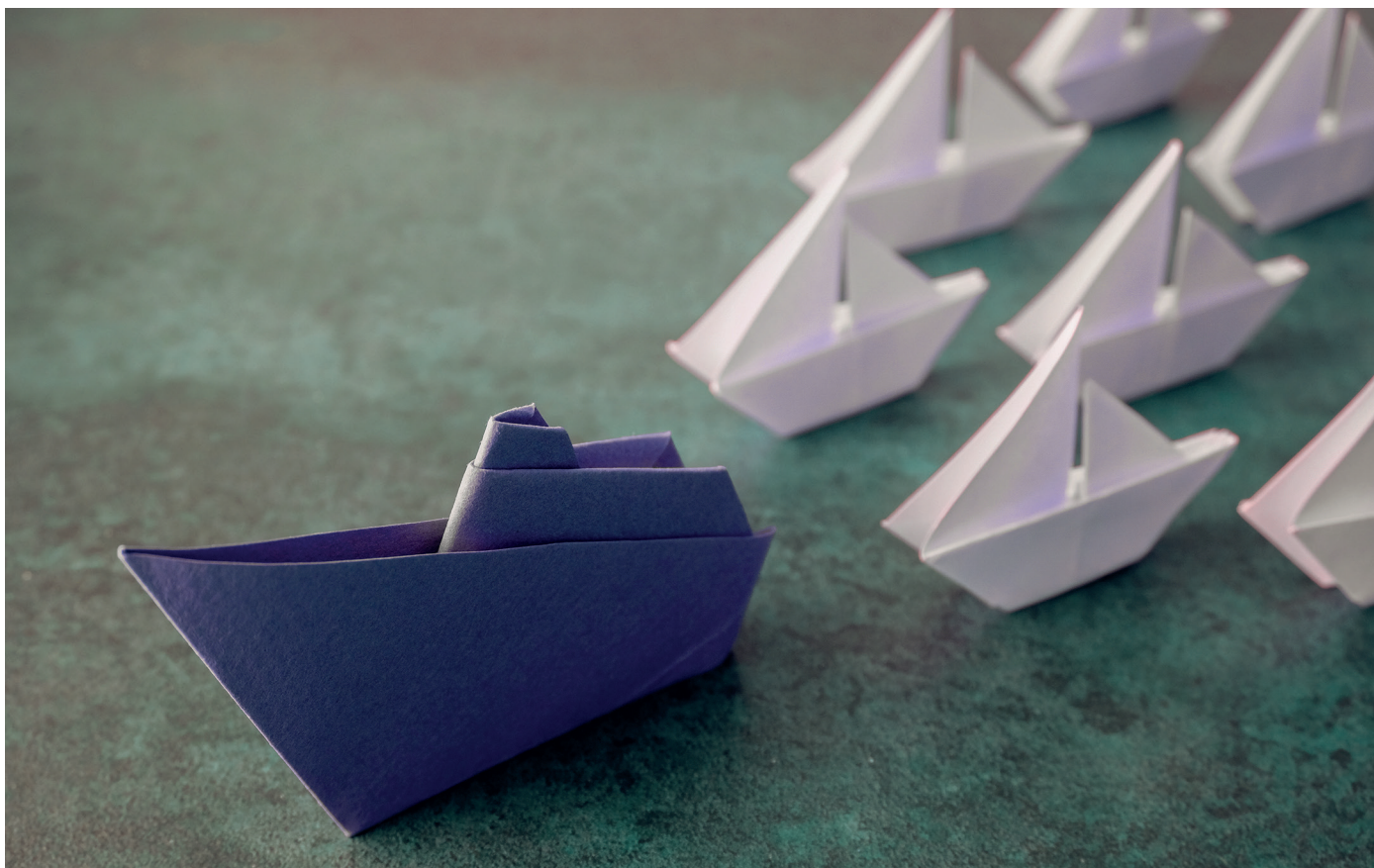
Another concern is one of criminal liability for masters who have been notified by their crew that due to fatigue and stress, they are unable to perform their jobs safely.

In the event of an incident — which all senior officials agree is now running at an increased risk due to fatigue — the liability of the master and potential criminal action is going to create a serious industry issue, with no obvious answers to deal with it.

As the ITF and JNG joint statement put it: “Our main concern is that failing to relieve fatigued, stressed and desperate crew is only inviting accidents or major incidents, which will damage the shipping industry and the reputation of those same seafarers who, throughout the pandemic, have professionally and responsibly carried on and continued working in order to keep the world's global supply chain moving.

“We understand that the world's communities are dependent on the goods transported by sea, but our seafarers on board cannot bear the burden of this responsibility indefinitely.

“They have done their duty and now they deserve our support.”



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Shipping has come up against a series of issues of global significance that can only be addressed through working together.

Successful collaboration requires focused leadership

It is unrealistic to bang the drum for the industry to work together if leaders are unable to articulate why. Collaboration will only make a difference if there are clear and focused goals to achieve, **Richard Clayton** reports

Collaboration is easy to say, much harder to put in place. The word itself means ‘working together’. Unfortunately, most of the transportation sector is commercially driven and has little incentive to work together. No party can progress until all parties agree to collaborate.

And that’s the problem. Like the aviation, automotive and logistics sectors, shipping has come up against a series of issues of global significance that can only be addressed through working together.

Yet stakeholders are psychologically opposed to offering any benefit to a rival.

With climate change universally accepted as an ongoing challenge of

the highest order, shipping must seek a solution to its emissions output.

With Covid-19 paralysing much of the world’s transport networks, shipping must find ways to get seafarers home.

And with lack of diversity so evident across the sector, shipping must rethink recruitment, training and retention in light of its future needs.

Suddenly collaboration is being proclaimed as the key to sustainability and decarbonisation; to safety and environmental protection; to coronavirus-free travel and fair trade. Businesses must learn to work together — or they will be left behind.

That will not be easy, as the

contributors in this special report reveal. However, before we tackle how the industry can collaborate, we must agree on why we should collaborate.

Shipping is similar to other sectors of transportation in that, over time, it evolves. Containerisation has fundamentally altered world trade over the past 60 years. It forced collaboration between ports, rail, road, manufacturing, safety and handling equipment — essentially, in every aspect of trade.

It did not begin with ships; it began with trucking. Yet we cannot think of shipping today without noting the significance of the humble box.

That collaboration around the container took years to seep into every economy. In the early days, it was a business risk that might have failed. Success was not inevitable until it gained critical mass.

Containerisation began as a business venture that grew through collaboration. The driver was not collaboration itself, but the need to move items of breakbulk cargo in a safe and secure way around the world.

Stringent demands

Shipping now has to meet even more stringent demands and it must meet those demands with a limited time horizon.

We cannot wait for the strongest business case to emerge, gather adherents, attain global acceptance and assume inevitability. Coercion is more likely to kickstart the green revolution in shipping than collaboration.

Nevertheless, collaboration between stakeholders across the industry is essential if a good business venture is to succeed.

However, we should not expect decarbonisation targets to be met, seafarers to be repatriated and diversity to be achieved simply by urging shipowners or technology executives to work together.

That is not realistic. If there is not the time to wait for a business venture to gain momentum through collaboration, the driver must involve coercion through leadership.

So the answer to why we should collaborate is not to hit greenhouse gas reduction targets, but to support whichever fuel solutions are advocated by strong industry leadership.

When the industry's leaders have settled on a vision for 2030, 2050 or even further away, and created a pathway to enable that vision to be achieved, then the several sectors within the industry can start to understand how they could and should collaborate.

Working together in pursuit of a common goal remains a necessity; the difference now would be that the common goal is clear – and therefore the benefits of collaboration would also be clear. All parties would benefit from working together.

Digitalisation is a tremendous device that might or might not have dragged the industry kicking and screaming into the modern age, as one of the contributors suggests – but without focused leadership and a commitment to collaboration, it is still a tool.



atchy13/Shutterstock.com

Digitalisation is a tremendous device, but without focused leadership and a commitment to collaboration, it is still a tool.

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Working together in pursuit of a common goal remains a necessity; the difference now would be that the common goal is clear – and therefore the benefits of collaboration would also be clear
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Electric vehicles might be blazing a trail for the automotive sector, as another contributor asserts. However, shipping is likely to follow far behind unless there is leadership, commitment and collaboration.

There has never been a better time to push the merits of collaboration than when the climate is changing, a pandemic has taken hold and the structure of society is shaken.

Shipping is no different to any other sector of transportation: it needs to collaborate, to work together.

However, unless business executives know why they are collaborating, they are only likely to achieve the targets set in a business-centric way.

Collaboration is a means, not an end in itself.



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Many hands make light work

Shipping has been slow to the party; now it is time for it to be pulled into the 21st century and drink from the digitalisation trough.

Shipping's slow trek towards digitalisation has been given a wake-up call by the pandemic; but to make the most of new technologies, companies should look outside their own windows to what is on offer elsewhere, **James Baker** reports

If there is one area in which the shipping industry still has much to learn from the rest of the world, it is in the digitalisation of its processes.

Shipping has often been compared, unfavourably, with industries such as banking and aviation, which for decades have been implementing digitalisation programmes that have led to the seamless online banking and ticketing that we all know and use today.

Shipping, on the other hand, has been slow to the party. Until recently, it was a sector heavily reliant on paper-based business processes and, while multiple fronts have been opened over the years and many a conference session has discussed the issue, shipping remains less connected and less digital than it could be.

That was certainly true up until the coronavirus pandemic hit the global economy – and simple tasks such as releasing a paper bill of lading became fraught with danger.

The pandemic had “dragged the horse to water, stuck its head in the water and made it drink from the digitalisation trough”, said Columbia Shipmanagement chief executive Mark O’Neil.

“Covid caused the digitalisation asteroid to hit earth and all of the dinosaurs were wiped out,” he said.

“All of our businesses have been dragged kicking and screaming into the digital age. Digitalisation is with us, whether we like it or not.”

Shipping, however, has little institutional knowledge of digitalisation.

Alan Murphy, chief executive of consultancy firm Sea-Intelligence, has previously argued that one of the problems with early efforts to digitalise was that the focus was on the shiny technology, rather than the business case for the technology.

The crucial lesson to learn from these previous attempts was that it was important not just to focus on the “brilliance” of the technology.

“It should be clear that if this was purely a matter of technology, we would have already seen the complete digitalisation of the industry.

“The ‘old’ technology used previously did indeed work – it got the job done. Yet that was insufficient to result in success,” Mr Murphy said.

To achieve success required collaboration beyond the service being offered, he said.

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Mr Murphy pointed to online freight portals, for example, which post dynamic spot rates. These required that carriers change their internal processes for setting prices in the first place to match such an environment. No service could be successful without access to those carriers.

In a wider sense, however, collaboration must go beyond even these inter-company arrangements.

Thome chief executive Olav Nortun said most of the focus in new technologies is to look for improvements and incremental innovation.

“No business possesses all the knowledge or expertise, so we need to be active in seeking out partners,” he said.

He pointed to places like Singapore, where Thome is based, which had expertise and a global network of connectivity, with access to the top talent and research organisations.

“There is a multiplication of opportunities to coinvent with partners,” Mr Nortun said. “We spent time with the national university of Singapore, which has resources we don’t have and have no intention to have.

“We seek where they are in academia. We have spent time with tech ventures, looking for start-ups and accelerators that look at things we don’t look at — those who can actually help in solving the challenge, whether it is big or small.”

Thome reciprocates the partnership by offering a testing ground for the solutions being developed, which allows technologies to be moved on to their next stage — and allows the company to find part of the solution it is looking for.

“Building this type of capability is the good type of partnership we’re looking for,” he said. “This is the crux of it, as none of us have all the solutions.”

“No business possesses all the knowledge or expertise so we need to be active in seeking out partners. There is a multiplication of opportunities to coinvent with partners

Olav Nortun
Chief executive
Thome



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Singapore, where Thome is based, has expertise and a global network of connectivity, with access to the top talent and research organisations.

In container shipping, perhaps the best example of collaboration in operation has been the TradeLens blockchain platform, which was jointly developed by Maersk and IBM.

Despite initial concerns that the system would lack traction, given its development by the largest company in the box shipping sector, the ecosystem has now grown to include around 60 carriers, forwarders and terminals. That gives it a critical mass that in turn makes it of even greater use to those that use it.


If shipping is to continue on its journey towards digitalisation — and there is no question but that it must — individual companies will have to learn to co-operate and collaborate to build processes where the whole is greater than the sum of its individual parts.



“Covid caused the digitalisation asteroid to hit earth and all of the dinosaurs were wiped out. All of our businesses have been dragged kicking and screaming into the digital age. Digitalisation is with us, whether we like it or not

Mark O'Neil
Chief executive
Columbia Shipmanagement



A man wearing a blue t-shirt 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 pipes and machinery.

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Companies trying to apply digitalisation to all their processes discovered that the outcome was not what they had anticipated.

Understanding the collaboration conundrum

Shipping is not the only sector reluctant to invest in digitalisation; logistics companies are just as slow. The solution is to embrace collaboration, **Richard Clayton** reports

Logistics businesses have come late to the digital era. The sector is plagued with legacy systems and processes politely described by external observers as outdated.

Senior management seems to be split between those who understand the tremendous potential of analysing customer data and those who are waiting until a solution becomes unavoidable.

The way forward is through collaboration. However, participants at a recent Lloyd's List-hosted round-table discussion concluded that encouraging competitive businesses to share data is proving tough.

The concept of digitalisation has been difficult to put into practice. Although it was initially heralded as the e-solution to all supply chain problems, companies trying to apply digitalisation to all their processes discovered that the outcome was not what they had anticipated.

The most successful companies have begun by taking an audit of what the business actually does; how it interacts with its many stakeholders; which parts of the business are efficient and which are not; and determining where investment would have greatest impact.

Of all the stakeholders, the customer is king; without looking to the customer's needs, the logistics enterprise has no chance of making digitalisation work.

Participants agreed that data was fundamental to digital solutions. However, the many systems and processes used by logistics businesses generate flows of data that are often duplicated, usually need to be cleaned, can be overwhelmed by volume, and exist in formats that cannot be accessed swiftly and easily.

More than anything else, the lack of data standardisation throughout the logistics supply chain business hinders the work of data scientists.

Global data companies such as Amazon and Alibaba do not regard data as a department or division but as a mindset that pervades all levels and personas. They see customer-generated data as the key element of their business.

Indeed, the most effective logistics businesses have gained advantage by focusing on their customers' actual requirement, rather than simply using digitalisation to improve the way the business is run.

However, even data-driven businesses have come up against practical challenges.

These include finding data scientists to analyse customer data; convincing shareholders to invest in innovative technology that is unlikely to deliver significant results for two years or more; and agreeing to refocus the business itself to make best use of digital solutions.

The most effective way to tackle these issues is by exploring collaboration. Experience has shown that transformation is limited unless there is interaction with other businesses.

These businesses might be anything from start-ups with specific skills through to global supply chain players who recognise the strengths of the focused logistics enterprise.

As for investment in digitalisation, collaboration should begin by analysing the requirements of the business itself.

It was clear to many of the round-table participants that collaboration would achieve more if it involved companies from outside the logistics sector.

So far, participants' experience has been mixed.

Larger data companies have been discouraged by logistics businesses' legacy systems and their lack of focus on their customer; they worry about investing in digital technology, only to find it is not compatible with other systems; and there is the traditional concern that sharing data with rivals would lose competitive advantage.

This is the essence of the collaboration

conundrum. While the concept of a digital alliance is attractive to senior managers, the business model they are running regards any form of association as fraught with commercial danger.

So rather than seeking to form partnerships, logistics businesses have invested in digital technology to upgrade their 'business as usual', despite agreement that none of the players is large enough to go alone.

The aviation sector has formed a series of alliances because customers have put them under pressure to do so; the same pressure has not been brought to bear on the maritime side of the logistics sector.

And even as it is feared that Amazon, Alibaba and other customer-centric delivery businesses will inevitably disrupt the sector, investment has been held back by commercial sensitivity.

Round-table participants predicted that the logistics sector is overdue a transformation. The winners are likely to have already invested in digital technology and have drawn up a roadmap for closer alignment with customers.

Businesses yet to go digital, those not

yet convinced of the value of data- and customer-focused investment and — the majority — that regard digitalisation as a way to upgrade traditional processes, face a challenging decade.

Both the early adopters and the digital laggards would do well to look beyond the logistics sector.

Universities, colleges and academies across the world are full of students who, if allowed to challenge the traditional mindset and if given the freedom to create their own supply chain solutions, could provide the roadmap for transformation.

This round table brought an unusual breadth and depth of insight to the discussion about the challenges faced by the logistics sector from digital disrupters.

Although the solution seems to lie in exploring collaboration in one form or another, the complexities of the logistics sector make simple collaboration hard to achieve.

The digital disruption webinar was hosted in London by Lloyd's List, sponsored by WNS Global Services.



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P&I clubs: practising synergy like it's 1899

The International Group of P&I Clubs is perhaps the clearest example of synergy in the whole of shipping, enabling affiliates to provide cover at prices that would be unobtainable if they worked alone, **David Osler** reports

The year is 1899, and Britain launches the Second Boer War in South Africa, the US invades the Philippines, Guglielmo Marconi successfully transmits a radio signal across the English Channel, and Bayer registers 'aspirin' as a trade name.

Meanwhile, the six UK-based protection and indemnity clubs that made up the so-called London Group agree to pool major claims, to ensure that none of them stand to collapse in the event of an unanticipated string of major claims.

In late Victorian England, that process probably would not have been described as 'synergy'. Now a business buzzword, the term was originally largely employed by theologians to denote co-operation between human will and divine grace. Yet synergy is effectively what it was.

Within three decades, the scheme was expanded to take in marine mutuals in other countries through the framework of the International Group of Protection and Indemnity Clubs, commonly known as simply "the IG" in insurance circles.

The IG has its critics and, from time to time, is subject to thorough scrutiny from competition authorities.

However, as its defenders insist, it is anything but a cartel. It is rather an outstanding example of rivals working together for the common good.

Nick Shaw, who took over as chief executive last year after a lifetime as a solicitor with Richards Butler and subsequently Reed Smith, says: "I wouldn't be sitting here around this table if there wasn't that synergy. I'd still be stuck in my law firm.



Shaw: the International Group is built on the premise of the P&I clubs coming together and pooling resources.

"The International Group is built on the premise of the clubs coming together and pooling resources. We've got 90% of the world's ships sharing the risk."

That collaboration has deepened over the past 90 years or so. Through the IG, its 13 affiliates are able to reinsure through Bermuda-registered segregated cell captive Hydra and ultimately through the purchase of the world's biggest reinsurance contract.

The result is reinsurance at a price that individual clubs could not possible attain on their own — if, indeed, they could buy the cover at all.

Effectively, they are able to amortise their risks over a period of time, while owners can act on the basis of certainty that their claims will be met.

Within this framework, each club is incentivised to keep claims low, because a persistent poor loss record will lead to increased proportionate share of pool contributions, thanks to a points system.

Meanwhile, the entire system is underpinned by a system of limitation regimes, which guarantees its stability.

The IG does other things together as well, as Lars Rhodin, managing director of IG affiliate the Swedish Club, points out.

He gives the example of the special IG working group on Covid-19, formed in March to collaborate with the authorities, other industry trade associations and the

International Maritime Organization in an effort to find a way forward in the face of the pandemic.

"It's always good to tell the shipping industry what we actually do for the sake of shipping. A lot of good work is done under the auspices of the International Group, to the benefit of all shipowners," he notes.

The coronavirus working group has held around half a dozen meetings so far, making sure that clubs are fully apprised of latest developments, and thus in a position to give the best advice to shipowner members.

One of the steps taken is to maintain an active and constantly updated webpage, with externally provided data on the spread of virus — especially in port cities — and what regulations are in place for port calls.

There is a whole lot more. This is just one of 40 or so IG sub-committees that look for solutions to shipping problems, with sanctions compliance another major issue in recent years.

Lives are at stake

Loss prevention remains an aspect of competition between clubs, but information and data on things like containership fires are shared, in the acknowledgement that lives are at stake.

Mr Shaw stresses that co-operation through the IG is entirely compatible with keen commercial differentiation on pricing.

"The clubs are in strong competition with one another, but there are issues of safety where it comes down to good practice and high standards across the industry. The clubs will work together and that is what we do here in this office," he says.

Finally, Mr Shaw adds, the other key area of synergy is the provision of a collective voice for the P&I sector as a whole.

"We are able to go out to other industry organisations and say, we're not North, we're not Gard, we're not UK Club, we are the International Group.

"When that's said, people will listen a little bit more, because they know that on liability issues, we are one of the strongest voices in the industry.

"That's a credible synergy between the clubs, where they recognise the power of working together with a collective message."

Working with Genting Cruise Lines is not just applying what has already been learnt in hospitals and hotels. The expertise of the maritime team at the class society has been vital to creating its Certification in Infection Prevention – Maritime, Richard Clayton reports



The cruiseship sector has been one of the hardest hit by the coronavirus crisis.

Sharing expertise in infection risk management is a critical step in getting cruise shipping active again.

DNV GL Business Assurance chief executive Luca Crisciotti believes collaboration is an essential part in this: collaboration between company divisions; between companies within the maritime sector; and between the sectors themselves.

In the world of food and beverage — a world Mr Crisciotti knows well — the focus on food safety is fundamental. He recalls a dinner at which he was sitting next to the chief executive of one of the world's largest food businesses. It had been revealed the day before that one of his main competitors had been hit by a case of food poisoning.

"I was expecting him to say he would gain competitive advantage and raise market share. But instead he was sad. He said: 'I'm not happy at all because what is happening to this company could happen to me the day after'.

"That's why it is important to get together. You can compete on price or the taste of a product or innovation. However, on food safety, we have to share as much as we can."

The spirit that pulls the food and beverage industry together is the same spirit Mr Crisciotti finds in the maritime industry.

He picks out the cross-fertilisation of knowledge between DNV GL's business teams as "probably the most important asset" of the company. There is a strong sense of collaboration, with the experience gained in remote auditing now common across all the divisions.

"There are medical doctors who don't know anything about a ship: they sit with maritime colleagues. This wouldn't be possible if the culture and the language spoken in the company is not the same."

The interaction between DNV GL's healthcare and maritime teams to come

Shipping learns the value of collaboration

up with a risk management solution for passenger shipping has shown what can be achieved through collaboration.

"We have agreed that Genting [Cruise Line] will start the process to get the CIP-M (Certification in Infection Prevention – Maritime) accreditation," he says.

"This will take several weeks and combines sharing with us all the documents and procedures to meet the certification requirements with a physical assessment to make sure they have applied the system."

For cruise lines, regaining a reputation for infection management is vital. Genting's *Explorer Dream* is the first cruiseship DNV GL is serving, although other cruise lines have expressed interest.

"We have already started this service with hotel chains, restaurant chains, manufacturing companies, car manufacturers and real estate companies, so we have already reviewed hundreds of companies on this journey."

The hospitality sector has many similarities to a cruise line, so Mr Crisciotti's team can anticipate some of the difficulties a floating hotel would have in applying the requirements of this standard.

With all cruise lines anxious to return to sailing as soon as possible, there is real concern to meet the necessary requirements "because it won't be possible for them to do that without this measure".

He stresses CIP-M is not just applying what has been successful in a hospital or hotel to a cruiseship. Healthcare and maritime colleagues have put in a huge effort to highlight all the practical differences.

"For example, when doctors on board are going to reuse any devices or instruments for treating patients, the level of sanitisation is different from the current standard.

"In the ship's restaurants, we will be using our experience in restaurant chains on shore: how crew should observe social distancing when serving people; and how knives and forks should be sanitised."

The training of the crew is possibly the most important element in the process, Mr Crisciotti says. Extensive training programmes make sure the crew understand what's essential.

"The element of collaboration is common to every pilot project. We are learning a lot from working on many projects. This is why the decision was taken to start with one ship, gather all the information from this experience, refine it a little, then go ahead with other ships."

He says *Explorer Dream* was selected by maritime colleagues. "I guess it gives us a chance to see most of the issues."

Because of his work with automotive, aerospace, food and beverage, and real estate, Mr Crisciotti is part of several industry associations.

He believes the only difference between maritime and any of these sectors is that maritime is "a smaller world". Even so, the need to talk, stay together and share challenges is exactly the same.

"We have to follow market trends, but if I look back at what DNV GL has been doing in recent years, we should be very proud of the innovation we have brought to the industry."



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The automotive sector still faces obstacles that sound frustratingly familiar for anyone following maritime’s decarbonisation timeline.

Shipping plays catch-up on road to carbon neutrality

Shipping is firmly in the auto industry’s rearview mirror when it comes to their respective decarbonisation drives. However, shipping finds itself at an all too familiar crossroads to its land-based cousin, facing similar environmental and political blockades as it looks to kick its own journey into gear, **Anastassios Adamopoulos and Declan Bush report**

Like most of its activities, the shipping industry’s attempts to reduce its climate impact have mostly taken place far from the public eye.

For most, the word ‘decarbonisation’ conjures images of gridlocked highways, belching smokestacks, the frown of Greta Thunberg and the smirk of Elon Musk.

In contrast, the auto industry’s environmental struggles are centre stage of humanity’s push to go green. The two industries face similar technological and economic challenges.

So what can shipping learn from its land-based cousins?

Transport & Environment shipping officer Faig Abbasov believes that when it comes to decarbonisation, shipping is where the automotive sector was in the 1990s. All the major car manufacturers have electric models lined up – and the question is, how quickly to deploy them, Mr Abbasov noted.

“This is just making sure we produce them in huge quantities and replace the

diesel and petrol versions with electric versions. That is the only question,” he said.

Lionel Mok is a policy manager at the Climate Bonds Initiative, which creates ‘FairTrade-like’ quality labels for green bonds. He said while the two industries faced political hurdles, “the technological challenges of going net-zero in shipping are much greater”.

“Some of the technologies will be available in the middle to end of this coming decade. Until they’re available, it’s very hard,” he said.

Mr Mok’s point speaks to the industry’s broader problem. While there is widespread acceptance that zero-emission fuels are necessary, the debate over crucial operational aspects – such as the safety of the candidate fuels – is far from settled.

The industry’s commercial goal of zero-emission vessels by 2030 shows how far it lags behind cars. Few sustainable ships are conceived – and fewer are built. Those that do are limited to shortsea shipping.

On the other hand, the International Energy Agency reported in June that last year, 2.1m electric cars were sold, pushing the global fleet to 7.2m. China alone accounted for 47% of this total.

These 2019 figures made up just 2.6% of the year's global car sales and about 1% of global car stock.

Nonetheless, this represents a big jump from the 10,000 electric vehicles on the market in 2010.

Is there space for direct collaboration between the two industries?

Mr Abbasov notes the operational differences: "Shipping's decarbonisation does not — or should not — rely on replacement of the fleet. As opposed to cars, it should rely on retrofitting the existing fleet."

Climate goals

A recent study by the University of Manchester showed that technological improvements to the existing fleet would be necessary for shipping to meet the Paris Agreement climate goals. If these were not made, existing ships would blow the carbon budget.

Mr Abbasov believes the reason that the automotive industry is so far ahead is its more stringent and broader-based regulation.

The EU has long taxed car and truck emissions indirectly through fuel levies. This levy helps reduce the gap between conventional and low-emission fuels, but it is not enough to completely close it, Mr Abbasov admitted.

That is where the technical requirements imposed directly on manufacturers, known as CO₂ standards, come into play. These put the onus of sustainability on the source, rather than the end-user.

The EU is this year phasing in an EU fleet-wide average emission target for new cars of 95g of CO₂/km, down from 120g achieved in 2018. Manufacturers will be the ones responsible for meeting the target.

The closest thing shipping has is the Energy Efficiency Design Index, which stipulates minimum requirements for newbuilds.

However, Mr Abbasov does not believe these requirements are nearly as stringent as those for cars.

Unlike in maritime, there is also no global regulator for cars. Yet Mr Abbasov noted that early CO₂ standards for cars were far from stringent. Manufacturers complied by making cars more aerodynamic, like shipping is doing now with vessels and voyage optimisation.

“*Shipping's decarbonisation does not — or should not — rely on replacement of the fleet. As opposed to cars, it should rely on retrofitting the existing fleet*”

Mr Abbasov says these measures are not enough and maritime should follow the car sector's lead.

"We need to have stringent operational CO₂ standards that cannot be met with conventional tools," he said.

Yet the automotive sector still faces obstacles that sound frustratingly familiar for anyone following maritime's decarbonisation timeline.

The European Automobile Manufacturers' Association told Lloyd's List a carbon-neutral road transport network by 2050 would require "seismic shifts and a holistic approach".

The group said the EU needed a denser network of charging points and refuelling stations suitable for cars and commercial vehicles, and incentive schemes to support the use of pricier low-emissions technologies.

It must also consider "well-to-tank" emissions, not just those coming from the vehicles, and ensure road transport stays affordable, ACEA said.

The trucking industry shares many of shipping's challenges. Big trucks, like big ships, need far more power than today's batteries in general can supply. Sustainable vessels, like trucks, cannot operate in areas that lack the infrastructure to support them.

However, Mike Roeth, director of industry and heavy transport at the Rocky Mountain Institute, a sustainability non-profit organisation, says his industry is using lessons learned from cars to cut emissions.

"We're seeing automation help with energy efficiency; we're using computers to help the driver drive more efficiently.

"We can use less fuel in internal combustion engines while we're figuring out how to take advantage of battery, electric and maybe hydrogen down the road," he said.

Trucking has learned other lessons from cars. Mr Roeth said he was surprised how much people charge their electric

cars at home — a sign fewer charging stations may be needed on highways than previously thought.

Mr Roeth also pointed to growing pressure from customers on big shippers such as Walmart, Amazon and Pepsi to make their operations more sustainable, which freight companies were starting to feel themselves.

Fuel price falls from the coronavirus pandemic were hampering sustainability efforts, but industry players were "not letting the current fuel price, whether it's high or low, drive them like they used to".

Economic stimulus packages rolled out by governments in response to the virus could help put more money into green transport, Mr Roeth added.

Trucking industry

CBI research analyst Chris Moore said that as with shipping, there was uncertainty over which alternative fuel source the trucking industry should pursue.

He said the upfront cost of infrastructure could put policymakers off some technologies in land transport, even if they showed promise long-term.

Mr Moore cited the example of the Siemens eHighway, on which trucks connect to overhead wires like trams.

"They're actually relatively low investments... in the longer term, but there's bigger capital costs in terms of implementing them, which leads to a bit of a pushback on how widespread they are.

"But it's an interesting example of freight that would probably genuinely be low-carbon, rather than just talking about batteries, which are developing fast but it's a bit less clear what stage they're at."

Mr Roeth said scaling up new battery technology to progressively bigger machines had led to the development of electric trucks, which he said would have been unthinkable years ago. Tesla unveiled plans for its futuristic Semi, and the big automakers scrambled to follow it.

Mr Mok, from the CBI, hopes that battery technology on Scandinavian ferries may one day be scaled up to cargoships in a similar way. He is working on green bond criteria to help hasten this.

And some of the challenges apply on land but not at sea. Mr Mok said the biggest for him was how to cover the "last mile" of a person's journey when mass transit could not — and the complex web of "intermodality" needed to knit different modes of personal transport together.

Decarbonising aviation was even harder, he added. "Compared to aviation, shipping looks pretty good," he said. "But that's not saying very much."

Does China's security law threaten Hong Kong's shipping charm?

Hong Kong is said to have become 'a point of contention' in the escalating clash between the world's two largest economies, **Cichen Shen, Vincent Wee and Hwee Hwee Tan** report

Hing Chao sees Hong Kong as a "middle ground" between China and the US, two superpowers interconnected in trade and finance yet fundamentally different in their politico-economic systems.

The outcome of this is that "Hong Kong becomes a point of contention as US-China tension continues", says the Wah Kwong Maritime Transport chairman.

Mr Chao's family, one of Hong Kong's largest homegrown shipowner names, has been a beneficiary of the prosperity of the former British colony and now Chinese special administrative region.

The city's prominence as a leading maritime centre has been stolen somewhat by Singapore during the past two decades.

However, boasting a good combination of open trade, independent legal systems and free capital flows, the place often dubbed as "where east meets west" still provides a god-given harbour to those making a living in shipping and many other industries.

Now people living in this melting pot appear increasingly impelled to take sides. Beijing's recent push to impose a new national security law in the city has deepened concerns over what its future might hold.

It is a sensitive issue for the local business community, which tends to shun political controversy.

Some have spoken out about their unwavering confidence in the Asian maritime hub; others are reluctant to put on record any issues or pessimism that may displease the country's policymakers.

US president Donald Trump's administration has recommended Hong



“So long as China continues to import and export on a significant scale, Hong Kong will have value as the most important strategic ‘super connector’ between China and the world”

Hing Chao
Chairman
Wah Kwong Maritime Transport

Kong should lose its special trade territory status over Beijing's assertiveness.

The move — in Mr Chao's view — reinforces the US's intention to decouple China as its major trading partner. "This is unrealistic and will be extremely harmful to both Hong Kong and China, but ultimately it may harm the US even more," he says.

Analysts have reminded the US that its trade surplus with Hong Kong — standing at \$33.4bn in 2018 — is the biggest among all its trading partners. Yet revoking the customs status could still lead to losses of some US-bound transshipment activities at the city's container port, which is already on a decline.

However, Hong Kong's role as a shipping hub goes far beyond the port, according to Mr Chao, who is also an executive committee member of the Hong Kong Shipowners' Association.

He cited examples of a revival in Hong Kong shipping from his own observations and experience during recent years, where a positive shift has again started to attract new commercial principals to the city.

Meanwhile China's national policies — such as the Belt and Road Initiative, the Greater Bay Area and plans to develop an ocean economy — have also benefited Hong Kong and made it more attractive as a place to conduct shipping business.

"I do not expect Hong Kong to be knocked off this trajectory," Mr Chao says.

"And so long as China is doing international trade and continues to import and export on a significant scale, Hong Kong will continue to have value as the

most important strategic 'super connector' between China and the world."

The optimism is echoed by Arthur Bowring, former HKSOA managing director and president of the Hong Kong Maritime Arbitration Group.

Hong Kong remains in a "perfect position" to run a shipping business, with a prime location to travel, a speedy internet to communicate and major ability to finance with the set-up of Chinese banks, he argues.

"So when you look at the hostile threats to Hong Kong politically or trade wise, I can't see that very much takes away Hong Kong's attractiveness."

Mr Bowring adds that the SAR is also the only common-law jurisdiction in China that can contribute greatly to the country's maritime world.

This is showcased in a 2019 court agreement, he says, which gives parties in Hong Kong and seated arbitrations in mainland China a direct route to apply for interim measure in each other's jurisdictions. HKMAG is among the institutions qualified for the applications.

"Hong Kong will retain major benefits to China by keeping our legal systems intact," Mr Bowring says.

However, some have called into question that very intactness, pointing to a widely shared fear that the national security law will erode the city's judicial integrity that underpins its success.

The proposed legislation — which could be enacted as soon as August — will strike yet another blow to the independence

of Hong Kong's legal systems, following Beijing's previous interventions, according to a locally based senior maritime figure who works for a multinational advisory group.

"It puts a dent in the attractiveness of Hong Kong for international business, because out of all the Asian locations, it is really the only one that truly had independent courts where you could take a case against government and have some chance of winning," the source said.

"I would imagine some international companies, such as lines and legal outfits, would have an adverse view of it."

However, prospects would look much bleaker should Washington escalate the tension and opt for the "nuclear option" to segregate Hong Kong from the US dollar clearing systems, he adds.

"That's a very, very big stick that the US can wield, which would fairly cut Hong Kong off at its knees."

Fears are even surfacing among the Chinese leasing houses — a major force in today's ship finance arena — many of which are using Hong Kong as the key hub to deal with their US-denominated transactions.

One yard-backed leasing executive says his company is concerned about the situation, as its entire overseas deals are processed by Hong Kong's financial systems.

Another leasing firm — part of a leading state-owned Chinese bank — has now shelved a plan to establish a shipping subsidiary in the semi-autonomous territory, Lloyd's List understands.

The Hong Kong government is in the middle of approving a tax relief system, aiming to boost the city's ship finance sector by luring shipping lessors from China.

"If the proposed concessionary tax regime is put in place, it is estimated that Hong Kong could capture 12% of the global ship financing market in 10 years' time, representing a HK\$265bn (\$34.2bn) to HK\$460bn cumulative increment in ship



“Everyone, including foreign investors, will benefit from the social stability under the continued principle of ‘one country, two systems’, which is in tune with broader national interests”

Edward Liu
Shipping dispute lawyer
Hill Dickinson

finance business,” wrote PwC in a January briefing this year.

Neighbouring shipping and financial hubs will be dusting down their welcome mat for migrants, some have suggested.

Pradeep Rajan, head of Asia Pacific shipping and freight at S&P Global Platts in Singapore, says the restriction of using US dollars in Hong Kong may see banks based out of two top financial capitals in the west — New York and London — cut links with the SAR and withdraw credit to local shipping firms.

"That could see these companies experiencing a squeeze on their business operations," he said. "Seeking better conditions, such as a more stable political regime and favourable tax environment, they may choose to move their operations to Singapore or — as we hear from some of the shipping market participants based in Hong Kong — they are exploring the possibility of moving out to Taiwan as well."

That said, many have expected the US to refrain from taking such an aggressive step as it will also inflict great damage to its own interests, with scores of US and multinational companies headquartered in their Asian business in Hong Kong.

“When you look at the hostile threats to Hong Kong politically or trade wise, I can't see that very much takes away Hong Kong's attractiveness”

Arthur Bowring
President
Hong Kong Maritime Arbitration Group

Edward Liu, a shipping dispute lawyer at Hill Dickinson, says Beijing's national security law would not damp Hong Kong's investment outlook. On the contrary, it will bring in much-needed stability for the society to better grow its economy.

"I cannot see any reason why we should worry about a piece of legislation which, fairly speaking, has been in place in many other countries for years, including the US, the UK and Singapore, as well as mainland China," says Mr Liu.

He adds that in mainland China, despite the implementation of its National Security Law in 2015, there was no decline but only growth of foreign direct investment.

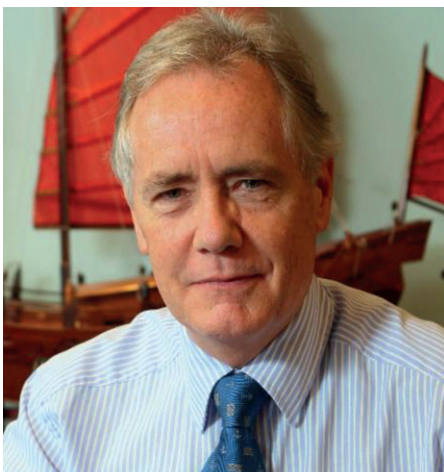
"Everyone, including foreign investors, will benefit from the social stability under the continued principle of 'one country, two systems', which is in tune with broader national interests," he says.

If true, it should bode well for companies like Wah Kwong, which runs more than 40 dry bulkers and tankers. In recent years, it has developed a successful relationship with the Chinese leasing lenders by assisting them in operating and managing a growing fleet of vessels.

"Hong Kong's financial position has been built upon decades of foundation and will not be shaken by a single act, while its many advantages will remain," says Mr Chao.

However, his confidence is also laced with a degree of caution.

"Is the US really ready to decouple with China? I am not so sure, but in today's extremely volatile political environment, the increasingly embattled position President Trump is in — as America descends into a Hobbesian world of Leviathan in the wake of George Floyd's tragic death and given that it is election year — he may decide on an extreme course of action as a diversionary tactic," he says.





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Greenhouse gas emissions from maritime transport are projected to increase significantly if mitigation measures are not put in place swiftly.

Can shipping chart a green course in a post-coronavirus climate?

The European Union cannot afford to continue to exempt shipping from its European Trading System, as the quality of the industry's CO₂ emissions is too great. Carriers should prepare themselves, **August Braakman reports**

The European Union has taken measures aimed at the collective reduction of greenhouse gases to zero by 2050. Box carriers are responsible for emissions that damage the environment.

Its regulation covering the period 2020-2030 determines both the percentage by which the member states must collectively have restricted their GHG emissions in the next decade and the annual linear limit value to be achieved by each individual member state.

In 2018, the collective percentage was set at 40% compared with 1990 emission levels. In the course of 2020, the EU will issue a proposal on increasing this target, likely to arrive at 50% to 55%.

The regulation does not provide for specific penal sanctions as might compel a member state to achieve its annual linear limit value.

Regulations are legal acts that apply automatically and uniformly to all EU member states as soon as they enter into force, without needing to be transposed into national law. They are binding in their entirety.

Therefore, in default of specific penal sanctions, the European Commission may, where appropriate, revert to the general sanctions prescribed by the Treaty on the Functioning of the European Union.

Parallel to the EU measures at governmental level, the commission has put in place the EU European Trading System, which limits emissions from some of the most important energy-intensive sectors, such as power stations, industrial plants and commercial aviation.

The system covers around 45% of the bloc's GHG emissions.

The system works on the “cap and trade” principle. A single EU-wide cap is set on the total amount of GHG emissions covered by the system.

Within the cap, companies receive free of charge or can buy European Emission Allowances, which they can trade with one another as needed.

An allowance is like a voucher that allows the holder to emit one tonne of GHG emissions within one calendar year. The price for one is currently around €25 (\$28).

The expectation is that this price will increase over the years, since the total quantity of EEAs decreases each year. During the period 2021-2030, the decrease will be subject to an annual linear factor of 2.2 %.

Companies that are active in sectors covered by the European Trading System are required to participate. Failure to comply with the EEAs could lead to the imposition of heavy fines.

Maritime transport is responsible for around 940m tonnes of CO₂ emissions annually and for about 2.5% of global CO₂ emissions. These emissions are projected to increase significantly if mitigation measures are not put in place swiftly.

According to the International Maritime Organization, shipping emissions could, under a business-as-usual scenario, increase by between 50% and 250% by 2050.

Maritime transport is currently exempt from the European Trading System. The EU cannot afford to continue this exemption much longer. The quantity of the CO₂ emissions is simply too great. Therefore, carriers should prepare themselves.

Support for economies

The International Monetary Fund sketches a pitch-black picture of the European economies as a result of the coronavirus outbreak.

In March, the European Commission adopted a new state aid temporary framework to support the economies of the member states.

The framework, which was amended in April, enables member states to adopt aid measures to remedy a serious disturbance in the whole of, or an important part of, their economy.

Member states must show the commission that the measures are necessary, appropriate and proportionate to remedy the effects of the outbreak.

The litmus test is whether they are of a kind as to be useful in the making good of damage caused by the outbreak or instead are general measures unconnected with the alleged damage.

“*Non-compliance by member states and/or enterprises with their GHG emission reduction obligations as a result of the coronavirus crisis may well have serious effects on fair and undistorted competition in the market of containerised liner shipping services*”



Therefore, the test must be carried out from the perspective of the overall financial position of the beneficiary enterprise that existed before the health crisis.

The impact of the pandemic on the economies of the member states is such that due consideration should be paid to the situation where a member state contends that its annual linear limit value of the collective reduction of GHG emissions at EU level — even without being increased — cannot be achieved.

This viewpoint is likely to be underpinned with the argument that the financial support given to its economy, apart from healthcare support — if such extension of financial support were to be decided on anyhow — is inadequate for it to be able to (continue to) comply with its community obligations.

In the occurring event, the commission is required to apply the general sanctions prescribed by the Treaty on the Functioning of the European Union.

Failure to do so is likely to induce member states to lodge a complaint, stating that the member state concerned infringes directly applicable EU law.

The commission cannot but deal with the complaint. The GHG emission obligations having been set out in an EU regulation, there seems to be little scope for the commission for not concurring with the complaint.

Apart from member states, enterprises — which qualify as interested parties — also have a right to lodge a complaint with the commission, stating that the

non-compliance of a member state with its obligations under the regulation has caused them — and will continue to cause them — to suffer severe and irreparable damage during the period from 2020 to 2030.

For the same reasons stated previously, the commission cannot but deal with the complaint.

If the commission concurs with a complaint lodged by a member state and/or an enterprise that qualifies as an interested party, the member state in default will be severely fined.

Once maritime transport has been included in the European Trading System, carriers that are found not to meet their EEAs will also be subject to heavy fines.

However, the nature of both fines is that they pertain to public law and, as such, do not constitute compensation for damage suffered.

Enterprises may consider instituting proceedings under private law to determine compensation for the harm that has been suffered. Consistent case law by the court ensures that a member state is obliged to compensate for damage that has been incurred as a result of an infringement of directly applicable EU law it has committed.

Non-compliance by member states and/or enterprises with their GHG emission reduction obligations as a result of the coronavirus crisis may well have serious effects on fair and undistorted competition in the market of containerised liner shipping services.

These effects are aggravated by the ever-increasing use of logistics solutions with very advanced state-of-the-art features and the ensuing lack of up-to-date and reliable concepts for addressing competition issues in this market, being the definition of the relevant market and the Consortia Block Exemption Regulation.

It is up to the European institutions to create both the juristic scope and the atmosphere required in order to induce both member states and enterprises to make the proper choices.

If either this scope and/or atmosphere are wanting or inadequate, the lack of the right balance between climate and coronavirus resulting therefrom just might prove to herald the armageddon of a climate-neutral EU.

May Thetis guide it on its passage between this Scylla and Charybdis.

August J Braakman is an advocate practising in the Netherlands. He specialises in Dutch and European antitrust law, with a focus on European maritime antitrust law.

View of shipping's future through a Japanese lens

MOL, NYK Line and K Line could lead the efforts to defeat the forecast that the coronavirus backdrop will derail the shipping industry from the IMO's 2050 targets, Cichen Shen reports

The new management plan devised by Japan's Mitsui OSK Lines is designed to align with the company's views about how the shipping industry will look in the future.

Plans to cut its overall fleet by up to 40 vessels and halve investment expenditure to ¥100bn (\$934m) over the next two years — alongside asset disposals — are not only a way to address the current market depression, but also the result of its caution about changes in future shipping trends.

The container line has envisaged a post-coronavirus world from 2022, with less movement of people and products.

It also forecasts a backdrop of much more self-sufficiency in terms of industrial policies from countries across the globe. These scenarios will render “a significant decline in ocean transport volume”.

The other two Japanese shipping giants, NYK Line and K Line, have yet to renew their strategic thinking. However, they share similarities with MOL on many fronts, including their business portfolio, value proposition and their reactions to the coronavirus backdrop.

K Line, the smallest of the trio, has fleet reduction on its to-do list, too.

It told investors in May that dry bulkers and car carriers would be the “prime targets” as the two segments suffered the most from the virus disruption.

In addition to vessels, the company also expected to sell properties and even overseas terminal businesses to shore up liquidity.



The three Japanese shipping majors share similarities on many fronts, including business portfolio, value proposition and their reactions to the coronavirus backdrop.

At the same time, NYK said it would continue to “promote asset liquidation” after already offloading ¥37bn of equity holdings and real estate in the past fiscal year.

“We believe the world will not be ‘post-corona’ but ‘co-existing with corona’,” said the firm in its latest financial report.

Luckily, it is not completely negative about the forecast of coronavirus impact on shipping.

MOL argued that the coronavirus backdrop will accelerate the digitalisation process. MOL also gave more emphasis in its new outlook to its greater reliance on clean fuels.

The shipping conglomerate said it would strengthen its renewable energy-related business activity, such as the transport of fuel for biomass power generation.

It has also decided to expand its liquefied natural gas domains and make inroads into the wind power sector.

More importantly, environmental strategies are now “core” to the company.

Three targets have been specified in the so-called MOL Group Environmental Vision 2.0: to deploy zero-emission, oceangoing vessels by 2030; to cut greenhouse gas emissions by 50% in 2050 from the 2008 baseline; and to

“MOL believes the world will not be ‘post-corona’ but ‘co-existing with corona’, it said in its latest financial report



make the entire business emission-free within this century.

A similar direction is also being pursued by NYK and K Line in their current long-term growth strategies.

This appears to be an encouraging portent for the future of green shipping if the Japanese players can fulfil these promises.

These large shipping companies could lead the efforts to defeat the idea that the coronavirus backdrop will derail the industry from the International Maritime Organization's decarbonisation agenda.



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As a shipowning and shipbuilding juggernaut, Japan has a very real responsibility and an opportunity to decarbonise shipping.

Japan's sustainable future: born in Tokyo, raised globally

Japan has a roadmap for its maritime sector to meet the IMO's 2050 decarbonisation targets. How far it gets will depend on its domestic industries coming together — and progress made globally, **Anastassios Adamopoulos** reports

Shipping has no shortage of followers looking for the right group to step up, make the difficult decisions and lead from the front. In few other cases is this truer than with decarbonisation.

When a country of the size and capabilities of Japan plans for a greener future, it is far from just a national affair. Others will watch. Some may follow.

A shipowning and shipbuilding juggernaut, a massive energy consumer and a vocal maritime political actor, Japan has a very real responsibility and an opportunity to decarbonise shipping. However, it will need the rest of the world to act too.

Earlier this year, the Japanese government, in collaboration with shipowners, shipbuilders, academia and others, rolled out a roadmap to achieve this goal.

The roadmap is based on meeting the International Maritime Organization's strategy and primarily the target of a minimum 50% reduction in international shipping's greenhouse gas emissions by 2050 compared to 2008.

The Japanese government envisions two different fuel compositions in 2050 for the industry to meet the target. Much of this depends on how far ship technology, infrastructure

and fuel supply chains progress with hydrogen and ammonia.

Without these growing sufficiently, Japan anticipates that liquefied natural gas fuels, carbon-recycled methane or biomethane fuels will supply 75% of energy consumption in international shipping in 2050.

Hydrogen or ammonia fuels will only account for about 10%. Around 20% of the LNG-fuelled ships are also expected to have carbon-capturing and storage technology on board.

If hydrogen and ammonia do take off, the roadmap suggests shipping could reach the 2050 IMO goal, with these fuels accounting for approximately 45% and LNG fuels for some 35% of energy consumption of the international fleet.

In this scenario, carbon-recycled methane or biomethane fuels would make up for around 7%, while nearly 5% of the fleet would have onboard CO₂ capturing.

Japan aims to have developed a first-generation, zero-emission ship by 2028, according to the roadmap. That is two years ahead of other industry targets, in a prime example of how the country will push to showcase its efforts.

The roadmap also includes concepts for zero-emission vessels like ammonia-powered ships.

Its purpose is to accelerate research and development, plus address the safety challenges of new fuel technologies and relevant crew training. Ultimately, however, Japan's government wants the progress to be international.

An official from Japan's Ministry of Land, Infrastructure, Transport and Tourism said that in order to commercialise these ships, pilots that demonstrate their feasibility would be necessary.

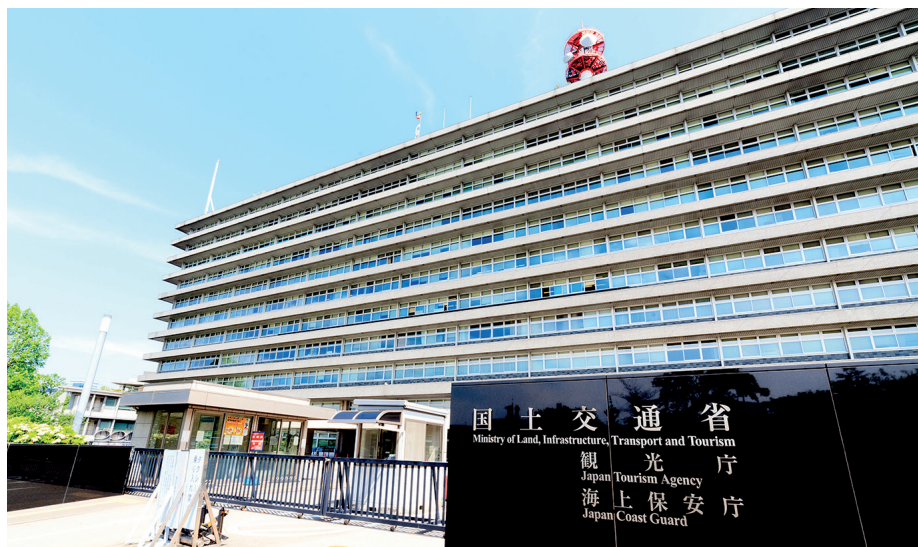
That could begin with smaller coastal ships and move on to larger oceangoing vessels – a transition that many outside Japan envisage, as it allows businesses and crews to familiarise themselves with new technology gradually and with lower stakes.

“It could start from coastal small ships but it is not our intention to make a standalone domestic regulation,” they said.

NYK environmental group general manager Masahiro Takahashi, who is heavily involved in environmental policy in Japan, believes that Japanese focus should begin straight away with larger longhaul vessels.

Spending time and energy on solutions for domestic ships that fall under domestic rather than international regulations will not help much, he said.

Japan is heavily active in the international regulatory realm, a fact of which it makes no secret.



Japan's Ministry of Land, Infrastructure, Transport and Tourism drives many changes.

Its delegation to IMO environmental meetings is often among the largest, staffed by government and industry experts and is rarely silent on a topic under discussion at the Albert Embankment in London.

Due to the sheer size of Japan's industry and knowhow, its international clout is often evident at IMO discussions.

In the ongoing negotiations on short-term decarbonisation measures, a host of organisations and countries, including Greece, Norway and Panama, have coalesced around Japan's proposal

for energy efficiency requirements on existing ships.

This not only reflects the broad spectrum of interests the country has in the maritime sector, but also the direct role that industry has in its policies.

The government may be there to assist and facilitate, but Japan's decarbonisation will be driven by its industry's actions and their willingness to spend money and collaborate.

Mr Takahashi said while private companies like NYK will carve out their own paths, collaboration will be necessary.

“The achievements have to be shared among the industry so that everybody can start to build the ships almost around the same time,” he said.

NYK has said it is considering ammonia as a marine fuel. Fellow Japanese behemoth MOL is leading a coalition to launch the first zero-emission electric tanker, while K Line is also exploring alternative fuels like ammonia and hydrogen.

“The achievements have to be shared among the industry so that everybody can start to build the ships almost around the same time”

Masahiro Takahashi
Environmental group general manager
NYK



Masahiro Takahashi, centre, pictured when NYK was recognised as one of the top shipping lines in the Green Flag vessel speed-reduction programme at the Port of Long Beach.

So what is the fuel of the future for Japanese shipping companies?

“We have no answer because before shipping companies, the energy industry has to decide and send a message to the market,” Mr Takahashi said.

Regardless of its status as a global powerhouse, Japan’s maritime sector is dependent on the global energy majors to deliver the precious goods, just like everyone else.

“The energy industry has to narrow down to two or three alternative fuel options for longhaul vessels,” Mr Takahashi said.

He also pointed out that they will have to develop the necessary infrastructure and fuelling stations in the key energy hubs around the world if Japanese companies are to commercialise zero-emission ships.

Renewable energy

Domestically, Japan is no stranger to renewable energy. The Institute for Sustainable Energy Policies reported earlier this year that in 2019, the share of renewables in Japan’s total power generation was 18.5%, up from 17.4% in 2018.

Also in 2020, some of Japan’s biggest companies launched the Fukushima Hydrogen Energy Research Field, which can produce up to 10 megawatts of hydrogen, based on renewable energy. This is the type of fuel shipping companies would like to use to decarbonise.

There is, however, another fuel that Japan hopes will be a key fixture on shipping over the next decade.

Japan is the world’s largest LNG importer. In 2019, it accounted for 22% of global LNG imports, according to the International Gas Union.

The country has a long history with the fuel, which has become the centre of much contention in the maritime sector. Shipping companies like NYK are big LNG proponents and Japan hopes to leverage its decades-long expertise in handling the fuel. The prominence of LNG in the roadmap comes as little surprise.

For those seeking radical change, investing in LNG fuel and infrastructure is a waste of time and money and — even worse — will prolong the reliance on fossil fuels.

For others, like the Japanese government, it cannot only be a bridging fuel but, if combined with the necessary technology, a genuine low-carbon option.

Just like decarbonisation more broadly, developing LNG-fuelled



“*It is cherry-picking. If you interpret the IMO strategy as being just a 50% cut [in GHG emissions], you are ignoring things*”

Dr Tristan Smith
Reader
UCL Energy Institute

shipping — which is still just a fragment of global shipping — will not be Japan’s doing alone.

However, its success over the next few years in commercialising the type of LNG-related technologies that its roadmap claims are achievable, could go a long way in determining how seriously an increasingly more green-minded world takes to the fuel.

LNG or not, any decarbonisation endeavour will be an expensive one — and, before the technology is established, a risky one at that.

The Japanese government has not yet been in contact with the Japanese finance sector about its decarbonisation ambitions or developed any kind of finance support mechanisms, a Japanese government official noted.

This is an area that will require some effort to get through.

“We have not developed any mechanisms yet, but we have to think of something,” the official said.

Are Japan’s plans now sufficient? Not everyone thinks the roadmap goes far enough.

“*Just like decarbonisation more broadly, developing the LNG-fuelled shipping — which is still just a fragment of global shipping — will not be Japan’s doing alone*”

UCL Energy Institute reader Dr Tristan Smith believes the very formation of the strategy and the conceptualisation of the zero-emission vessels highlighted in the roadmap are important positives for maritime.

However, he said the roadmap itself is not an ambitious one.

He believes the roadmap builds a norm and narrative around the lowest possible ambitions incorporated in the IMO strategy, rather than exploring the maximum potentials.

“It is cherry-picking,” Dr Smith said. “If you interpret the IMO strategy as being just a 50% cut [in GHG emissions], you are ignoring things.”

This roadmap’s approach suggests that Japan is not even considering what a more than 50% reduction could look like, effectively taking an increase in the targets off the table.

Mr Smith, a critic of LNG, said installing carbon-capture technologies on board ships would make them uncompetitive compared to other alternative fuels.

Side-tracked

Decarbonisation progress at the IMO has currently been side-tracked by the coronavirus pandemic.

Scheduled environmental meetings have been postponed and, while unofficial ones are happening, those where major decisions will be taken look unlikely to happen until 2021.

The IMO has agreed to revise its decarbonisation strategy, including the targets, in 2023.

Japan’s progress by then may be crucial in seeing how far the IMO changes its ambition. The world’s achievements will be even more important for Japan.



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

Japanese builders set out their pathways to zero-emission ships

The head of shipbuilding at Japan's transport ministry outlines the country's roadmap to zero-emission ships, and offers views on industry consolidation and state subsidies

Japan's shipbuilding sector is betting its future on carbon-free solutions, but the sector must survive the current crisis before a renaissance can arrive.

Eco-designed, fuel-saving ships once gave a boost to the country's yards. The "chance" for them to prosper again lies in zero-emission vessels, says Jun Kohno, head of the shipbuilding and ship machinery division of maritime bureau at the Ministry of Land, Infrastructure, Transport and Tourism (MLIT).

The industry planner recently rolled out the Roadmap to Zero Emission from International Shipping, hoping the project will help the country's players gain a pole position in this arena.

Apart from agendas for technological and regulatory developments, the project essentially sets out two pathways for future marine fuels, which eventually lead to four types of zero-emission ships: those fuelled by hydrogen; super-efficient liquefied natural gas; ammonia; or ships that can capture CO₂ on board.

It is hoped that this vision of the future can provide an insight into the International Maritime Organization's mandate to achieve its 2050 decarbonisation target, whose prospects remain uncertain on many fronts.

"We believe that this roadmap will help understand the specific direction of the maritime industry in the future," Mr Kohno told Lloyd's List.

The MLIT spent a year hammering out the zero-emission roadmap, after numerous discussions with the relevant parties, including shipowners, yards and research institutions, he adds.

Together under that planning, they aim to make delivery of the first commercial ship within a decade.

While the forward-looking vision is to be welcomed, the short- and medium-term outlooks appear challenging.



Kohno: hoping the project will help the country's players gain a pole position in the arena of zero-emission ships.

“*We believe that this roadmap will help understand the specific direction of the maritime industry in the future*”

Backlog at 23-year low

The double whammy of an already extended industry downturn and the extra-sharp knock from the coronavirus pandemic is pushing virtually all shipbuilders into a battle for survival. Yards in Japan are among the hardest hit.

Data from the Japan Ship Exporters' Association shows their combined backlog had reduced to a 23-year low as of end-May.

Some large builders, such as Mitsubishi Heavy Industries and Mitsui E&S, were even forced by the recession to scale back businesses.

Mr Kohno describes the situation as "severe", with fears that the market could "take more than a few years to recover".

Meanwhile, competition from neighbouring countries has increased. Compared to China and South Korea, Japan's shipbuilding sector is slimmer in capacity and less consolidated in scale.

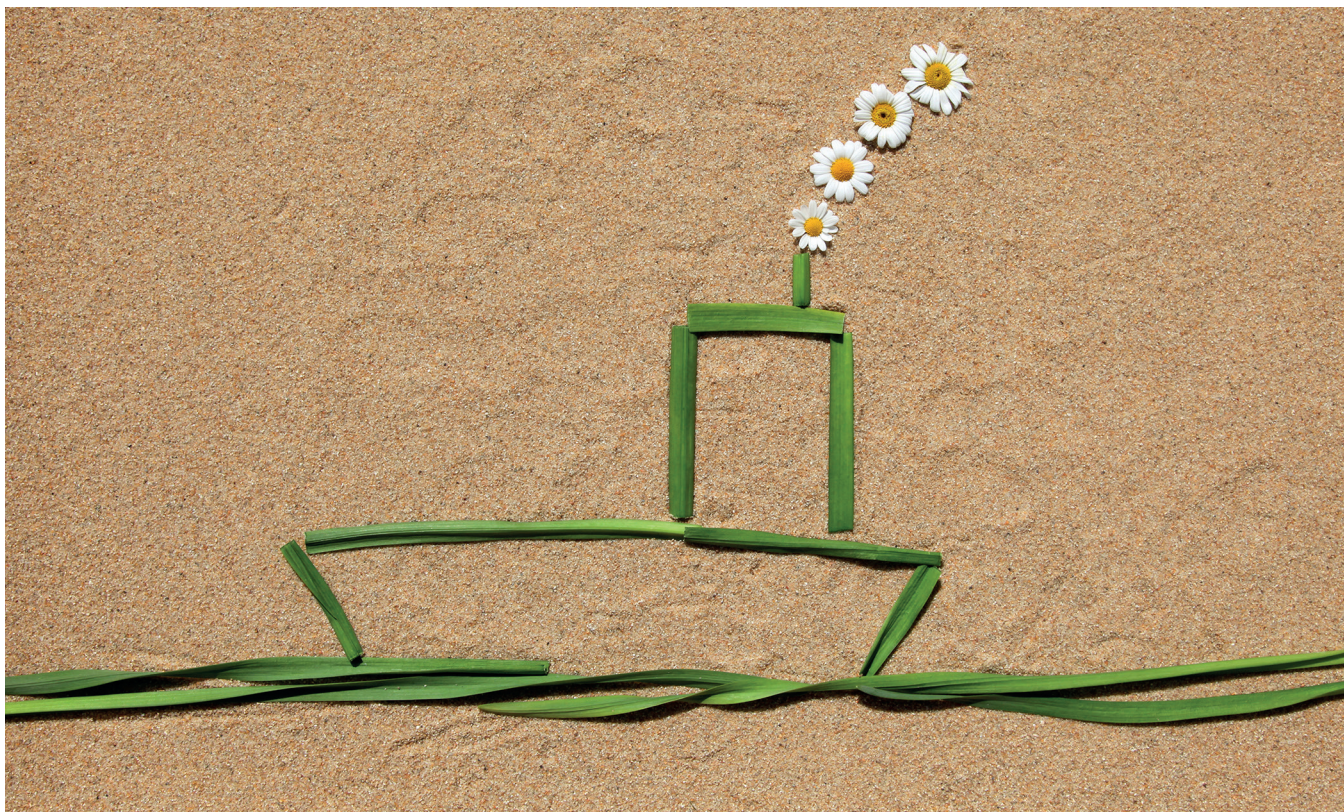
This is because the richer history and legacy of Japanese builders have made them more scattered across the country and more into the habit of working independently, Mr Kohno explains.

As a result, many of them are also niche players specialising in only one or two vessel segments, as opposed to the large all-rounders.

The core competence of Japanese yards, however, still rests on their technological know-how and their operational efficiency.

The MLIT intends to further enhance those strengths by offering incentives that can encourage innovation and improve productivity.

The primary focus has been put on digitalising the entire process of developing a ship — from design to construction and to operation — as showcased in the i-Shipping project launched by the government in 2018.



Markus Manku/Shutterstock.com

The Ministry of Land, Infrastructure, Transport and Tourism has rolled out a roadmap for zero-emission ships.

Still, the government is promoting the integration of yard operations under different ownerships to seek shelter in economies of scale.

The recent tie-up between Imabari Shipbuilding and Japan Marine United sets “a good example”, says Mr Kohno.

However, he dismisses speculation over the “All Japan Shipbuilding” plan, which was reported by Japanese newspaper Nikkei earlier this year, about an initiative to merge 15 main domestic shipbuilding companies.

“That’s just a misunderstanding from the reporter,” Mr Kohno says.

What becomes more pressing is perhaps a level playing field globally, as state bailout funds have mounted up in South Korea and China over the past few years.

Japan’s attempt to establish a new competition regime at a recent meeting under the Organisation for Economic Co-operation and Development was rejected by South Korea, which insisted that China should be included in the discussion.

“Although China is not an OECD member, its engagement is indispensable in order to make those activities effective and meaningful,” Mr Kohno says, adding that his

“
The most important issue for Japanese shipbuilders now is to survive in their respective segments
 ”

government will “spare no efforts” to pursue that agenda.

Meanwhile, the renewed consultation since March between Japan and South Korea on the latter’s shipbuilding subsidies at the World Trade Organisation is ongoing.

Mr Kohno declines to reveal plans for the next step, but says Tokyo “will continue to work to the utmost for a prompt resolution”.

However, will Japan attempt to accelerate the negotiation process by leveraging its antitrust approval on the merger of Hyundai Heavy Industries and Daewoo Shipbuilding & Marine Engineering, two of South Korea’s largest shipbuilders?

“No,” Mr Kohno says. “The two events are handled by separate government departments that won’t intervene in each other’s decision.”

It was Japan’s policy goal to compete for a 30% market share in the world’s cargo ship construction market. This requires an amendment with trimmed capacities at local yards and a shift of their priorities towards a green future, he further points out.

“The most important issue for Japanese shipbuilders now is to survive in their respective segments,” he says.



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At the end of May, the container fleet stood at 22.7m teu, divided between 5,278 vessels.

Container vessel orders fall to lowest in a decade

Orders for containerships in 2020 will fall to the lowest number for 11 years because of the drop in trade activity and economic uncertainty, according to Lloyd’s List Intelligence, **Adam Sharpe reports**

Only 83 ships will be placed on order in 2020, compared with 148 last year, which is the lowest annual figure since 2009, the latest Lloyd’s List Intelligence Shipbuilding Outlook reports.

“The Covid-19-driven decline in the container trade, coupled with general economic uncertainties, has affected the near-term contracting forecast,” it said.

The container fleet stood at 22.7m teu as of May 31, divided between 5,278 ships. The fleet capacity is forecast to increase by 3.5% in 2020, reaching 23.4m teu by the end of the year.

The net fleet growth in 2020 will be by 111 carriers, while the fleet will total 5,370 ships by the end of the year.

The current orderbook is for 627 ships, with an aggregated capacity of 4m teu. Of these, 197 ships are scheduled to be delivered in 2020.

As tonnage in the container sector is still relatively young — especially for the larger vessels — only 181,594 teu (86 vessels) are forecast to be removed from the fleet in 2020.

2020-2024

The forecast for deliveries of container carriers in 2020-2024 stands at 8.8m teu, spread over 1,130 ships. This is 24% more than in the previous five years in terms of capacity.

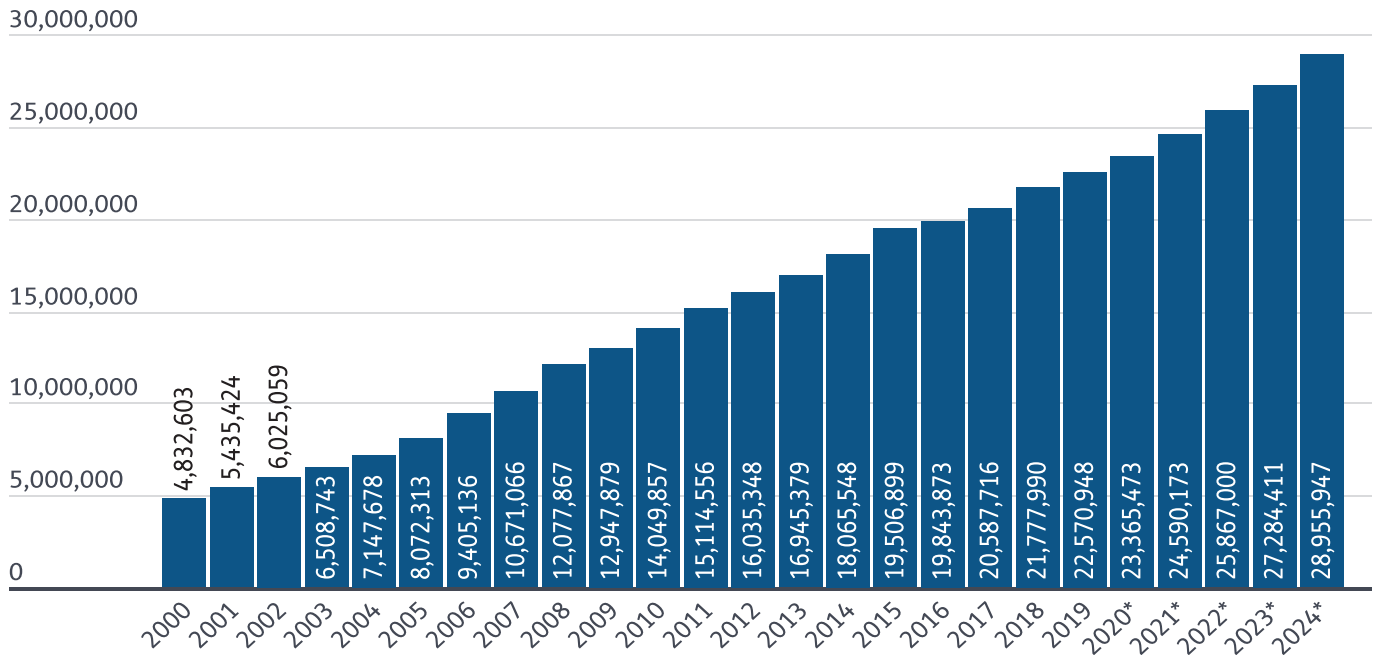
Some 244 vessels will be in the 10,000 teu to 14,000 teu size bracket, representing 42% of total delivered capacity.

The removal forecast for the 2020-2024 period stands at 1.1m teu, divided between 521 ships. This is 25% lower than in the previous five years, measured in teu. However, there will be a strong increase in removals of smaller carriers.

The container fleet growth in the past five years has been 24.9%, or 4.5% on average annually, in terms of teu. In terms of the number of vessels, the fleet grew by 0.8% annually in 2015-2019.

The fleet growth in 2020-2024 is forecast at 6.4m teu, or 5.1% on average each year. The highest growth rate will be in the 14,000 teu-plus size group, which is forecast to grow at an average annual rate of almost 14.5%, followed by the 10,000 teu to 14,000 teu fleet, which is forecast to increase by 10.2% on average each year.

Container fleet capacity in teu (2000-2024*)



*Forecast

Source: Lloyd's List Intelligence

Cargo ro-ro

The cargo ro-ro fleet stood at 1,196 ships in May 2020. Of these, 352 are larger than 2,000 lane metres, but account for 75% of capacity (1.42m lane metres) of the total 1.9m lane metres.

In terms of the number of vessels, the ro-ro fleet remained nearly unchanged between 2015 and 2019, with a decline of only 0.2% annually, while the fleet is forecast to shrink on average by 1.6% per annum to 1,106 vessels in 2024.

However, in capacity terms, the fleet will grow in the next five years, since deliveries will be significantly larger than the number of removed ships.

At the end of 2024, fleet capacity will be 6.5% larger than today (1.3% annually), reaching 2.02m lane metres. The fleet of vessels above 2,000 lane metres will increase on average by 2.6%, while the fleet of smaller vessels will shrink at an average annual rate of 3.2%.

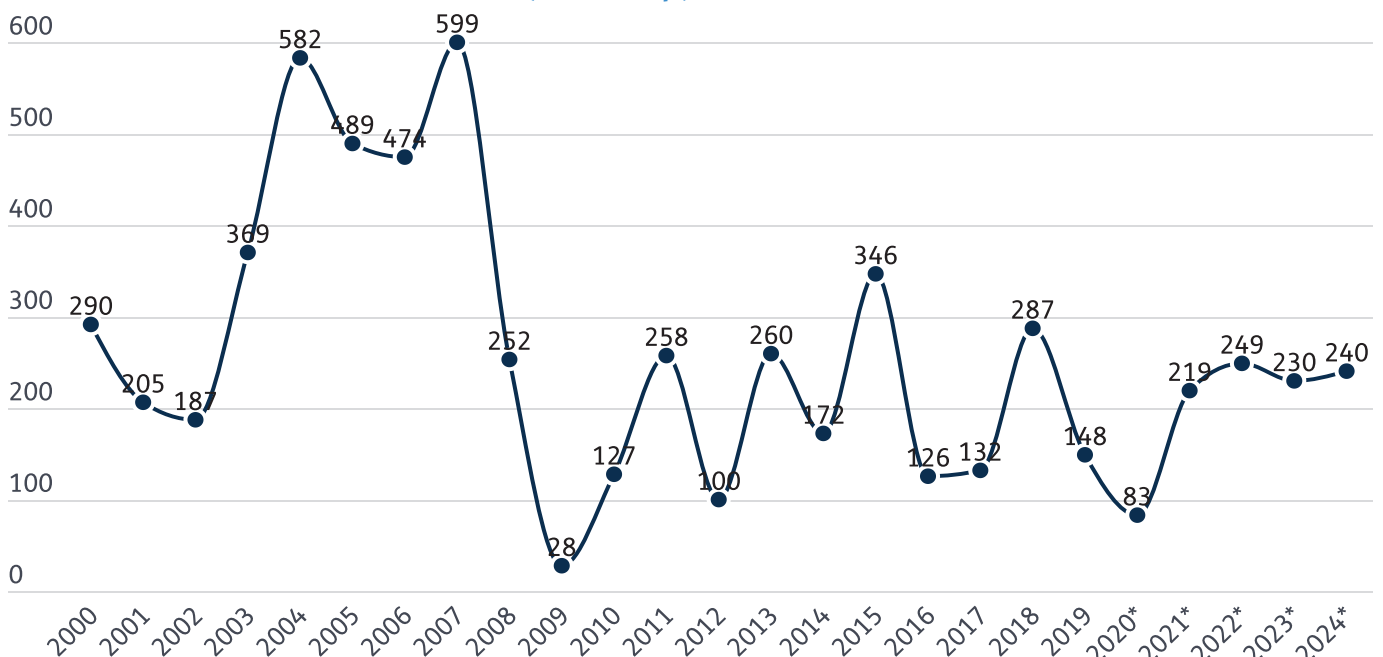
Deliveries in 2020-2024 are forecast

to be at a high, measured in capacity. To the end of 2024, 274,000 lane metres are forecast to be delivered – 18% greater than the previous five-year period.

There are a lot of old ro-ro carriers in the fleet and thus the average fleet age is 28 years. The current average removal age is 28 years, leaving plenty of mostly small candidates for removals.

In 2020, only six ro-ro vessels are expected to be placed on order, which is the lowest number since 2010.

Number of orders for new container vessels (2000-2024*)



*Forecast

Source: Lloyd's List Intelligence



Oil market rebalancing reduces floating storage volumes

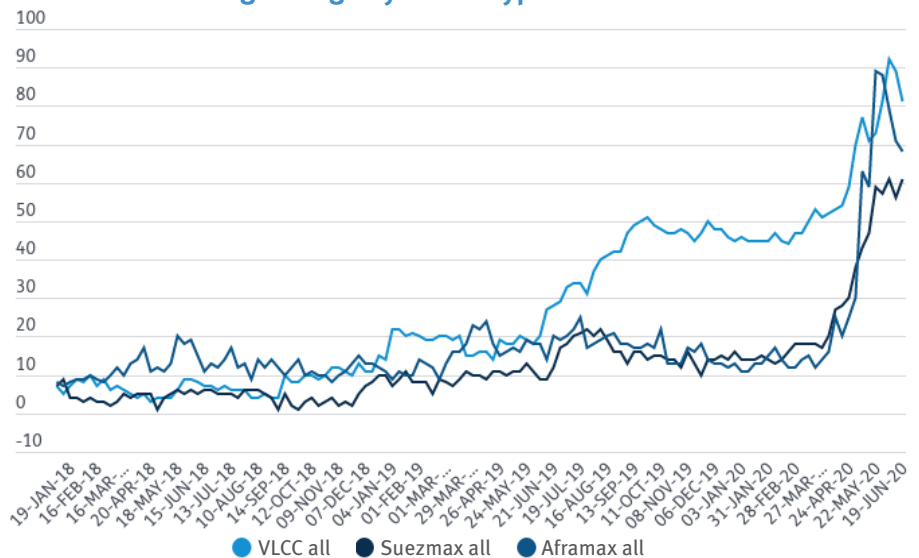
The number of vessels being used for the short-term storage of surplus crude and refined products continues to fall as the oil market rebalances, while rates in the capesize market have rebounded due to a more positive outlook for the near term

The number of very large crude carriers being used as short-term floating storage continues to fall. The figure fell to 81 in the week ending June 19, down from 89 in the previous week and a peak of 92 the week before that, data from Lloyd's List Intelligence shows.

The reduction comes on the back of news that the global crude market's supply and demand outlook is rebalancing at a quicker rate than market analysts predicted after oil prices hit 21-year lows in April.

The build-up in short-term floating

Short-term floating storage by vessel type



Source: Lloyd's List Intelligence

storage over the past three months has helped to shield tanker owners from the record collapse in demand as surplus and unsold cargoes were kept on ships.

The global crude tanker market relies on exports from the Gulf to generate most of its tonne-mile demand. However, a fall in shipments from the region, due to the pact made by the 23-nation Organisation of the Petroleum Exporting Countries-plus alliance

to cut output through to July, is being offset by a swift rise in Chinese crude imports.

Monthly Chinese imports have already returned to year-ago levels, according to International Energy Agency chief Fatih Birol.

Some 261m barrels is currently tracked in clean and crude floating storage, on panamax-sized tankers and larger, according to data from Lloyd's List Intelligence. That is down from the record 292m barrels seen on June 5. Numbers include Iranian-owned tonnage that is not trading.

The number of aframax vessels being used as short-term floating storage fell to 68 in the week ending June 19, down three from the previous week and 21 vessels fewer than the peak seen in late May, while suezmax vessels being used increased by five to 61.

Boost for capesize market

Rates in the capesize market are surging off the back of some positive short-term drivers.

The average weighted time charter stood at \$25,364 per day on the Baltic Exchange at the close on Monday, June 22, which is a gain of 33% from the previous day and is the highest since October last year.

Howe Robinson said the market strength

Baltic capesize index (average weighted time charter, \$ per day)



Source: Baltic Exchange



could be attributed to “firm buying interest from China and a strong outflow from Brazil”, combined with a shortage of tonnage.

Brazil may have had surplus iron ore stocks that were originally destined for Europe but not required due to the various lockdowns, it added. The market was further boosted by news that Brazilian mining giant Vale is to reopen mines in its Itabira complex, which had been shut since early June due to a coronavirus outbreak.

Shipments from Canada were also fuelling the market, as were bauxite volumes from Guinea in West Africa, according to analysts, while record iron ore shipments from Australia to China have also been recorded.

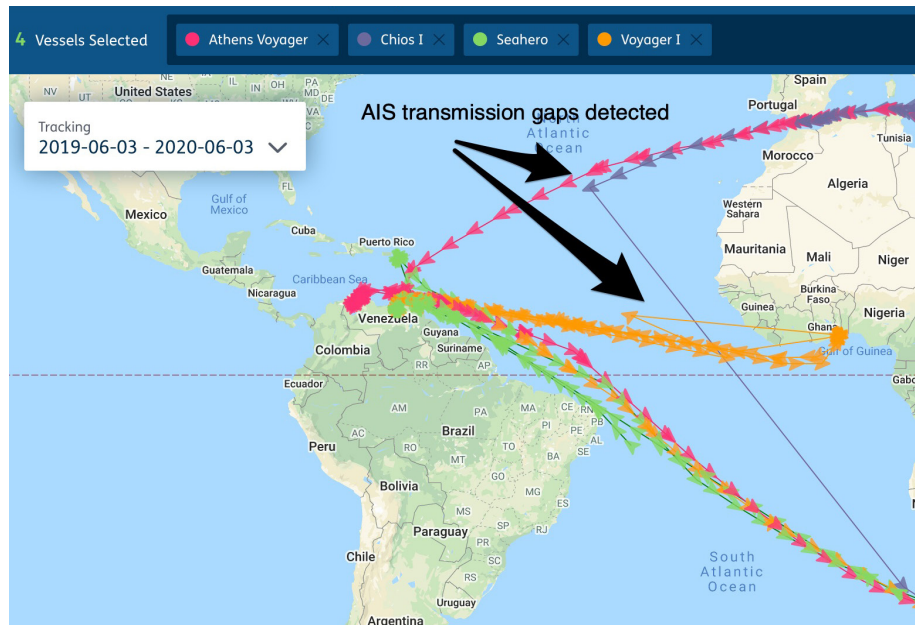
In addition, September iron ore futures on the Dalian Commodity exchange have been trading above an equivalent of \$100 per tonne since the end of May, according to a source, which was adding to the bullish sentiment.

AIS gaps for sanctioned tankers

All four tankers placed under US sanctions at the start of June, due to links with Venezuelan oil shipments, had irregular AIS transmission or trading patterns during the past two months, according to vessel-tracking analysis by Lloyd’s List Intelligence.

The Office of Foreign Assets and Control blacklisted four Greek-managed tankers: the 2007-built aframax *Athens Voyager*; suezmax tanker *Chios I*; plus two very large crude carriers, *Seahero* and *Voyager I*. *Athens Voyager* and *Chios I* have subsequently been delisted.

AIS data, Venezuela, June 3, 2020



Source: Lloyd's List Intelligence

Vessel-tracking analysis from Lloyd’s List Intelligence shows the tankers all had gaps in their automatic identification system signals transmitting their location and identity. AIS, a collision-avoidance tool, must be on at all times under international conventions, except when a vessel needs to switch it off for safety reasons.

There is no suggestion that any of the tankers sanctioned by Ofac were engaged in deceptive or illicit shipping practices to evade sanctions.

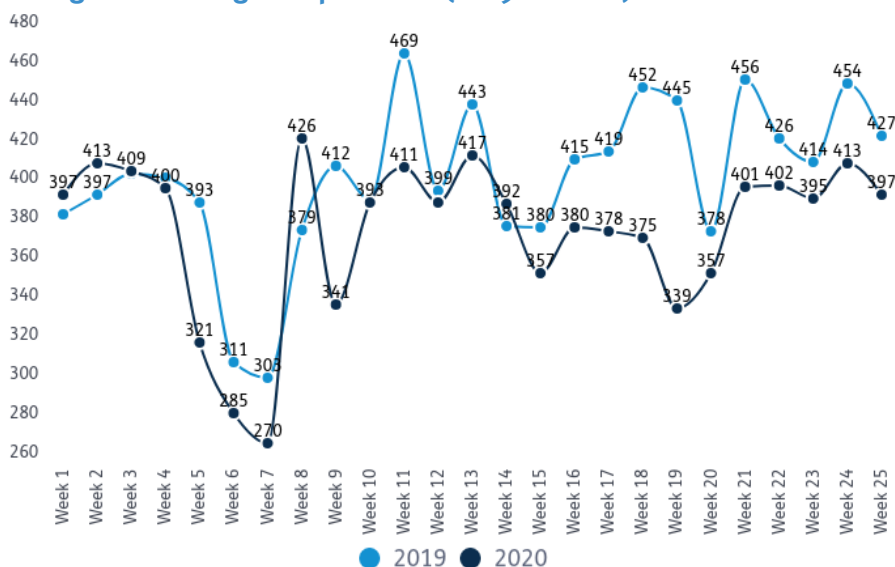
AIS gaps, or “going dark”, as well as false cargo and vessel documentation, irregular

voyages and ship-to-ship transfers were listed in US president Trump’s administration guidance issued on May 14 as signs that service providers should detect and investigate.

Shipowners, operators, flag registries, charterers and banks were all targeted in the advisory, issued by the State Department, Treasury Department and US Coast Guard.

Ofac’s latest move is the first sign that the US will more aggressively target international shipping of Venezuelan crude, placing flag states, marine insurers and others connected with sanctioned vessels on notice.

Shanghai and Yangshan port calls (2019 vs 2020)



Source: Lloyd's List Intelligence

Port calls track seasonal variations

The latest figures from Lloyd’s List Intelligence show that port calls at the major Chinese container hubs of Shanghai and Yangshan are again tracking year-ago trends, albeit at a lower volume.

Combined figures for the two ports show 397 ships called during week 25 of the year, down from 413 the week before and 427 in the corresponding week in 2019.

However, the trend in June has largely shown a return to normal after the coronavirus-impacted declines seen in earlier months and is likely to continue to do so as more countries exit lockdown conditions around the world.

The Month in charts is taken from Lloyd’s List’s regular Week in charts published online each and every Friday

Surge in pirate activity increases Covid-19 challenge for marine market



PLUS UTOMI EKPE/AFP via Getty Images

Nigerian special forces sail to intercept pirates during a joint exercise between Nigeria and Morocco in March 2019.

Insurers fear pirates in the Gulf of Guinea will attempt to board tankers used as offshore storage facilities , **Alexandre Raymakers**, of Verisk Maplecroft, reports

The recent abduction of eight crew members of a Portugal-flagged ship off the coast of Benin confirms our thinking the Gulf of Guinea is likely to remain the global piracy hotspot for kidnappings at sea in 2020.

Most incidents will still take place in Nigerian waters, as reflected by Nigeria's extreme risk score on our index (right). However, we expect pirates to continue expanding their reach further into neighbouring states in the Gulf of Guinea, in a worrying sign for shipping companies, international oil and gas companies (IOCs) and insurers alike.

Piracy in the West African Gulf of Guinea has long been a scourge on regional shipping in the area, but only in the past year have instances increased to overtake the more well-known areas such as the Strait of Malacca.

In 2019, the number of crew

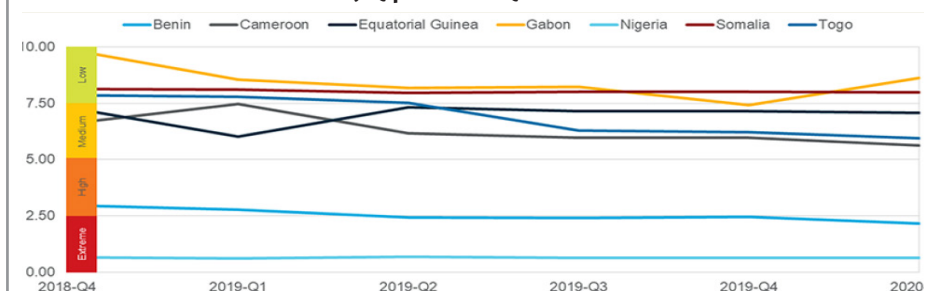
kidnapped in the Gulf of Guinea increased by more than 50%, from 78 in 2018 to 121 in 2019, making the gulf the global hotspot for kidnappings at sea, accounting for close to 90% of all cases internationally.

This trend will continue during 2020 and into 2021 as regional security forces, hampered by security hotspots across the continent and a lack of adequate

equipment, continue to be unable to tackle piracy effectively.

The prospect of international assistance is equally remote as international shipping routes avoid the Gulf of Guinea. Both regional shipping and IOCs should expect further disruptions to supply chains, export routes and increased costs as more ransom payments will be necessary to liberate crews.

Figure 1: Gulf of Guinea country scores on Verisk Maplecroft's Piracy and Armed Maritime Crime Index, Q4 2018 to Q1 2020



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Extending regional reach

As shown in the map (right), 60% of incidents in 2019 occurred in Nigerian territorial waters, specifically in the areas surrounding the Niger Delta and, to a lesser extent, the shipping hub the port of Lagos.

The socio-economic drivers underpinning piracy in the Niger Delta are unlikely to change soon. Driven by their experience fighting in the Delta's secessionist armed groups and embittered by their lack of access to the oil riches around them, the region will remain an abundant reservoir for budding pirates.

Although pirates have not noticeably changed their tactics, the regular payments of ransoms are likely to have emboldened them to seek more attractive targets further out at sea, expanding their net outwards.

The abduction of seven crew members of the *MSC Talia F* off the coast of Gabon on March 22, 2020 demonstrates that abductions are increasingly becoming a regional issue.

Although most of the increase in incidents we expect in 2020-2021 will persist in Nigerian waters, we also anticipate an uptick in recorded events in waters around Togo, Benin, Cameroon, Gabon, Equatorial Guinea and, to a lesser extent, Ghana.

The advent of kidnapping at this scale is relatively new. Pirates have traditionally limited their operations to raiding oil tankers to sell their hold on the black market.

The collapse of oil prices in 2015 forced them to alter their strategy, refocusing their efforts on abducting crews for ransom. With the recent collapse in global oil prices, pirates are likely to continue prioritising crew abductions as an easy money-maker.

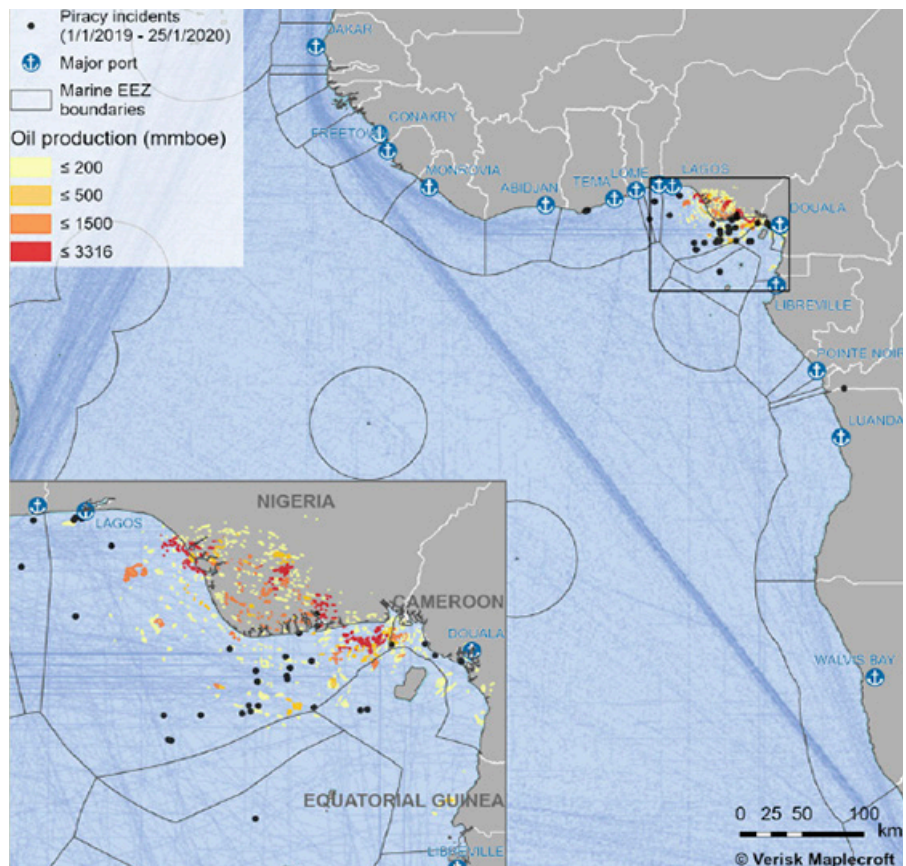
Equally, in contrast to their Somali counterparts, pirates in the Niger Delta do not have use of secured ports or beaching areas for captured ships, severely limiting their ability to hold a vessel or its contents for ransom.

Operators in the region therefore rarely lose ships or cargo but face delays and increased costs because of the disappearance of ship crews and subsequent ransom payments.

While many have learned lessons from developing comprehensive security structures to protect their assets and personnel in Nigeria, smaller supply and service companies will be highly exposed to expanding piracy risks.

Furthermore, with the collapse of global oil prices, pirates are likely to attempt to board static oil tankers used as offshore storage facilities for unsold oil production. The ships' crews and cargo represent ideal and relatively simple targets for pirates.

Figure 2: Piracy incidents reported in the Gulf of Guinea (Jan 2019 to Jan 2020)



Because of the indiscriminate nature of abductions, pirates are likely to target IOCs' supply chains and oil shipments leaving export terminals in the Niger Delta.

However, instances of piracy are unlikely to disrupt shipping routes to such an extent that they paralyse trade or oil export shipments in the Gulf of Guinea as a whole.

IOCs will also have to contend with the risk pirates will seek to abduct workers — preferably expatriates — directly from oil platforms in the Niger Delta.

Indeed, pirates have easy access to high-speed crafts and a plethora of small arms, giving them the firepower and agility to conduct such operations.

The security response to piracy in the Gulf of Guinea will remain insufficient throughout the next two years.

The Nigerian navy, hampered by a lack of adequate resources, will remain unable to patrol and dissuade piracy in its waters effectively. With limited financial resources but a growing array of fronts on which to fight, the Nigerian security services are stretched thin and the government is precluding any

significant funding increases to the navy to build up its patrol capabilities.

Moreover, Nigerian law prohibits the use of private maritime security contractors (PMCs), tying shipping and IOCs' hands alike. Despite fallout from international partners, we do not expect the Nigerian government to change its stance on PMCs in the next two years.

Further regional co-operation between navies across the Gulf will help and foreign navies will continue intermittently to send assets to assist regional navies, but we do not expect any significant international effort to be deployed in the region.

In contrast to Somalia, strategic maritime routes do not cross the Gulf of Guinea, thus substantially reducing the prospect of international involvement.

The Nigerian government is also unlikely to accept any international naval mission in its waters, as it would be a severe blow to its credentials as a growing African political power.

Alexandre Raymakers is senior analyst, Africa, at Verisk Maplecroft

Sanctions compliance in shipping

Mike Salthouse, of the North Group and International Group Sanctions Committee, reports on the latest sanctions guidance from the US for the shipping sector

On May 14, 2020, the US issued new guidelines for the marine industry, setting out expectations of the measures that the industry should be taking to ensure that shipowners, insurers and flag states, among others, adhere to US law.

The advisory covers the following sectors:

- Marine insurers;
- Flag registry managers;
- Port state control authorities;
- Shipping industry associations;
- Commodity traders, suppliers and brokers;
- Financial institutions;
- Shipowners, operators and charterers;
- Classification societies;
- Vessel captains;
- Crewing companies.

The shipping industry accounts for 90% of the world's trade and for many of those involved, the publication of the advisory will require a significant increase in the time and resources spent on compliance.

Given that the US has consistently demonstrated a willingness to act against sanctions-breakers, no-one should be in any doubt of the US commitment to ensuring its sanctions legislation is complied with.

The publication of the advisory had been widely trailed and the US government should be commended for the extensive industry outreach conducted as part of its ambitious programme of activities that aim to improve and consolidate relationships between industry and policymakers in Washington.

Nevertheless, behind that outreach lies an established enforcement agency and, while the advisory is expressed to be non-legally-binding, some parts of the shipping industry will feel uncomfortable about the expectation that non-US nationals adhere to a US foreign policy that may be at odds with that of their own country.

So, while UN sanctions against North Korea are universally accepted, US policy towards Iran is not — and the conflicting legislation of the US and EU is an example of where compliance with one set of rules places a company or person at risk from prosecution in one jurisdiction or the another.



The conflicting legislation of the US and EU is an example of where compliance with one set of rules places a company or person at risk from prosecution in one jurisdiction or the another.

US officials address that conundrum by pointing out that it is only those subject to US jurisdiction that face prosecution; but for those that are not, the choice is simple.

A non-US business is free to engage with a US sanctions target but if it does, it cannot at the same time do business with US companies or persons. That would mean a loss of access to US financial services — and, more particularly, dollar transactions.

For most involved in shipping, the risks associated with losing access to US markets will far outweigh any short-term advantages derived from doing business with a US sanctions target.

The advisory makes repeated statements to the effect that the recommendations contained within it are not legally binding and the main body of the guidance tries hard to strike a pragmatic balance between compliance with US law and what is practical, recognising the constraints under which the industry operates.

However, the additional guidance for certain industry sectors contained in annex 1 are more specific in setting out US expectations, which could give rise to difficulties.

Enforcement

That the US can enforce its laws against non-US persons is not in doubt, but the way it does so is worth considering.

US enforcement action relies on the dominant position enjoyed by the US dollar.

However, what the US does not have the power to do is to conduct investigations into the conduct of companies that are not domiciled in and do not have a presence in the US.

In simple terms, for example, the US Office of Foreign Assets Control has no power to compel a non-US business to co-operate with an investigation into that business. It therefore occupies the roles of prosecutor, judge and executioner, without providing the target company with any formal mechanism by which to defend itself.

So if the threshold for a breach of sanctions by a non-US company is a failure to exercise due diligence, the accused company has no right or forum in the US within which to argue that it exercised due diligence to ensure that sanctions were not breached.

This has always been the case for US secondary sanctions but, given the detail contained in the guidance, the mechanisms by which an accused non-US company is given the opportunity to demonstrate that it has done its best to comply with the guidance are far from clear.

The concern in the industry is that any failure to apply measures in accordance with the published guidance will result in sanctions.

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Advisory versus contract

Another area that is unclear is the extent to which the US now expects the shipping industry to break contractual commitments, based on a suspicion of sanctions-breaking.

For example, a vessel may be contracted on a period time charter and be ordered by its time charterer to load a cargo by way of ship-to-ship transfer from another vessel. Ostensibly, this is a lawful order. The shipowner would only have the right to refuse the order if it was unlawful and involved a breach of sanctions.

The shipowner may have concerns about the origin or destination of the cargo, but at law, lack the evidence necessary to refuse to comply with the charterer's order. If, in the absence of such evidence, the shipowner feels compelled to comply with that order, how is the decision to carry out the STS going to be viewed by the US whose enforcement agencies will have no access to the contract terms — or indeed the decision-making employed by the shipowner in deciding to carry out the charterer's order?

Against the law

The advisory does not address inconsistencies in legislation to which a multinational shipping industry is subject. There are three main areas in which this presents a problem: competition law, data protection law and international maritime conventions such as the Safety of Life at Sea convention.

Competition law

From a US perspective, it must be frustrating that a vessel denied coverage from a P&I club or classification society can then secure similar services from another club or class society because information is not shared concerning suspicions of sanctions breaches.

However, both the International Association of Classification Societies and the International Group of P&I Clubs occupy significant market positions within shipping and are heavily regulated by the EU competition authority and/or domestic anti-competition law.

If all 13 clubs in the International Group collaborated to deny cover to a tanker operator, then it would have a profoundly detrimental effect on that tanker operator's ability to do business. The position would be the same if the tanker was refused access to a classification society that was a member of IACS.

Competition law is absolutely clear on this point — namely that to share information based on a suspicion that the operator has engaged in sanctions-breaking as opposed to a fact (for example, the shipowner is designated) would



Salthouse: US enforcement action relies on the US dollar's dominant position.

be an abuse of a dominant market position and expose the club or classification society to very significant fines.

Data protection law

Similarly, businesses — particularly those based in Europe — are obliged to safeguard personal data. The advisory makes specific recommendations concerning the handling of personal data of shipowners in the annexes relating to marine insurers and classification societies but UK and EU businesses are required to comply with the General Data Protection Regulation, which restricts the extent and nature of personal data processing to that required by law or necessity.

As the financial crime legislation to which UK and EU businesses are subject does not mandate the routine collection of personal data about beneficial owners, it is not clear how the requirements of data protection law would be satisfied were insurers and classification societies to hold and share this level of personal details to the extent suggested by the advisory. The GDPR contains particularly stringent penalties for companies that transgress.

International convention

Active monitoring of automatic identification systems is a much-repeated theme of the guidance. And compared to earlier drafts, the guidance as published acknowledges that a ship's signals may be lost and/or the system turned off for proper reasons.

Yet consider this. Under Solas, the master may cease AIS transmissions in the interests of the safety of the ship, its crew and cargo. However, the publication of the guidance will lead to shipmanagers pressuring a ship master to keep broadcasting in circumstances where

previously it may have been turned off for safety reasons in accordance with Solas.

It would be unfortunate if a vessel and its crew were tracked and subsequently seized by pirates using AIS to identify potential targets.

The whole conversation around AIS does not accommodate the inherent problem with its use as a compliance tool: specifically that there are legitimate reasons why it may have been turned off and technical reasons why a signal may not have been received; and, that being the case, it is nigh on impossible to use it without corroborating evidence as a basis for breaking a contract or terminating services such as class or insurance.

Iran

The guidance also sets out US expectations in relation to Iran sanctions. This creates something of a dilemma for non-US parties and specifically those subject to EU law.

The US is alone in its withdrawal from the Joint Comprehensive Plan of Action and the reinstatement of US secondary sanctions lifted as part of that agreement in 2016.

A European service provider or ship operator has, since November 2018, been left in the invidious position of breaking either EU or US law when it comes to certain Iran nexus trades. This has caused real compliance difficulties.

Conclusion

It is perhaps inevitable that a document of the breadth and ambition of the recent advisory will give rise to questions and inconsistencies.

It is, however, a genuine attempt on the part of the US to provide guidance as what constitutes best practice in the field of Iranian, Syrian and North Korea sanctions compliance.

The US has made a genuine effort to reach out to the maritime industry and listened to the concerns expressed over earlier drafts.

The guidance, while detailed and undoubtedly operationally onerous, nevertheless provides real insight into what is expected and any part of the maritime industry that in the past has been prepared to ignore compliance for the sake of the proverbial "quick buck" can now be in no doubt of the standards to which it will be held to account.

Mike Salthouse is global director (claims) North Group and chairman, International Group sanctions committee

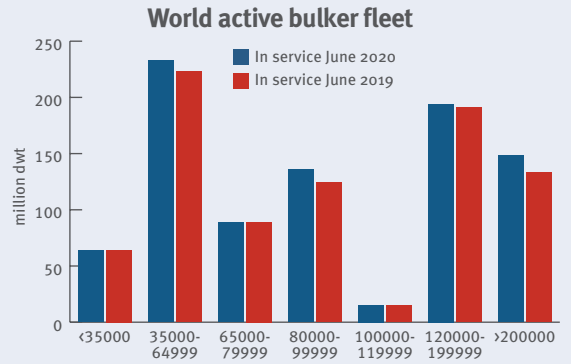
This article was first published in MRI, an Informa publication: www.maritime-risk-intl.com

The global active fleet of bulkers totalled 12,030 vessels comprising 879.3m dwt in early June, according to Lloyd's List Intelligence. In terms of carrying capacity, this represented a rise of 4.7% against last year.

Ships with a capacity greater than 20,000 dwt continue to be the main fleet driver of growth, climbing 11.4% on the year-ago level. This was in addition to a

9.2% 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 906 units at the start of June, with a combined capacity of 85.4m dwt. In 2020, 586 more ships are due for delivery, with an additional 277 vessels due to hit the water next year, and a further 43 ships from 2022 onwards.



Smaller bulkers set to see improved earnings in second half

The segment should benefit from a strong Black Sea grains season, according to Braemar ACM, writes **Nidaa Bakhsh**

Smaller-sized bulkers should expect to see higher earnings in the second half of the year, spurred by Black Sea grains exports, and a scattering of other sweet spots.

"I expect higher earnings in the second half of the year from where we are today," said Torvald Klaveness' head of research Peter Lindstrom.

His view stems from low fleet growth in the segment, combined with an expectation of a recovery in certain trades.

"A recovery from coronavirus will sequentially increase industrial production around the world, which is positive for demand [for these types of vessels]," he said, adding that it will take very little by way of demand growth to outweigh fleet expansion.

"That will then tip the balance even more favourably," he said.

The smaller segments are likely to receive support from the bigger sizes too — capesizes have been boosted by higher demand from China, while panamaxs are likely to be stronger closer to the US grains season.

A big swing factor will be China's policy in terms of coal



Teun van den Dries/Shutterstock.com

Smaller vessels are likely to receive support from the bigger sizes, with capesizes boosted by higher demand from China and panamaxs likely to be stronger close to the US grains season.

quotas, according to Mr Lindstrom.

"If domestic coal prices continue to increase going forward, we might see a relaxation of quotas, which will be positive [for panamaxs and for supramaxes]."

However, he warned that a second wave of global infection, although of low probability, should be taken into account as a risk factor, as it would be a "high-impact" event.

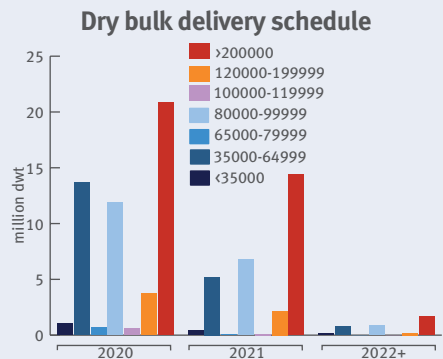
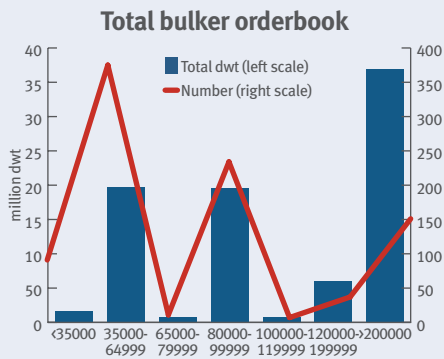


Black Sea grains lift

Black Sea grains are expected to lift the segment, with an overall 2% rise in shipments in 2020 from a year earlier, according to shipbroker Braemar ACM.

It expects Russia's wheat exports to rise by 8% to almost 23m tonnes in July to December from the year-earlier period, with supramaxes carrying the bulk of the volume.

Handysizes should also "enjoy a boost in shipments".



Data from:
Lloyd's List Intelligence
 Maritime intelligence | Informa

lloydlistintelligence.com

The gain in Russian shipments will, however, be offset by a 2.5m-tonne drop in Ukrainian supplies due to poorer growing conditions.

Volumes will likely head to traditional outlets in the Middle East, the Mediterranean and the Indian subcontinent, with expected increasing supplies heading to countries in Southeast Asia such as Vietnam and the Philippines, according to the brokerage's dry bulk analyst Nick Ristic.

He also sees higher volumes moving into East Africa, where locusts are eating into crops. That will help the supramax segment.

Corn exports from the Black Sea region, dominated by Ukraine, should keep up with last year's records, he noted, aiding handysizes in particular, which saw employment exceeding 400 ships in 2019 compared with the average of 200 per year in the past five years.

The 2020/21 season starts in the fourth quarter.

Last year, increased volumes were seen into Egypt and Turkey, as well as China, a trend likely to be emulated this year.

Maritime Strategies International, a London-based consultancy, holds a similar view, seeing positive developments from the Black Sea grains trades.

Stagnating fleet growth will also support the segments, helping to boost earnings for the rest of the year.

MSI expects the handymax fleet, ranging from 40,000 dwt to 65,000 dwt, to stagnate in the third quarter, given that 1m dwt

“Braemar ACM expects Russia’s wheat exports to rise by 8% to almost 23m tonnes in July to December from the year-earlier period, with supramaxes carrying the bulk of the volume. Handysizes should also “enjoy a boost in shipments”

is due for delivery, versus an estimated 1m dwt to be removed.

Earnings are forecast to rise to about \$9,000 per day in the fourth quarter, according to MSI estimates.

At the time of writing in mid-June, the Baltic Supramax Index was at \$7,130 per day on the London-based exchange.

Forward freight agreements reflect the positive tone, with the third quarter at \$9,650 per day, and the fourth quarter at \$9,500 per day, according to GFI broker figures at the close on June 19.

Handysizes, in the size range between 10,000 dwt and 40,000 dwt, see a similar fate to their larger counterparts, receiving support from grains, MSI said, adding it expects the fleet to shrink in the fourth quarter, for the first time since the first quarter of 2015.

Earnings are forecast to rise to just shy of \$8,000 per day, it said.

The Baltic Handysize Index was at \$6,375 per day on June 18.

Steel trades a mixed bag

Minor bulk trades have taken a “heavy hit” from the pandemic, according to MSI analysts Will Fray and Will Tooth, who anticipate a contraction of 0.9% this year. The biggest fall will come from steel products, expected to drop by 5.8%.

The World Steel Association is expecting a 6.4% contraction in steel demand this year, followed by a 3.8% rebound in 2021.

While the rest of the world will see a heavy drop due to coronavirus, China’s use is set to increase by 1%.

Domestic steel use is rising in China, reflected in lower exports, down by about 3m tonnes in the first five months of the year versus the same period in 2019, according to a Europe-based analyst, who expects this trend to continue through the year.

However, China’s imports have more than doubled in a year to 1.6m tonnes, which is benefiting the supramax and handysize segments via intra-Asian shipments. So far, Japan and South Korea have been the biggest suppliers of steel products to China.

A Singapore-based supramax broker noted a change in the market, whereby charterers were now chasing shipowners as fresh cargoes emerged. That has resulted in many “active” areas, giving owners confidence. As a result, a number of period fixtures were being concluded.

China was “back in the game” with more imports and exports, the broker said, adding this was a move to make up for losses in product volumes during the height of the pandemic.

A flow of salt, iron ore and steel cargoes out of the west coast of India to China were being reported, as well as Indonesian coal stems, which were boosting the supramax Pacific market, according to Braemar.

For handysizes, fertiliser trips from the Baltic to the east coast of South America and the US Gulf were heating the Atlantic market, with bagged cement and steels heading to the Caribbean and north coast of South America from Turkey, it noted.

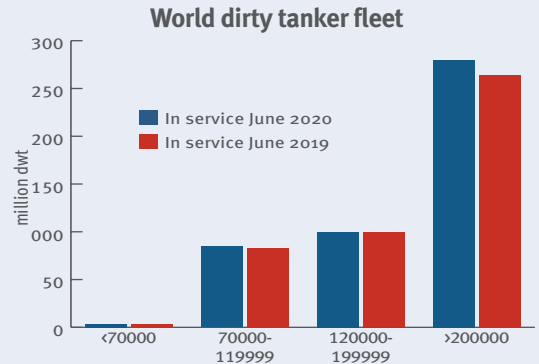
CRUDE TANKERS

The active crude carrier fleet comprised of 2,442 ships, equivalent to 467.6m dwt, at the start of June, according to Lloyd's List Intelligence. This represented an increase of just under 4% over last year.

Very large crude carriers, of 200,000 dwt and above, continue to lead the growth, with numbers up 5.9% on year to 279.7m dwt. Aframax

tankers between 70,000 dwt and 120,000 dwt continue to drive advances in the fleet too, up 2.2% on year to 801 vessels, representing 84.7m dwt.

The global orderbook was composed of 259 ships with a carrying capacity of 48.8m dwt. A further 20.1m dwt is due for delivery in 2020, with 21.7m dwt due in 2021 and 70.3m dwt from 2022 onwards.



Tanker sentiment sours as producers slash exports and inventories build

Earnings fall below operating costs for smaller tankers, as Lloyd's List Intelligence data reveals Middle East production cuts have removed nearly 4m bpd from the market — equivalent to nearly 50 fewer VLCCs over June alone — on the key Middle East route, writes **Michelle Wiese Bockmann**

Tanker earnings tumbled in the fourth week of June, to fall below operating costs for smaller vessel sizes as crude exports declined and coronavirus cases escalated in Latin America, derailing any rebound in demand for clean products.

Aframax and suezmax average earnings plunged by as much as 85%, dropping to less than \$5,000 per day to signal a rapid and volatile reversal of fortunes.

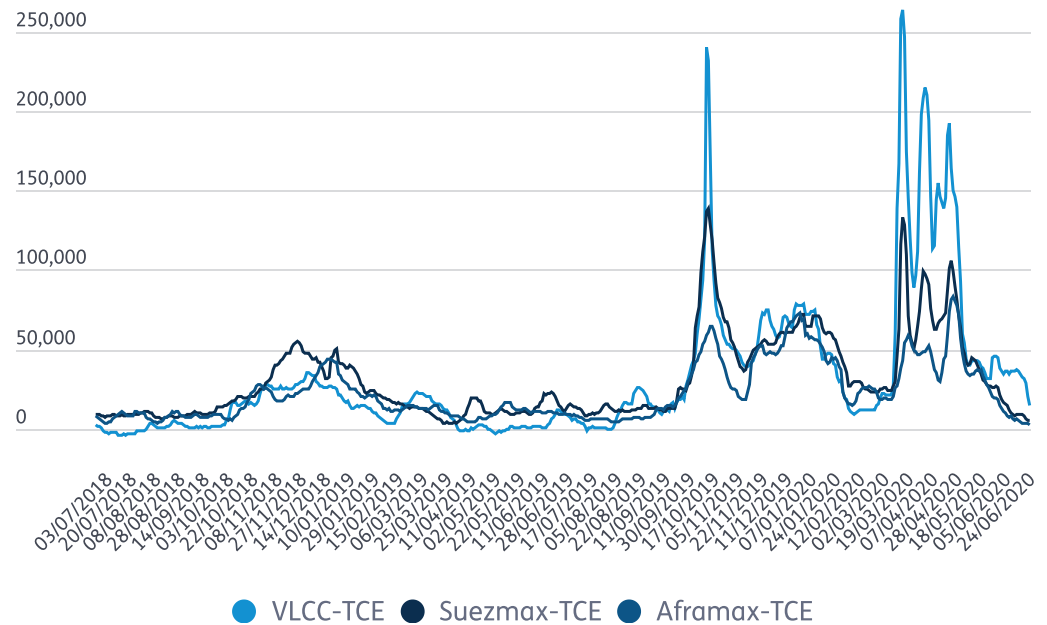
Average rates for very large crude carriers, which reached a record \$214,000 daily in late March, were at just under \$15,000 — down 66% in three weeks.

Similar declines have been recorded for clean tanker rates, especially on key routes shipping diesel, gasoline and jet fuel.

Medium range tankers — which are the workhorses of Atlantic trades — had been averaging just under \$8,000 per day in earnings, after peaking at nearly \$87,000 daily in late April, according to the Baltic Exchange.

Long range one tankers shipping jet fuel to northwest Europe from Kuwait were

Average time charter equivalent rates (\$ per day)



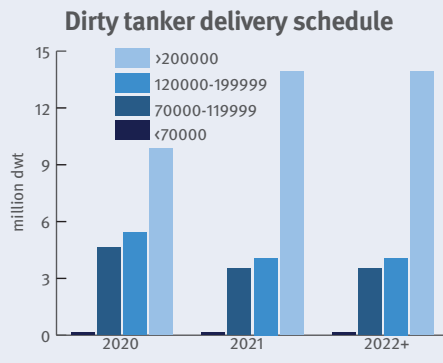
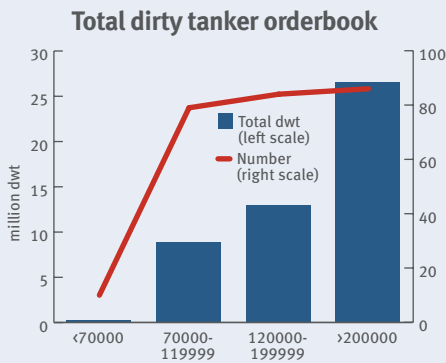
Source: Baltic Exchange

recording spot rates of \$8,270 per day, data shows — less than half levels seen earlier in June.

Leading rates lower is high compliance to an agreement made by the Organisation of the Petroleum Exporting Countries plus other producers to extensively slash oil production

over the next three months to arrest falling prices, which reached 21-year lows over April.

That reduced Middle East Gulf crude exports by nearly 4m bpd through May and June, based on April's record output, data compiled by Lloyd's List Intelligence shows.



Data from:

Lloyd's List Intelligence
Maritime intelligence | Informa

lloydlistintelligence.com

That is equivalent to nearly 50 fewer VLCCs over June alone on the key Middle East route.

Saudi Arabia's May exports alone were 27% below April's volumes, which exceeded 10m bpd, according to Lloyd's List Intelligence data.

April volumes peaked just before the kingdom ended its oil price war with Russia and the US with the so-called Opec-plus agreement.

Inventories rising

Despite production cuts, crude and product inventories in key consuming countries of the US and China have still been rising.

Alongside shoreside tanks, volumes held on tankers via floating storage also remained largely unchanged over the month, while refinery runs showed little signs of recovery.

This was most acutely seen in the US, the largest exporter of clean products, with Latin America the biggest market.

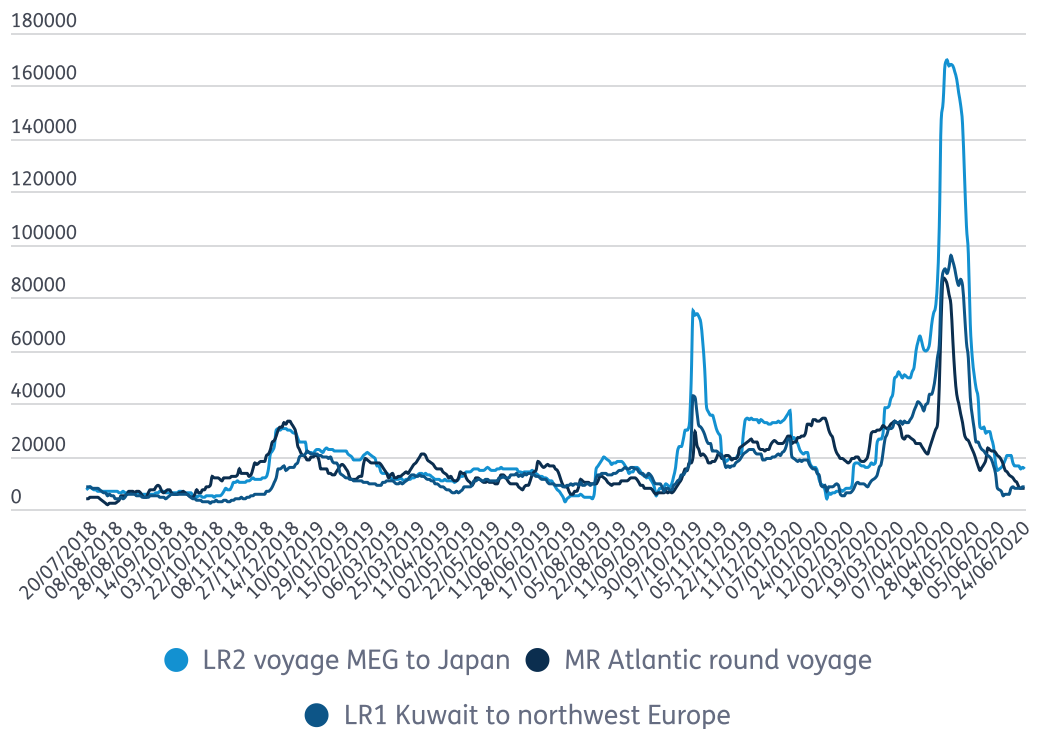
That has all combined swiftly to sour sentiment across both clean and dirty tanker markets, particularly in the Atlantic basin.

Brazil's clean product imports are reportedly running 40% lower than in the year-ago period, while Mexico has been seeing similar figures.

This is having a knock-on effect on US Gulf refineries, a major exporting centre for refined products.

Utilisation of US Gulf coast refineries stood at 64%, while inventories reached a fresh record for the week ending June 19.

Average time charter equivalent rates for product tankers (\$ per day)



Source: Baltic Exchange

In the US, June's average clean exports of 4.5m bpd were running 12% lower than in the prior-year period, US Energy Information Agency data shows.

Coronavirus cases were still escalating across Latin America, fuelling speculation that imports would likely dip further.

Shipowners' biggest concern is that floating storage has not begun to unwind but rates have already fallen to such low levels.

Some 282m barrels of crude and products had been kept on tankers at anchor for the previous 20 days, Lloyd's List Intelligence data shows.

Floating storage shielded tanker owners through the worst of the Covid-19 oil demand collapse, with port congestion, discharge delays, distressed cargoes and an oil price contango deploying as much as 12% of the aframax-to-VLCC fleet for floating storage.

Sustained recovery

The timing and pace of unwinding floating storage is viewed as crucial to any sustained recovery in tanker rates for the remainder of 2020.

Although the global oil market is rebalancing over the second





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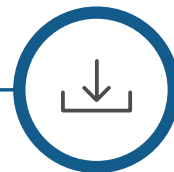
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The global active fleet of liquefied natural gas carriers comprised 572 vessels totalling 87.1m cu m as of early June, a 6.1% increase on its year-ago total, according to Lloyd's List Intelligence.

The LNG orderbook stood at 148 units, representing 22.3m cu m carrying capacity. Of this, 5.3m 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.

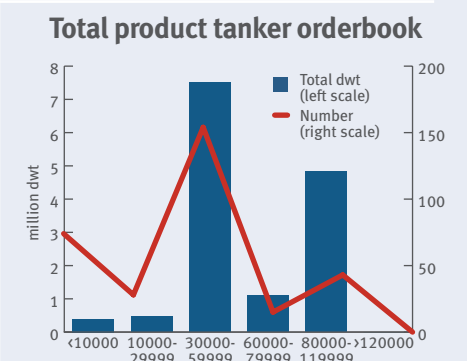
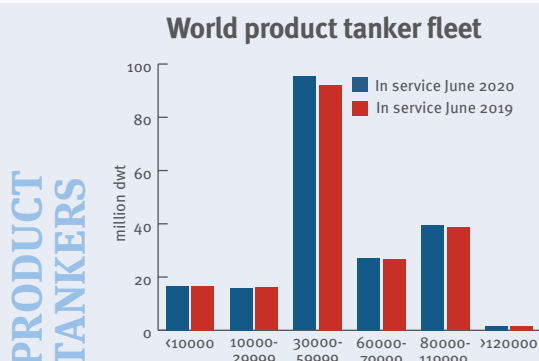
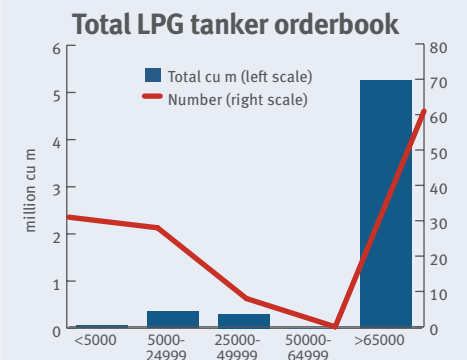
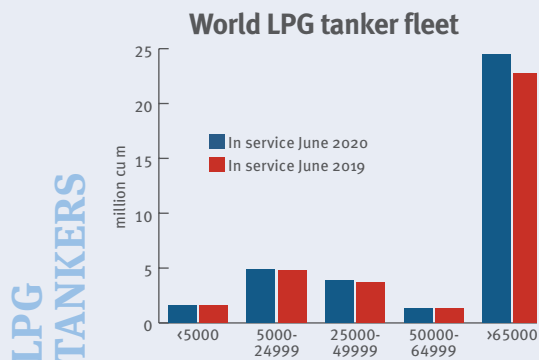
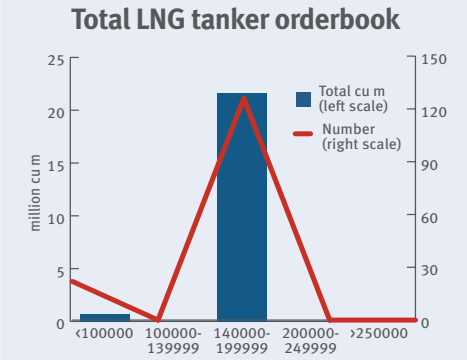
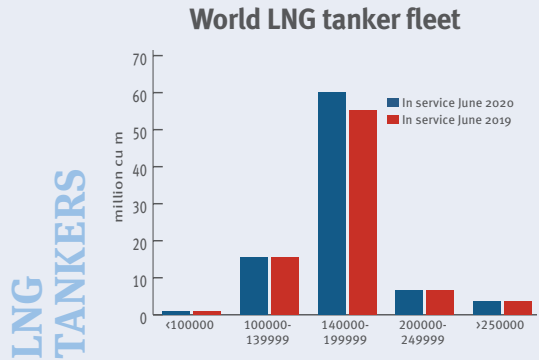
For liquefied petroleum gas tankers, the active global fleet was composed of 1,569 ships, with a carrying capacity of 36.2m cu m, up 5.6% on year.

The LPG orderbook is dominated by very large gas carriers. Of the 128 vessels on order, 61 VLGCs, or 21.5% of the fleet, are due for delivery.

The global fleet of product tankers comprised 8,811 vessels with a carrying capacity of nearly 196.4m dwt, up 2.3%.

The product tanker orderbook stood at 314 ships, comprising 14.3m dwt: 154 MR vessels, 15 LR1s and 43 LR2s.

Data from:
Lloyd's List Intelligence
 Maritime Intelligence | Informa
 lloydlistintelligence.com



half of the year to lift oil prices, tankers returning to trade add pressure to the overtonnaged market.

Chinese imports

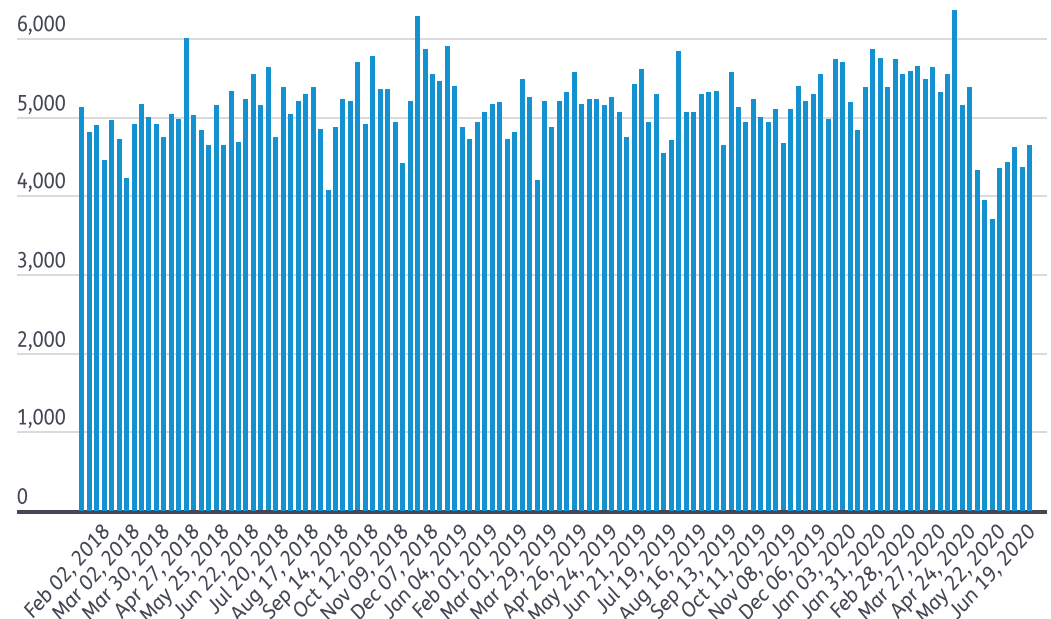
And while Chinese crude imports were expected to reach a record for a second consecutive month in June, inventories there are still building, suggesting any recovery in demand is not occurring as swiftly as hoped.

With Beijing returning to lockdown, July volumes will be closely watched.

Operating costs for a product tanker were estimated at \$7,280 daily for a medium range tanker, according to RDO's 2019 Opcost report.

Suezmax tankers cost \$8,800 per day to run, while aframax cost nearly \$7,400 daily.

Weekly US exports of total petroleum products in '000 barrels



Source: EIA

Despite a backdrop of weak demand in respect of the ongoing coronavirus pandemic, the world boxship fleet welcomed a further 70,700 teu of new tonnage in May, according to Lloyd's List Intelligence.

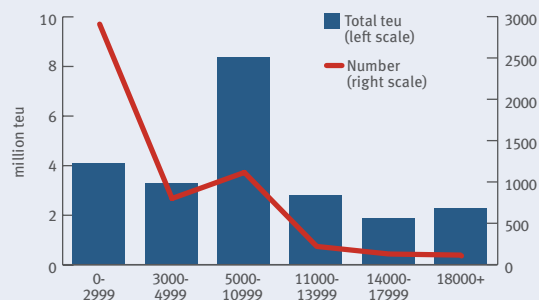
The lion's share of capacity comprised the delivery of the second and third 23,000 teu

units from HMM, as part of its 12-ship order placed in 2018.

HMM Copenhagen and HMM Oslo join HMM Algeciras as part of The Alliance's Asia-Europe offering.

However, in terms of fresh newbuilding orders in May, there was little to report amid limited opportunities for owners to find work for their existing fleet.

World active container ship fleet



World boxship fleet update: idle summer days

Newbuilding orders stagnate as owners struggle to find work for the existing fleet, writes **James Baker**

After a challenging second quarter of the year so far, which saw the full impact of the coronavirus pandemic take a firm grip on container shipping demand, carriers are continuing to blank services to meet the reduced requirements for container transport from consumer economies.

As Europe begins to emerge from its lockdown, there are slight signs that there may be some increase in demand.

However, for now a large number of services remain closed or merged, with little chance of being restarted any time soon. In all likelihood, further blankings will be announced for the third quarter of 2020.

As a result, an ever-increasing number of container ships have found themselves with nothing to do and nowhere to go, and have ended up being idled.

Figures from Lloyd's List Intelligence, which records the number of boxships that have not moved for at least five days at the major lay-up locations around the world, put the amount of idle capacity at 1.02m teu, representing 4.7% of total fleet capacity.

An additional 31 vessels, comprising 136,300 teu,

World container ship fleet May 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	2,909	4,103,529	205	388,760	36	49,421	1	1,091	242	439,271	10.7%
3,000-4,999	800	3,292,308	21	72,128	0	0	0	0	21	72,128	2.2%
5,000-10,999	1,115	8,353,479	9	48,900	0	0	0	0	9	48,900	0.6%
11,000-13,999	220	2,808,350	27	315,320	15	173,500	2	23,700	44	512,520	18.3%
14,000-17,999	128	1,880,299	17	254,128	15	227,784	12	178,256	44	660,168	35.1%
18000+	115	2,289,012	27	602,530	6	137,000	8	184,400	41	923,930	40.4%
Total	5,287	22,726,977	306	1,681,766	72	587,705	23	387,447	401	2,656,917	11.7%

*Excluding newbuilding postponements and cancellations under negotiation

Source: Lloyd's List Intelligence

became unemployed in May alone, according to Lloyd's List Intelligence.

Analysis from Alphaliner, which also takes into account vessels out of service for scrubber installations, shows that 2M alliance members Maersk and MSC account for the bulk of laid-up capacity — but more than half of this volume is ships that have been taken out of service for exhaust gas system retrofits.

When idle tonnage is viewed as a percentage of each carrier's total fleet, South Korean line HMM — which is in the middle of increasing its fleet with new ultra large tonnage — leads the

field, with almost 40% of its capacity unemployed.

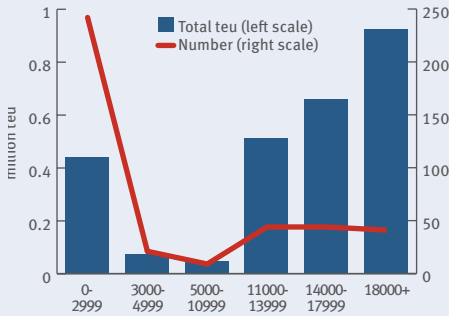
Alphaliner expects the inactive fleet to peak shortly, as lockdowns across many countries are eased and a recovery in demand gets under way.

"There are encouraging signs that carriers have overestimated the level of demand contraction in May, and capacity shortages on certain routes have already started to push spot freight rates up," Alphaliner said.

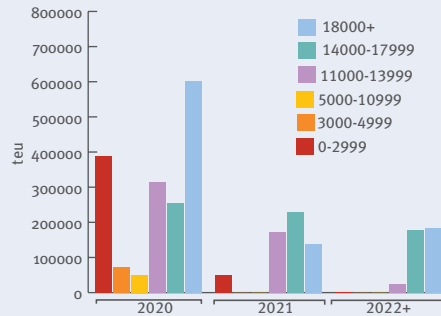
The real burden of lay-up, however, is likely to fall not on container carriers, but on non-operating owners providing tonnage to carriers.



Containership orderbook



Containership delivery schedule



Data from:
Lloyd's List Intelligence
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Lloyd's List Intelligence figures show that of the capacity in lay-up, less than one-third is operator-owned vessels. The remainder is from ships either chartered in or off-hire entirely.

If capacity requirements remain at their current reduced levels for the foreseeable future, it is likely that charters on unemployed vessels will not be extended and they will be returned to their owners, putting earnings pressure on tonnage providers.

Against this backdrop, it may seem surprising that any new ships are still entering the fleet, but these ships were ordered in more positive times.

May saw the addition of 70,700 teu of capacity entering the fleet, with three large ships accounting for the bulk of it.

HMM took delivery of the second and third ships in its 12-ship order for 23,000 teu units that it placed with Daewoo Shipbuilding & Marine Engineering and Samsung Shipbuilding & Heavy Industries in 2018. *HMM Copenhagen* and *HMM Oslo* join *HMM Algeciras*, serving the Asia-Europe trade as part of The Alliance's portfolio.

Eastern Pacific Shipping, meanwhile, took delivery of the more flexibly sized 15,128 teu *CMA CGM Brazil*, which has entered into service with the French carrier.

The vessel is the fifth from Hyundai Samho Heavy Industries that CMA CGM has taken under long-term charter. Six more vessels remain on the order, but these will be liquefied natural gas-fuelled as part of CMA CGM's efforts to decarbonise its fleet.



HMM took delivery of two more vessels in its 12-ship order for 23,000 teu units, joining HMM Algeciras on the Asia-Europe trade.

“If capacity requirements remain at their current reduced levels for the foreseeable future, it is likely that charters on unemployed vessels will not be extended and they will be returned to their owners, putting earnings pressure on tonnage providers”

Unsurprisingly, May followed April with no new orders for ships of any size.

That looks to remain the pattern for some time to come, with analysts at Lloyd's List Intelligence forecasting that only 83 ships will be placed on order in 2020, compared with 148 last year, which is the lowest annual figure since 2009.

“The Covid-19-driven decline in the container trade, coupled with general economic uncertainties, has affected the near-term contracting forecast,” the latest Lloyd's List Intelligence Shipbuilding Outlook said.

The current orderbook stands at 2.6m teu, or 11.7% of the existing fleet. However, much of this could end up being deferred or cancelled, depending on the speed of any post-pandemic recovery.

The forecast for deliveries of container carriers in the 2020-2024 period stands at 8.8m teu, spread across 1,130 ships. This is 24%

more than in the previous five years in terms of capacity. Some 244 will be in the 10,000 teu to 14,000 teu bracket, representing 42% of total delivered capacity.

Fleet growth in the past five years has been 24.9%, or 4.5% on average annually in terms of teu. In terms of the number of vessels, the fleet grew by 0.8% annually in 2015-2019.

The period from 2020 to 2024 is forecast to see 6.4m teu, or 5.1% on average added each year. The highest growth rate will be in the 14,000 teu-plus size group, which is forecast to grow at an average annual rate of almost 14.5%, followed by the 10,000 teu to 14,000 teu fleet, which is forecast to increase by 10.2% on average each year.

At the other end of the life cycle, scrapping is due to see more than 500 ships, comprising 1.1m teu, removed from the fleet over the same period. This is 25% lower than in the previous five years measured in teu.

There will, however, be a steep increase of removals of smaller ships, which have become economically unsustainable following the introduction of IMO 2020.

Although not yet recorded by Lloyd's List Intelligence, May saw one major milestone in shipbreaking, with the sale to breakers by Costamare of the 1997-built, 7,402 teu *Kokora*.

Originally launched as *Katrine Maersk*, the vessel was at the time the largest boxship in the world by some margin and has now become the largest-ever to be scrapped.

Blank sailings extend into third quarter

Transpacific carriers are slated to take out 7% of slot space at the beginning of the third quarter, in addition to 15% of capacity on the Asia-Europe trade, writes **Alan Murphy** as part of Sea-Intelligence’s regular analysis for Lloyd’s List magazine

The impact on demand caused by the coronavirus pandemic has well and truly extended into the third quarter of 2020, with a sharp increase in the number of blank sailings scheduled for the third quarter.

Before we delve into the capacity side of the equation, a look at Container Trades Statistics’ demand data shows a global collapse in demand growth for April, with the monthly figure dropping a sharp 16.9% year on year.

In the January-April 2020 period, global demand contracted by 8.1%, equal to a total loss of 4.4m teu of 2020 cargo compared with last year.

The depth of the demand contraction varied across the different regions; the Indian Subcontinent and Middle East was hit the hardest, with an April contraction in excess of 25% for both imports and exports.

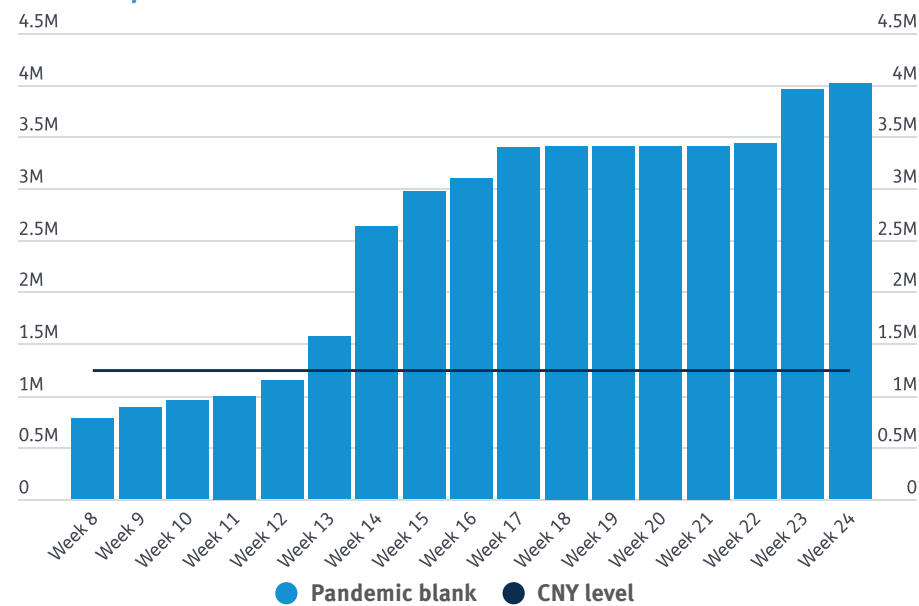
Blanked capacity

Figure 1 shows the total amount of capacity blanked over the entire week five to week 35 pandemic period on the combined Asia-Europe and transpacific trades, including a 12-week outlook at time of writing.

Note that this is not the amount blanked for the weeks in question (see figures 2-5), but rather total 2020 blanked capacity, as the weeks have progressed.

As shown in figure 1, there was a steep increase in the amount of announced blank capacity in week 23, after a plateau of about six weeks with practically no new blank sailings announced.

Figure 1: Total capacity blanked in week five to week 35 on Asia-Europe and transpacific



Source: Sea-Intelligence

Since all economic indicators suggest a continued demand depression from the pandemic, carriers — and especially the 2M and The Alliance carrier alliances — have extended blank sailings into the third quarter.

The week 23 increase of 15.2% was the highest weekly increase since week 14. The 2020 coronavirus blank sailings have now reached a level a little in excess of 4m teu — and roughly 3.2 times the 2020 Chinese New Year (CNY) blank sailings.

In week 24, however, there was only a marginal 1.4% capacity increase in blank sailing announcements, which is somewhat surprising, since Ocean Alliance has yet to come close to the amount of blanked capacity announced by the other two alliances.

A likely explanation for this — and with the current pandemic history as a guide — is that Ocean Alliance has been more tactical with its blank sailings, making announcements later than the other two carrier alliances.

We will continue to cover the pandemic in as wide a range as possible, with our in-depth analysis of capacity, reliability, freight rates, transit times and other liner

shipping metrics that have been impacted by the pandemic.

In addition to the coverage in our weekly Sunday Spotlight report, we also provide a detailed breakdown of the blanked and available capacity in our Blank Sailings tracker, which is currently updated weekly and published every Friday.

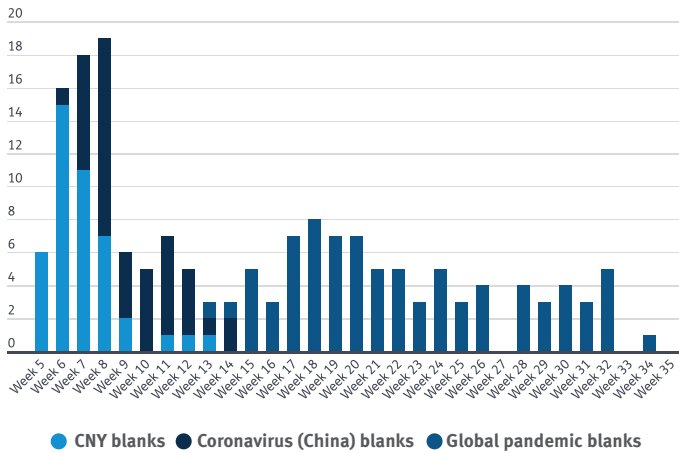
Network impact

In the following charts, we have the detailed the weekly blank sailings figures for the four major east/west trade lanes, on an overall trade lane level, as well as broken down across the carrier alliances.

Before we delve into the analysis, there are a few methodological choices we want to highlight, as to how we have attributed blank sailings to coronavirus:

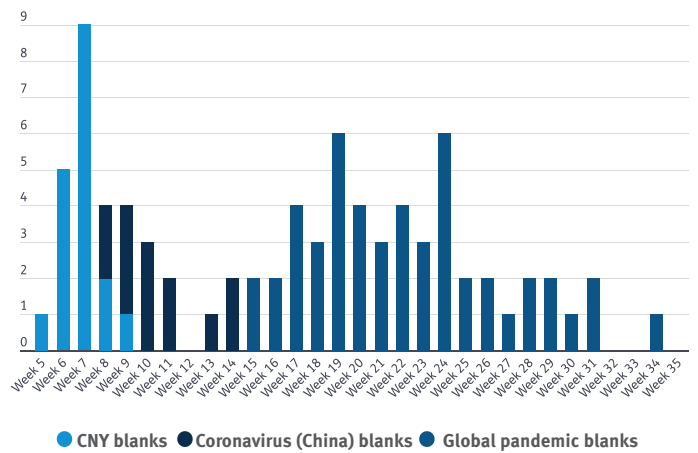
- The analysed period is from week five to week 35 (31 weeks), with week numbers referring to the week of departure from the last port call in Asia. If, in each week, a service had no vessel leaving Asia, we count that as a blank sailing.
- In order to distinguish between ‘normal’ CNY blank sailings and those attributable to the pandemic, we have designated all

Figure 2: Blank sailings (Asia-NAWC)



Source: Sea-Intelligence

Figure 3: Blank sailings (Asia-NAEC)



Source: Sea-Intelligence

blank sailings announced or scheduled before CNY on January 25 as CNY blank sailings. As CNY blank sailings are usually announced five to six weeks in advance, and as there were no blank sailings announced for the CNY period in weeks one to four, this is a clear distinction.

- For blank sailings announced after January 25, we have labelled those announced from CNY until March 13 as ‘coronavirus (China) blanks’, as this was the period when coronavirus primarily impacted production capabilities and supply chains in China, and the blank sailings were not caused by a shortage in demand in destination regions, but rather by a lack of containers to ship out of China.
- Blank sailings announced after March 13 have been labelled ‘global pandemic blanks’, as the impact had moved to a pandemic and blank sailings were primarily caused by a drop in demand in destination regions, rather than a shortage of production in China.

Blank sailings

Figures 2-5 show the number of blank sailings in week five to week 35 – both those in the past and those scheduled at time of writing (June 15) – on the transpacific and Asia-Europe trade lanes.

We have kept the axes the same in all four charts, for direct visual comparison between the trade lanes.

In total, there are 257 blank sailings on the transpacific, of which 195 are as a result of coronavirus and the remaining 62 are due to CNY.

On Asia-Europe, there are 198 blank sailings, including 152 as a direct result of coronavirus. The total number of blank sailings on these four trade lanes have reached 455 – and, adding in the 95 blank sailings on the other deepsea trade lanes covered by our Blank Sailings tracker, the total blank sailings so far have reached 550.

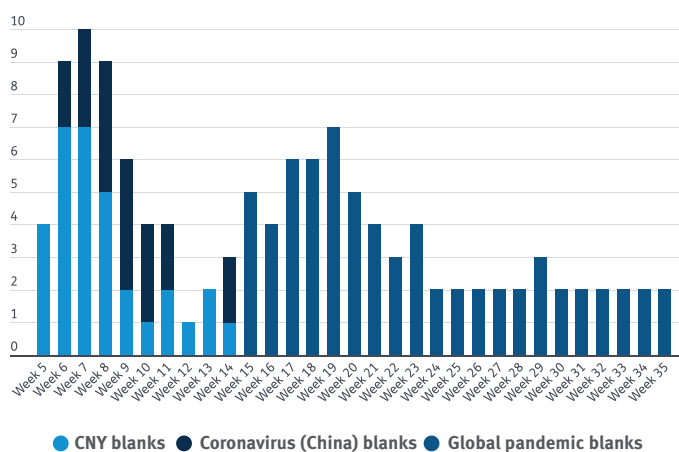
As mentioned earlier, the blank sailings account for a little over 4m teu on the transpacific and Asia-Europe trades combined. This translates into a combined

week five to week 35 trade-wise blank sailings breakdown of 1,52m teu or 15.6% of the total 31-week trade lane capacity on Asia-North America west coast; 685,000 teu or 12.8% on Asia-North America east coast; 2.06m teu or 21.8% on Asia-North Europe; and 992,000 teu or 21.5% on Asia-Mediterranean.

Until week 22, carriers had not announced any substantial blank sailings for the third quarter, but this all changed in week 23 as roughly 500,000 teu of blank sailings were announced for the third quarter in just one week.

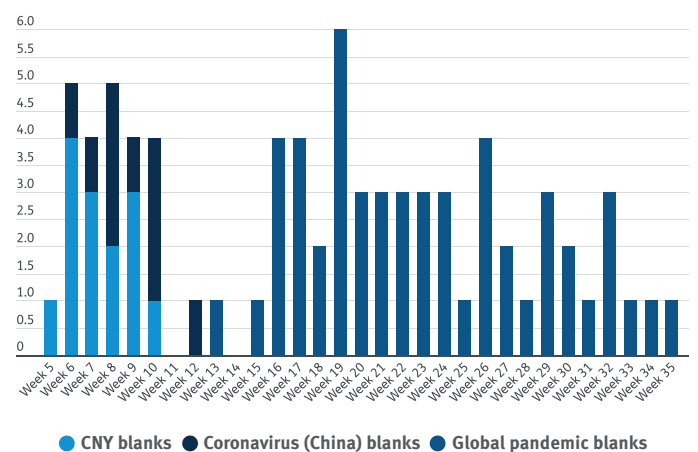
Looking forward to weeks 24-35, carriers are slated to take out 7% on both the Asia-North America west coast and Asia-North America east coast trade lanes, whereas 13% is slated for Asia-North Europe and 17% for Asia-Mediterranean. In teu terms, roughly 420,000 teu will be blanked on the transpacific, and 790,000 teu on Asia-Europe.

Figure 4: Blank sailings (Asia-North Europe)



Source: Sea-Intelligence

Figure 5: Blank sailings (Asia-Mediterranean)



Source: Sea-Intelligence



The Alliance has so far announced the most extensive list of blank sailings, with 9%-15% on the transpacific and 21%-25% on Asia-Europe

Alliance capacity

Figure 6 shows a breakdown of the percentage of alliance capacity slated to be blanked on the transpacific and Asia-Europe trade lanes in weeks 24-35. This is a forward-looking chart and will continue to change as carriers announce more blank sailings in the coming weeks.

As mentioned previously, Ocean Alliance has not announced blank sailings in line with the other two carrier alliances, which means that shippers should be alert to a likely sudden announcement from Ocean Alliance.

In issue 462 of our Sunday Spotlight, we identified the services that are most

likely to be impacted by blank sailings, as each alliance has historically favoured blanking sailings on certain services more than others.

The Alliance has so far announced the most extensive list of blank sailings, with 9%-15% on the transpacific and 21%-25% on Asia-Europe. 2M has also provided an extensive blank sailings schedule for Asia-Europe and Asia-North America east coast, whereas it has announced a capacity reduction of just 3% so far on Asia-North America west coast.

It is clear that the carriers have become much more proficient in using blank sailings as a short-term tool to

tailor capacity more closely to the available demand.

This increased proficiency in tactical capacity management, combined with the unprecedented level of carrier consolidation in the past five years, means the carriers have been able to maintain and even increase freight rates throughout this pandemic crisis, to the surprise of us and most other industry observers.

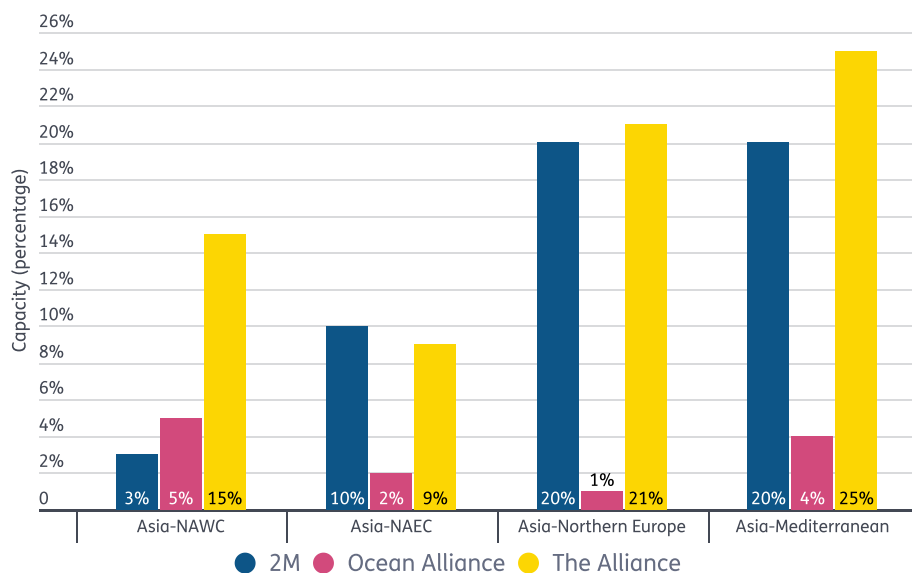
Traditionally, carriers have not been able to maintain rates above costs, especially in the middle of a crisis, as there would always be at least one carrier ready to break ranks and underbid in an attempt to gain market share or increase utilisation — but we are simply not seeing it this time around.

Following CNY and the initial coronavirus outbreak in China, spot rates on the Shanghai Containerised Freight Index for Asia-US west coast bottomed out in the first week of March at \$1,361 per feu. Since then, however, the spot rates have spiked considerably to \$2,755 per feu on June 12, which is a little over double (102%).

On the Asia-US east coast trade, spot rates are up 22% compared with the post-CNY bottom. On Asia-Europe, the spot rate trend was not that dissimilar to that on the transpacific, with a spot rate spike leading up to CNY followed by a bottoming out mid-April. Since the bottoming out, Asia-North Europe has seen spot rates increase by 21%, and Asia-Mediterranean by 13%.

Figure 6: Alliance capacity blanked (weeks 24-35)

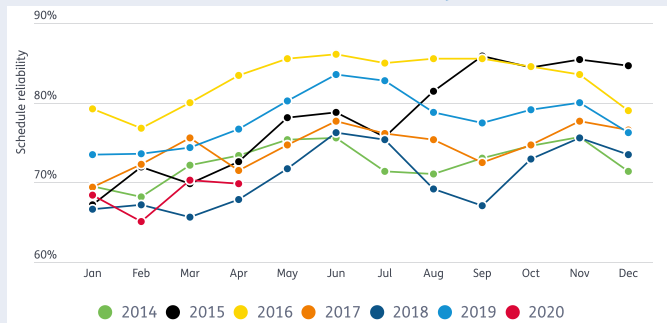
Global pandemic blanks



Source: Sea-Intelligence

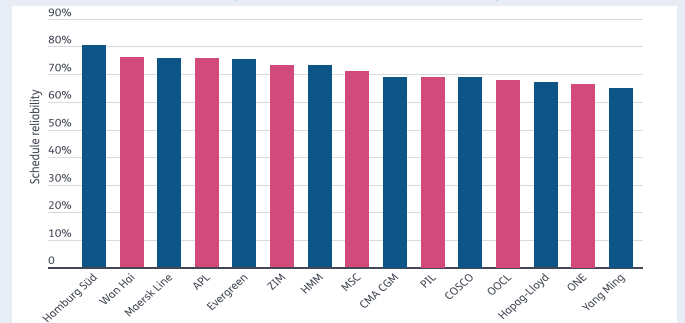
Alan Murphy is chief executive of consultancy firm Sea-Intelligence

Figure 7: Global schedule reliability



Source: Sea-Intelligence

Figure 8: Global top 15 carrier ranking (April 2020)



Source: Sea-Intelligence

Schedule reliability in June 2020

Figure 7: Global schedule reliability dropped to the lowest level recorded by Sea-Intelligence in February 2020.

This decrease was understandable, as all else equal, we would expect schedule reliability to be negatively impacted by a large number of blank sailings — especially since the non-blanked sailings would often need to make ad-hoc port calls to pick up the slack caused by the blank sailings.

Surprisingly, we recorded a 5.3 percentage point month-on-month improvement in schedule reliability in March, followed by a marginal 0.5 percentage point month-on-month decline in April.

One possible explanation was that the carriers' initial schedule reliability impact of coronavirus was masked behind the seasonal CNY drop in schedule reliability — following which, carriers instituted necessary buffers into their schedules to maintain schedule integrity.

However, in issue 467 of the Sunday Spotlight, we tested for this hypothesis on the transpacific trade lanes and saw no indication of added buffers in schedules, as transit times hardly changed in March-June when compared to the transit times from immediately before the coronavirus outbreak, in the October 2019-January 2020 period.

Breaking it down on a service level, a considerable majority of the services that had fewer arrivals in April than in February (ie, services that were blanked more in April) saw an improvement in schedule reliability in April. This leads to a simpler explanation, that carriers are finding it easier to maintain schedule integrity with fewer vessels per service string.

That said, the average delays for late vessel arrivals have roughly been at the same level across the first four months of the year, averaging at 4.88 days, and within a range of 0.29 days.

For January-March 2020, the average delay for late vessel arrivals have been the highest outside of the corresponding period in 2015, which is when the US west coast labour dispute caused large-scale port congestion at the region's ports.

For April 2020, the average delay for late vessel arrivals were at their highest recorded figure for the month of April.

Figure 8: Hamburg Süd was the most reliable top-15 carrier in April 2020, with schedule reliability of 80.3%, followed by Wan Hai with 76.2%, and Maersk Line, APL and Evergreen all within 0.3 percentage points of each other at 75.8%, 75.7% and 75.6%, respectively.

Figure 9: The average industry schedule reliability on the east/west trades improved

by 5.8 percentage points month on month in March/April 2020, reaching 68.6%.

2M was the most reliable carrier alliance, with March/April 2020 schedule reliability of 76.3%, recording a monthly improvement of 5.4 percentage points.

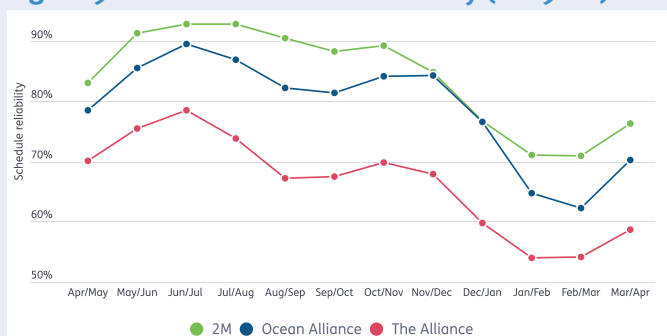
Ocean Alliance followed second, despite recording the largest month-on-month increase in schedule reliability of eight percentage points to 70.2%. The Alliance was the least reliable carrier alliance, as it has been consistently since the launch of the new alliances in April 2017, with schedule reliability of 58.7%, with a month-on-month increase of 4.5 percentage points. Figure 10: In March/April 2020, schedule reliability improved year on year on all but one east/west trade lane: Asia-Mediterranean.

Asia-North America west coast recorded a 3.3 percentage point improvement to 71.2%, while Asia-North America east coast was the only trade lane to record a double-digit year-on-year improvement of 12.9 percentage points to 67.5%.

Asia-North Europe recorded a three-percentage point improvement and Asia-Mediterranean deteriorated by -2.6 percentage points to 74.1% and 72.8%, respectively.

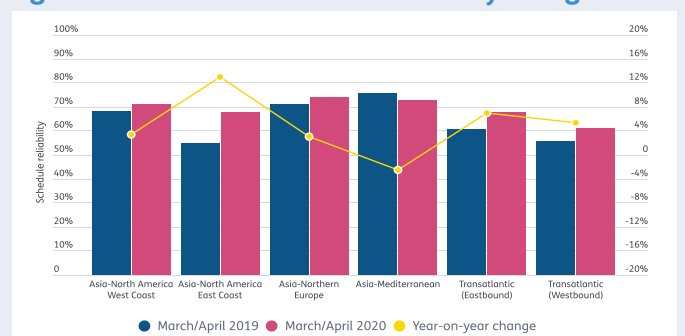
Both transatlantic trade lanes recorded schedule reliability improvements.

Figure 9: Alliance schedule reliability (2019-20)



Source: Sea-Intelligence

Figure 10: Trade lane schedule reliability change



Source: Sea-Intelligence



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Box lessors and non-operating owners are feeling the pain of the slowdown in container demand.

Box lines push cost savings on to lessors and owners

Container sector discipline is giving carriers a good crisis as pain is shifted elsewhere, **James Baker** reports

Container line results from the first quarter of the year showed that carriers have been surviving the coronavirus pandemic relatively painlessly.

Results from the second quarter of the year may well paint a grimmer picture. In early June, CMA CGM said it expected volumes to be down by 15% over the quarter compared with last year.

In every previous economic crisis, a collapse in volumes would normally lead to a collapse in freight rates. This time it is different.

Freight rate data from Drewry shows that the Hong Kong-Los Angeles benchmark stood at \$1,920 per feu during week 24, up 30% on the same week in 2019.

Online pricing specialist Freightos noted that transpacific ocean freight rates were now at an 18-month high as demand picked up amid reduced capacity.

After years of industry indiscipline that led to a vastly inflated orderbook and endemic overcapacity, the new, more heavily concentrated container shipping sector that has emerged since 2016 has been able to manage capacity to meet demand — and, in doing so, maintained and even increased freight rates.

Achieving this has not been without sacrifice. The lower volumes of containers have required a smaller number of ships to transport them, which has seen the amount of idle tonnage rise to record levels, upwards of 10% of total fleet capacity.

And with fewer goods being transported, fewer containers have been required.

The consequence of this has been to push the immediate impact of the pandemic crisis back on to the carriers' suppliers: the non-operating owners from which they charter tonnage and the container leasing companies.

Charter transactions are still taking place and actually increased in May by 15% above the levels reported in April, according to one broker source.

“Unfortunately, the rather overwhelming tonnage supply accelerated the development of declining charter rates, with a trend line towards opex levels for some sectors of the market.”

BIMCO chief shipping analyst Peter Sand said charter rates for boxships were a better guide for the state of the market than freight rates.

“The collapse in container shipping demand caused a jump in the number of ships available for charter, which sent charter rates — especially for the large vessel sizes — down,” he said.

“The daily hire for an 8,500 teu vessel has fallen by 38% from the start of the year, from \$30,000 per day to \$18,500 on May 15, with rates likely to continue falling until higher cargo volumes return.

“Rates for a 6,500 teu ship have fallen the most: down 42% since the start of the year, to \$14,500 per day on May 15.”

Bottom of the market

Maritime Strategies International analyst James Frew said the bottom of the market was likely to come in the next quarter of the year.

“We see charter rates bottoming in the third quarter of 2020 and recovering from there,” he said.

“That market trough is nowhere near the sort of lows we saw in 2016. The industry is much more able to look through the crisis and see potential for future vessel demand.”

The broker source said the outlook for the rest of 2020 remained “depressing” but said any forecast was subject to how the world readjusted to the economic depression that had emerged from the pandemic.

John Coustas, chief executive of boxship owner Danaos, said while earnings would be down this year, there were some benefits to the way this crisis had been handled by container lines.

“Charter rates are on the downturn,” Dr Coustas said in a webinar. “Although this is not to the benefit of owners like us, it contributes to the financial stability of our counterparties.”



“*Definitely vessels that are opening around now are, for the time being, managing to find employment, but at significantly lower rates than they were before*”

John Coustas
Chief executive
Danaos

While consolidation in container shipping had worked against companies like his by leaving a smaller number of customers, those larger companies were more solid financially.

“For a company like ours, which has fairly extensive charter coverage, the effects take time to show through,” he said.

“Definitely vessels that are opening around now are, for the time being, managing to find employment, but at significantly lower rates than they were before. However, the rates are not below operating costs, so we are not subsidising the carriers.”

CMA CGM chief financial officer Michel Sirat said in early June that among the cost-saving measures it had managed during the crisis, it had been reducing capacity by pushing chartered ships back to their owners.

The same had been true of equipment, with the company returning unused rented

containers. The impact on equipment lessors is harder to fathom, but it appears they too are feeling some pressure.

“From what we’ve heard in our network, it is not a big thing that all of them return equipment to lessors right now,” a spokesman for container repositioning service Containers xChange said.

“We see that they either rent them out on again or sell them. But it is probably also a reason for why lessors suddenly offer more short-term lease options in addition to long-term leases.”

One lessor, who declined to be named, said it was too early to tell what the impact of the pandemic would be, nor how the market would evolve as economies emerged from lockdown.

“New challenges and opportunities are coming up on a daily basis and we have a long way to go before the ultimate impact is clear.”

More pressure

However, Triton, the US-based listed equipment lessor, said in its first quarter of the year results presentation that while the drop-off in volumes remained moderate, it may come under more pressure.

It expects profitability to decrease from the first to second quarters and said performance in the second half of 2020 would depend on the timing and shape of a global recovery.

According to Dr Coustas, the consolidated container shipping sector, which is also benefiting from firm rates and low oil prices, could come out of the year largely unscathed.

“We don’t believe carriers will have losses in 2020,” he said.

“Everyone is going to be on the positive side because of these factors.”

“*Among the cost savings measures [CMA CGM] has managed during the crisis, it has been reducing capacity by pushing chartered ships back to their owners*”

Michel Sirat
Chief financial officer
CMA CGM



Will the coronavirus pandemic end globalisation?

Failure to repair the current liberal trade system may have more severe economic consequences in the long term than those caused by the pandemic, **Antonella Teodoro** reports



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The health crisis has brought major disruption to supply chains, prompting more companies to seek alternative suppliers.

Tariff reductions, the alleviation of trade restrictions and technological progress in transport and communications led to world trade in non-carbon goods growing from 4.2bn tonnes to 8bn tonnes in the decade to 2019.

Globalisation and pandemics are old acquaintances — for example, the introduction of ‘quarantine’ measures in Venice some 600 years ago.

However, air travel, the internet, trade liberalisation and falling freight transport costs have made countries much more vulnerable to extreme health or financial events on the other side of the world.

The coronavirus pandemic, coming in the wake of the 2008/2009 financial crisis and the 9/11 attacks, has strengthened arguments for nationalism once more, while highlighting the fragility of the global supply chain.

Governments are now preoccupied with establishing policies to protect their citizens from coronavirus.

“*Yet merely to guarantee a longer life to liberal trade should not be seen as the end of the process; several of its current features need adjustment*”

However, a failure to repair the current liberal trade system may have more severe economic consequences in the long term than those caused by the pandemic.

The trend towards regional trade agreements, such as the Progressive Agreement for Trans-Pacific Partnership, represents a step away from the present more integrated global trade system and will leave barriers in place for non-partner countries, reducing overall global standards of living.

The current health crisis has also disrupted supply chains. Companies are looking for alternative suppliers at home, accepting higher prices and therefore potentially leading to a reduction in living standards.

The changes in suppliers might become permanently fuelled by an increasing political drive to be less dependent on international trade.

However, for governments to feel confident in excluding the idea of rejecting a departure from liberal trade — and convince the electorate on why this is a more advisable course of action — they too need to recognise how damaging the ending of liberal trade would be.

Yet merely to guarantee a longer life to liberal trade should not be seen as the end of the process; several of its current features need adjustment.

Most important is the reformation of the World Trade Organization, but also a need for national policies to respond to globalisation and its imperfections.

One of the major factors weakening the role of the WTO is the increasing influence played by China on a global stage.

Global trade (excluding intra-regional flows) of consumer exports in '000 tonnes (2019 vs 2000)

	2000	2019	% change	% of total 2000	% of total 2019
Far East	61,195	137,663	125%	71%	71%
Europe & Med	12,884	25,522	98%	15%	13%
North America	6,300	14,032	123%	7%	7%
Gulf & ISC	2,580	12,924	401%	3%	7%
Latin America	2,452	2,577	5%	3%	1%
Sub Saharan Africa	818	991	21%	1%	1%
Australasia & Oceania	478	380	-20%	1%	0%
Grand Total	86,707	194,088	124%	100%	100%

Source: MDS Transmodal, World Cargo Database May 2020

When the WTO's members allowed China to join the organisation in 2001, the western economies believed its membership would sustain and accelerate its transition into a market-based economy, bringing socio-economic advantages for China, as well as for the countries trading with it.

It is undeniable that China's openness to the world has had positive impacts. Cheaper exports from China have been an important factor in lowering the cost of living in western economies, while millions of Chinese have been lifted from poverty.

However, China has not become an economy based upon the market rules practised in the west, as envisaged in 2001 — and is never likely to be, as its government maintains its central role in its economy.

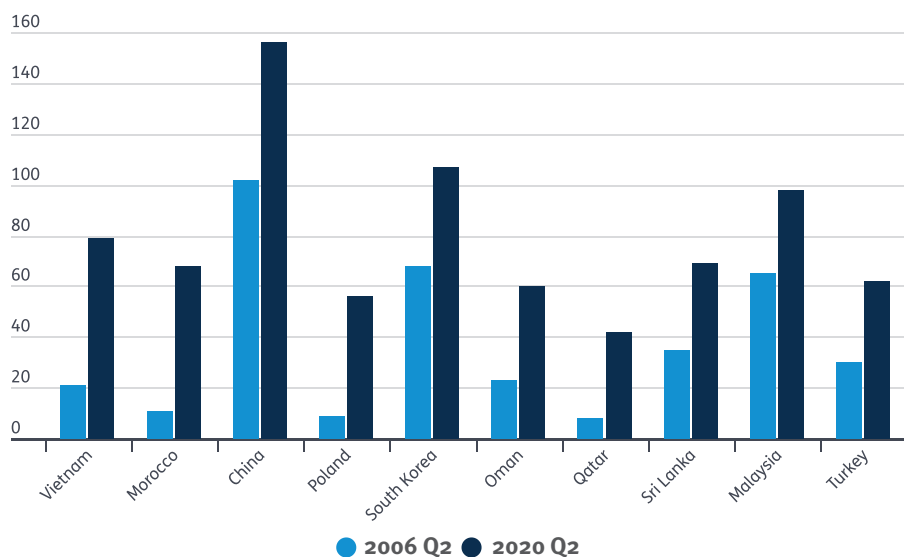
A particular example of WTO rules that are difficult to implement with respect to China concerns public subsidies.

While the WTO allows governments to impose tariffs on goods where explicit production subsidies apply, it would not allow indirect subsidies such as below-market interest rates on credits given by state-owned financial institutions.

Many in the west argue that the cost of free trade has been unchallenged. The major area of contention is the loss of manufacturing jobs, which is a longstanding political issue.

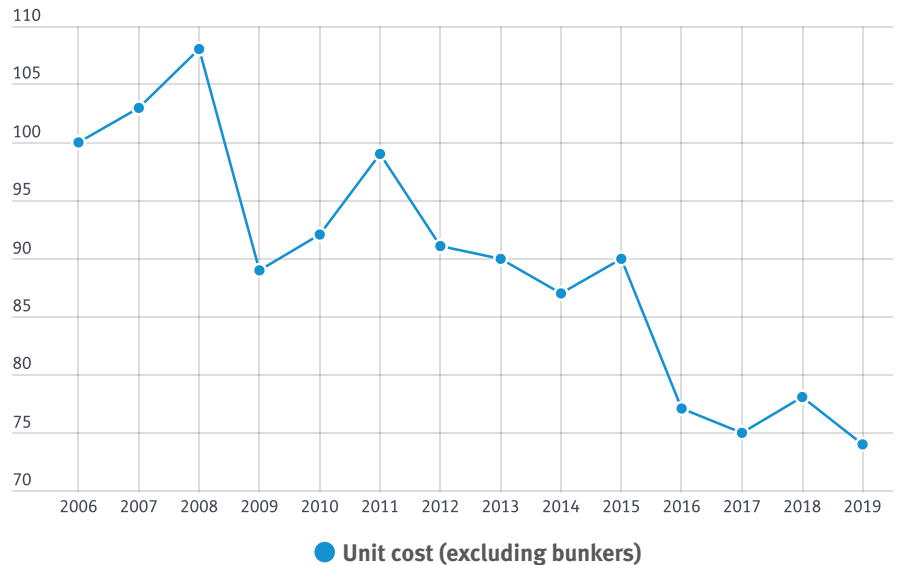
The table (opposite page) shows how exports of consumer goods has grown rapidly in eastern countries compared to European countries since the turn of the century, with their share of the total trade relatively unchanged at above 70%.

Countries with the highest Liner Shipping Connectivity Index increases from 2006 to 2020



Source: www.portlsci.com

Container shipping unit costs after deducting bunkers (index 2006 = 100)



Source: MDS Transmodal, Container Business Model May 2020

The pandemic and the disruption in supply chains that have occurred from the restrictive measures put in place to limit its spread have caused critical shortages of essential goods and materials highlighting the “dependency” on factories located in the Far East.

This has encouraged countries to think more about safety and self-sufficiency, powered by popular opinion rather than the thoughts of economists.

However, one should not ignore the advantages that liberal trade has brought. It has increased competition, promoted innovation and efficiency, while providing the sustained diffusion of knowledge and movement of capital. Consumers

also benefit from a greater variety or choice of goods.

Rejecting globalisation would mean rejecting these positive impacts, but — more importantly — the cost of abandoning the existing networks and associated investments would itself create a further shock to an economic system already under immense pressure, making the current situation worse.

The consolidation of shipping lines and the deployment of larger and more efficient vessels offered on deepsea routes have led to a substantial reduction in maritime costs (as seen in the chart above) to the benefit of the global economy.

Less integration of global trade could affect levels of maritime connectivity, which could be damaging — especially for the developing countries.

A reduction in maritime services offered by the shipping lines, to adapt to declining trade flows, is likely to affect the liner shipping connectivity of sourcing countries, both in terms of intercontinental services, as well as intra-regional feeder calls.

This could make economic development harder for these economies. The chart (left) shows the top 10 countries with the highest Liner Shipping Connectivity Index increases between 2006 and 2020.

While abandoning liberal trade would be a mistake, not using this moment of crisis to reform the system in which it operates would be a missed opportunity to improve its possibilities.

Antonella Teodoro is a senior analyst at MDS Transmodal



Shipping needs help to achieve green targets

Webinars on future fuels raise more questions than answers as the industry remains uncertain whether commercial viability is more important than environmental protection

There is no golden fuel solution for shipping's quest for decarbonisation, nor a silver bullet. However, there are plenty of grey elephants in the room that need to be identified.

Some of these were uncovered during a Mare Forum webinar, which discussed 'Sense and Nonsense about future fuels'.

Once more, the value of liquefied natural gas as the best available solution over the next 20 years was debated, along with the shortcomings of battery technology.

It will have come as no surprise that the highest response to a poll question asking which fuel strategy would most likely meet the decarbonisation agenda was a mix of alternatives.

While that sounds reasonable it is, in fact, no solution at all. It merely demonstrates the state of uncertainty in which the industry finds itself.

One speaker grumbled that the International Maritime Organization had set targets but provided little guidance as to how those targets should be achieved.

"If a shipowner invests in one of the new technologies," he asked, "how will he know it will still be viable in 20 years' time?"

A provocative comment from a listener suggested the industry should instead wait for the IMO to say what fuel to use and do nothing in the meantime.

Another listener asked how many shipowners globally are working on a strategic plan for the next 20 years, with milestones already in place.

The implication was that few — if any — had the capacity to think that far ahead.

How many shipowners had appointed a chief strategy officer to oversee such a strategy? Again, few, if any.

The largest of the elephants is this: shipping is under constant pressure to ensure short-term commercial viability — say two or three years ahead — while facing demands to meet emission targets some 20 or 30 years in the future.

It would have been better to set an emissions target for 2025 and 2030 and revise the longer target in 2025.



Martina Badini/Shutterstock.com

There appears to be little middle ground between commercial viability and environmental protection.

As a consequence of unrealistic expectations, all solutions are being pursued with a passion by their advocates. Even scrubbers — a stop-gap solution, if ever there was one — have been given a boost by low oil prices.

Incredibly, the burden of finding a solution has been laid upon the shipowner. They argue — and the point was clearly made by webinar speakers — that the end-user, or the shipowners' clients' clients, cannot make up their mind whether they want cheap goods or a clean environment.

The extra cost of decarbonising the supply chain is only a few cents — but this has become a bridge too far.

How much would the consumer be prepared to pay for a green solution? Does commercial viability trump environmental protection?

Is it realistic to ask shipping to go down the decarbonisation route without decarbonising the global economy?

Shipping needs help. The circumstances around the coronavirus pandemic have forced governments to stop and think about preparedness.

The next crisis — regarded by many as a climate catastrophe — requires action, not talk.

This 'Sense and Nonsense' webinar provoked many more questions than answers, the most urgent of which is: 'What is more important for global society: commercial viability or environmental protection?'

The coronavirus backdrop has shown that the answer 'both' is not an option.

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