Lloyd's List

LLOYDSLIST.COM MAY / JUNE 2020

INSIDE

Crewing crisis

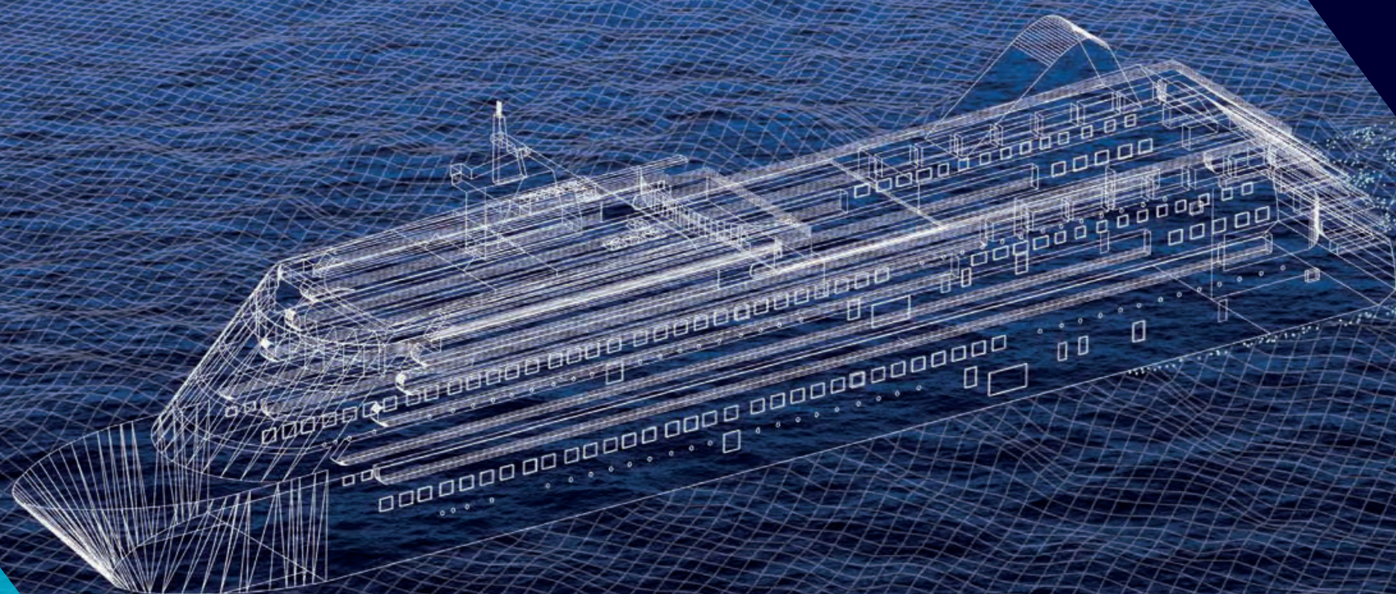
Floating storage peak

Sanctions sledgehammer

Adapting to the new normal:

Shipping in the post-coronavirus era

RINA. Excellence
Behind Excellence.



Discover how to guide your fleet to great results, thanks to our digital capability.

rina.org

The editor's letter

LINTON NIGHTINGALE

Seafarer tribute must not fall on deaf ears

These individuals have ensured the industry continues to function as they expose themselves to significant risk

Crew repatriation has become a mounting concern within the shipping sector throughout the coronavirus pandemic, in what has escalated into a herculean task for industry stakeholders to ensure seafarers are not stranded both at sea and on shore.

Shortly before penning this editorial, it was estimated that as many as 150,000 seafarers were on board vessels at sea unable to sign off, while a similar number were awaiting clearance on land to sign on.

There have been numerous examples of governments refusing — or likewise complicating — crew changes in their jurisdiction.

Shipowners and ship operators, too, have imposed restrictions on the movement of crew to prevent the spread of the virus and minimise operational disruption.

These restrictions have drawn criticism from some quarters, who claim such measures go above and beyond necessity. Often the care and wellbeing of seafarers has, sadly, been an afterthought.

Reports note how seafarers essentially feel trapped, while suffering from exhaustion due to long working hours — not to mention the stress caused by fears of contracting the virus.

To their immense credit, some seafarers have agreed to extend their tours of duty. However, this is no long-term fix.

Thankfully, flag states, unions, shipping associations, charities and non-governmental bodies have lobbied governments hard to make seafarers exempt from travel restrictions on the grounds of key workmanship.

The International Maritime Organization has also issued a 12-point plan that sets out both the responsibility of stakeholders and a framework of procedures that can be adopted globally, ensuring trade continues to flow — and, crucially, seafarers are relieved.

Although these protocols have been agreed, they are not obligatory. Nevertheless, it is still a step in the right direction to resolve an issue that could drag out for some time yet, with travel restrictions undoubtedly remaining in place as the virus continues to spread.

Display of gratitude

The gratitude shown by the industry on May 1, or International Workers' Day, when ships in ports globally marked the occasion by sounding their horns in honour of the humble seafarer, will have hopefully struck a chord.

The initiative, driven by the International Chamber of Shipping and the International Transport Workers' Federation, saw social media awash with tributes from across the globe.

Organisers should rightfully be commended for helping show that the seafarers are greatly appreciated.

These are the individuals at shipping's coalface, ensuring the industry continues to function in these trying times, as they expose themselves to significant risk to all our benefit.

Seafarers, I salute you.

The current plight of seafarers will continue to demand industry and government support. Let's hope those horns do not fall on deaf ears.

Contents

COMMENT

04 A sanctions sledgehammer

06 Are box lines becoming price-setters?

COVER STORY

11 Coronavirus: the 'everything shock'
Working assumptions are no longer givens

CORONAVIRUS

14 Adapting to the new normal
Steps taken by Wrist Group's Jens Holger Nielsen

16 Changing trade lanes
Can globalisation be reversed?

20 Where to find consolidation targets
Asset-light, knowledge-rich businesses needed

22 Collaboration holds key to success
Prospects for technological innovation

26 Seafarers look to uncertain future
Stranded crew slowly being repatriated

28 Automation remains on the US agenda
Virus has accelerated desire for development

ASK THE ANALYST

32 Benchmarking vessel risk
Tool can help to interpret ship's behaviour

SHIPBUILDING

34 Global fleet to grow at reduced rate
Growth of seagoing trading ships slows down

MONTH IN CHARTS

36 Scrapping low, floating storage high
Pandemic has significant impact on shipping

MARKETS

44 Dry bulk: Grain trade support

46 Tankers: 'Sanctions evasion practices'

50 Containers: World boxship fleet update

REGULARS

42 Yard Talk: A bet on a nation's fortune

53 From the Newsdesk: Banks can do more

54 Last Word: Students should stay positive

MICHELLE WIESE BOCKMANN
Reporter

A sanctions sledgehammer

OFAC has grown into an aggressive foreign policy tool under President Trump's leadership, prompting fear that is now driving sanctions compliance

The adage about using a sledgehammer to crack a nut has never been more appropriate for the US Department of Treasury's Office of Foreign Assets Control, best known as OFAC.

This small agency has evolved under the presidency of Donald Trump into an aggressive foreign policy tool using unilateral sanctions to deeply influence global energy commodities markets.

The mercurial, ambiguous and inconsistent application of OFAC sanctions on Iran and Venezuela is a deliberate tactic to keep international shipping on its toes.

In mid-May, the US administration issued fresh guidance for global shipping to identify and detect deceptive and illicit practices used to evade sanctions.

A reassessment of policies and procedures for marine insurers, shipowners, charterers, and service providers is now under way as a result.

The guidance implies a heavy reliance on automatic identification system transponders, which signal a ship's identity and position, to detect illicit activities — even though the tool is designed for collision avoidance.

There is widespread industry concern that AIS monitoring will generate much false or misleading data.

Risk assessments, formal compliance policies and due diligence procedures are already part of scrupulous shipping businesses.

This guidance is likely to see more robust and expansive monitoring of counterparties and a revision of contracts in order to document and demonstrate adherence to OFAC recommendations.

It isn't enough to 'know your customer'. Businesses need to show that they know their customers' customers as well.

Port state control and port authorities are also 'encouraged' to know their customers and report any practices that appear deceptive.

This may set up OFAC to reprimand or pressure governments to act on ship-to-ship transfers of Venezuelan or Iranian cargoes that are known to occur in their coastal waters.

An AIS 'switch-off' clause has already been mooted for counterparty contracts, as well as clauses that restrict ship-to-ship transfers because they obfuscate the origin and destination of cargoes.

There are already concerns about over-zealous and aggressive industry self-enforcement, unofficial blacklists and legal conflict.

Not only do secondary sanctions on Iran conflict with EU blocking statutes but sharing information with competitors about suspect vessels or practices could breach anti-trust laws in some countries.

There are already concerns about over-zealous and aggressive industry self-enforcement, unofficial blacklists and legal conflict

Things could have been worse

International shipping has much to consider — but things could have been much worse.

Original proposals put out for industry discussion by US State Department officials were deemed unworkable by those who participated in meetings and provided feedback.

This guidance – with signals there is more to come — considerably waters down these first proposals.

US sanctions have crippled Iranian and Venezuelan crude exports for nearly 18 months, yet failed to leverage regime change. Nor has OFAC taken on China, the recipient of most Iranian cargoes.

At this level, as an instrument of foreign policy, sanctions could be viewed as a failure. However, they are extremely effective in influencing and changing shipping industry behaviour.

An OFAC designation is a kiss of death for any business and it is this fear now driving sanctions compliance. On that level, OFAC sanctions are a success.

ORCHESTRATE YOUR SUPPLY CHAIN
WITH THE BEST FROM PSA AND GeTS

LEVERAGE PSA'S NETWORK OF MORE THAN 40 TERMINALS IN 16 COUNTRIES
BENEFIT FROM GeTS' CONNECTION TO 26 CUSTOMS NODES GLOBALLY
JOIN OUR COMMUNITY OF MORE THAN 4,000 FREIGHT FORWARDERS

CREATE A NEW HARMONY WITH US TODAY.

PORT+
CARGO SOLUTIONS POWERED BY PSA
CREATING CONNECTIONS WITH PURPOSE AND POSSIBILITIES

ADVANCED TRANSHIPMENT MANAGEMENT

ACCESS THE INTERNATIONAL LAND-SEA TRADE CORRIDOR

SUPERIOR COLD CHAIN INTEGRITY

THE INTERNET OF LOGISTICS
AN ECOSYSTEM OF CONNECTED AND INTEROPERABLE LOGISTICS NODES ACROSS THE PHYSICAL, REGULATORY AND FINANCIAL DIMENSIONS, ENABLING SMARTER AND MORE VISIBLE CARGO FLOW

SEAMLESS AIR-SEA CONNECTIVITY

P!NG ALERTS ON PORT EVENTS

CALISTA™
OPEN PLATFORM POWERED BY GeTS
GENERATING SMARTER, SAFER AND SMOOTHER GLOBAL TRADE

EFFORTLESS CUSTOMS CLEARANCE ACROSS BORDERS

WWW.GLOBALPSA.COM

GeTS

HTTPS://GLOBALETRADE.SERVICES/

JANET PORTER
Editorial board chair

Are box lines finally becoming price-setters?

Price wars have been a feature of container shipping for decades, but as volumes head towards a 25% decline in the second quarter, freight rates are holding up

In the most unlikely of circumstances, container lines finally seem to have gained control over their prices. For decades, container shipping has been grappling with volatile freight rates, largely driven by supply and demand in a fiercely competitive industry where full ships and market share invariably took precedence over profitability.

How to shift from this commoditised marketplace to one where customers were prepared to pay for service quality has baffled the best brains in the business for years.

Yet, at a time when container volumes could plunge by as much as 25% in the second quarter, ocean carriers appear to have achieved just that, if Maersk's recent results are anything to go by.

For despite this unprecedented collapse in cargo liftings, Maersk is managing to keep rates relatively firm.

Even as market conditions started to worsen in the early weeks of the year, Maersk reported average freight rates for the first quarter of $1,999 per 40 ft unit — an increase of 5.7% over the same period of 2019, despite a 3.2% decline in volumes.

In the east-west trades, rates were 7.5% higher, while liftings dropped almost 6%.

In the past, a decline of that scale would have sparked a price war, leaving everyone out of pocket and probably in the red.

That is why container shipping has rarely managed to make decent money.

However, maybe driven by fear about the dreadful consequences of cutting rates against such a dire backdrop, a remarkable level of market discipline is emerging.

> *Maybe driven by fear about the dreadful consequences of cutting rates against such a dire backdrop, a remarkable level of market discipline is emerging*

That has been helped by the creation of three large global alliances dominating the east-west trades.

Where in the past, 20 or more lines would each try to retain a diminishing amount of cargo — using the only weapon they had at their disposal: prices — this trio is able to manage capacity far more efficiently these days.

As Maersk chief executive Søren Skou explained shortly after the company had released its first-quarter results, the alliances are able to behave in a way that was never possible in a more fragmented market.

He cited the 2M partnership of Maersk and Mediterranean Shipping Co, which was able to remove a whole loop from the Asia-Europe trades in the first quarter, and had the scale to ensure it deployed the ships best suited to each route — yet was still able to meet customer needs.

He also noted that in contrast to the last major industry downturn in 2008 and 2009, the container lines' orderbook is now relatively low. Back then, it topped 60% of the existing fleet at one stage. Now, the figure is down to around 10%.

Greater transparency

However, what is really making a difference is digital product development and much greater transparency on underlying market conditions through products such as freight indices, which were not available until recently.

That, said Mr Skou, makes carriers less reliant on customer and anecdotal feedback when negotiating prices.

Neither is Maersk pursuing market share on the ocean side, and he believes other lines are following the same restrained approach.

Cargo interests, too, are behaving differently, with Maersk noting that customers are now far less concerned about price and much more concerned about service quality.

This year, though, Maersk achieved higher rates on both trades, enabling it to fully cover the impact of higher fuel prices resulting from the new IMO 2020 low-sulphur rules.

Customers are focusing more than usual on reliability and trusted partnerships, according to Mr Skou.

As he noted, these are extraordinary times, but perhaps one of the more surprising outcomes of this crisis could be the emergence of an industry that finally becomes a price-setter, not a price-taker, and is no longer at the mercy of markets that have frequently swung from boom to bust in rapid succession.

Of course, this all assumes that carriers will continue to exert self-control as some semblance of normality returns to the container shipping trades after what looks certain to be by far the worst slump the industry has ever endured.

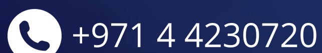
GMS® Leadership

Think Global. Act Local.

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

- Dr. Anil Sharma
Founder & CEO

Download the App



Athens | Bhavnagar | Cumberland | Dubai | Hamburg
New York | Seoul | Shanghai | Singapore | Tokyo

Lloyd's List Awards 2020:

30+
winners

200+
companies as finalists

1,100+
attendees

30+
hours spent networking

The Lloyd's List Excellence in Shipping Awards are the industry's flagship awards programme, seeking to recognise and reward excellence and success within the industry, from large companies, established SMEs and promising start-ups.

Our regional awards will take place in Dubai, London, New York and Singapore.

Category winners at these awards are then given the chance to be doubly recognised through automatic inclusion as finalists in the Lloyd's List Global Awards.

To find out more about the 2020 awards, visit:
lloydslist.com/awards
or contact:
natasha.dwyer@informa.com

Lifetime Achievem

WINNER

Farid Salem
CMA CGM

Xu Lirong
Chairman of
China COSCO SHIPPING Corpor

Xu Lirong
Chairman of China COSCO SHIPPING Corporation

Top tips for entering the awards:

1. Check your entry meets the criteria

You'd be surprised how many entries get rejected due to a simple mistake such as being in the wrong category, year or region.

The judges will check your entry against the criteria. You should too.

2. Stick to the word limit

No-one wants to wade through an overblown entry full of frothy platitudes on why your entry is the absolute best.

The limit is 500 words. Stick to it.

3. Provide online supplemental information

Our judges do a surprising amount of research into the shortlisted entries.

Make their job easy by including links to online videos, webinars or articles that support your entry.

celebrating excellence

ent winners 2019

Kathy Metcalf
President and CEO of the Chamber of Shipping of America

ation

Rita Jansen
Partner at Ince Gordon

Our awards this year

Our industry is facing difficult and unprecedented circumstances.

The global coronavirus pandemic crisis and market upheavals are placing significant pressure on maritime businesses worldwide.

Despite facing challenges that would have been unimaginable a year ago, those within the maritime industry are responding with strong dedication and purpose.

We believe it is this commitment to solving these unexpected and complex problems that will help contribute to the re-establishment of movement and trade, the regain of balance and the recovery of economies.

We feel it is important to remain fully committed to all the extraordinary individuals within the maritime industry, to recognise and celebrate outstanding achievements, and to support each other.

We hope you'll join us.

4. Enter more than one category

There is no limit to the number of categories you can enter.

A single project, deal or technology solution could work for a number of categories.

5. Set free your inner journalist

Reporters at media school have 'what, where, when and how' drummed into them from day one.

What is the entry about? Where did it take place? When did it happen? How did it come about?

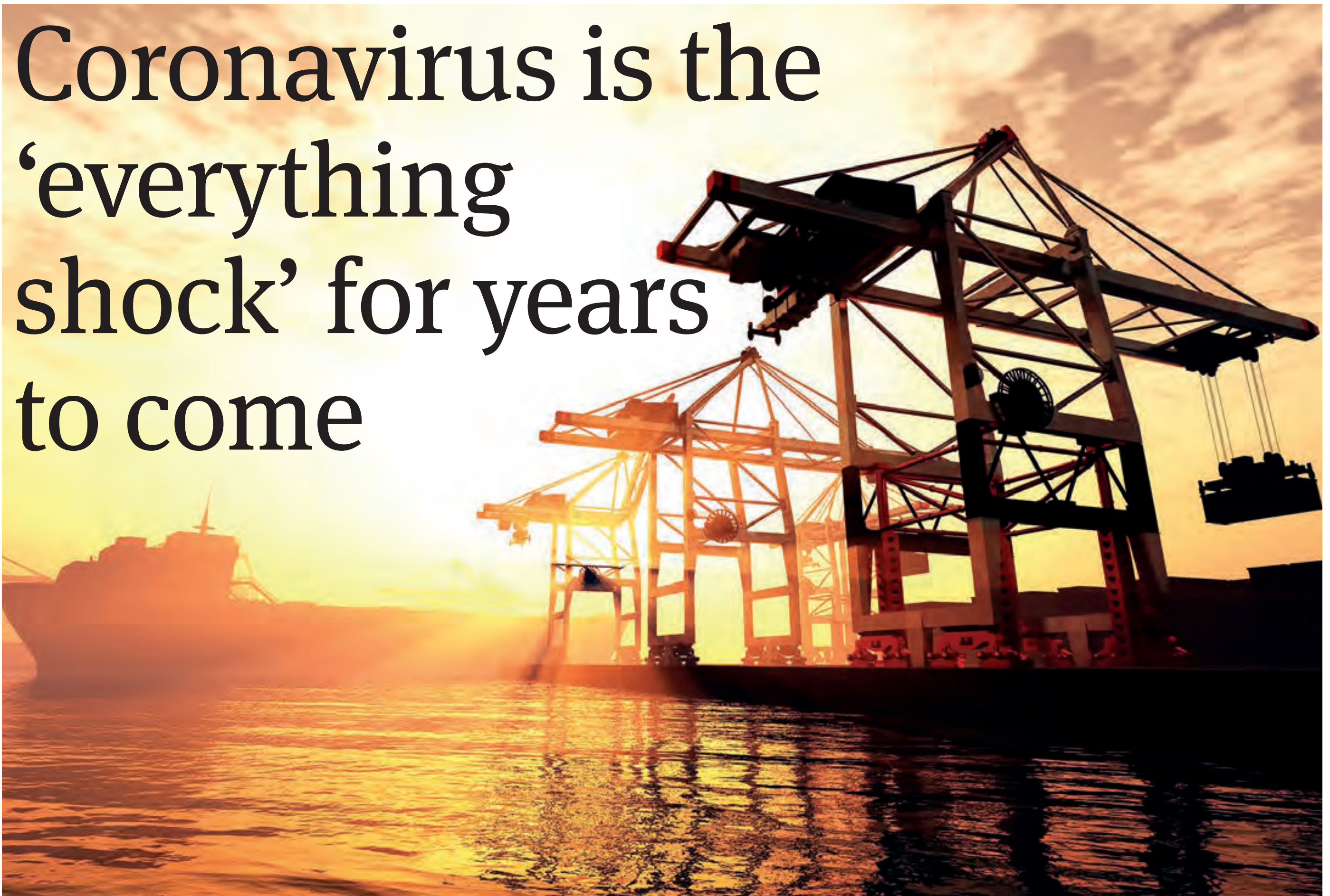
6. Hit the deadline

Late entries don't count. No-one wants that. After all, you can't win if your entry doesn't count.

Shipping in the post-coronavirus era

A special report

Coronavirus is the 'everything shock' for years to come



boscorelli/Shutterstock.com

Ports can ultimately reconfigure to capitalise on whatever patterns of trade eventually emerge, but that cannot be done overnight.

The industry's working assumptions of recent decades are no longer givens and those that have already bet the ranch on the past may find themselves ruinously out of pocket in the future, **David Osler** reports

Plenty of commentators penned "this changes everything" columns in the wake of 9/11 and the global financial crisis; coronavirus really does.

Double-digit percentage point contractions in GDP are not supposed to happen in a single quarter. Yet that is what is happening in the current period, as we watch the agony unfold in real time.

Talk of a "V-shaped recovery" comes over as facile Panglossian boosterism. Everything patently is not for the best in the best of all possible worlds — and will not be tomorrow, or the day after that.

All the working assumptions on which the industry's business models have been built in recent decades are suddenly no longer givens and will need to be rethought comprehensively in the years ahead.

Disruption from external events is nothing new for shipping, of course. The rise of China, the Somali piracy threat and periodic mortar attacks on very large crude carriers in the Middle East are some of the marquee examples from the 21st century.

However, even disruption generally self-limits with pre-specified parameters. Economic upturns become economic downturns; armed conflicts ultimately reach settlement — however long it takes to get there.

Not even this heartbreaking pandemic will last forever. The signs are encouraging that the pharmaceutical industry will devise a vaccine in the coming months and secure its worldwide distribution this year and in 2021.

And after that? Many things will alter beyond recognition, and it is worth taking time out from the gloomy short-term projections and reflecting on the gloomy long-term future as well.

The basic dynamic of world trade in the era of globalisation has been east-west, with container shipping rightly commended for its role in making the revolution possible.

The settlement looks unstable, as western companies realise the drawbacks of total dependence on Asia-based supply chains.

Coronavirus will, if anything, accelerate a trend towards reshoring that was already apparent in an age of increasingly populist politics.

For a sector that has retooled, at great expense, with 20,000 teu-plus boxships specifically geared to one trade route and one trade route only, that could leave a lot of redundant tonnage.

Tanker markets enjoyed an astonishing rally earlier this year as the result of an oil output spat between Russia and Saudi Arabia, which actually saw the West Texas Intermediate price briefly turn negative.

Hopefully owners savoured the moment. The current downturn will wreak a savage toll on oil demand. Again, coronavirus is only amplifying a tendency that was already under way, with climate change imperatives driving a turn away from fossil fuels in any case.

Bulk carrier operators can draw comfort from the truism that people always have to eat, which has historically meant that the prices of agricultural commodities have not been closely tied to the health of the world economy.

That will be good news for those shipping grain. Other key trades, such as iron ore and coal, are harder to call.

Do not rely on Chinese demand to pull the mining commodities segment through, though. It is already in what economists euphemistically dub 'negative growth', with GDP down almost 7% between January and March.

Cruise industry

The woes of the cruise industry are attested by the sheer number of vessels laid up off Miami and the Bahamas, which some marine insurers believe now to represent an accumulation risk in itself.

Highly publicised instances of coronavirus on cruiseships — which came after years of bad press about norovirus outbreaks — have provided the ultimate in bad public relations for a business that is all about good times.

Shortsea ro-ro has been recognised for the necessity it is and, in some countries, is enjoying subsidies as a result. That will be reassuring for pure freight outfits.

Yet for those whose strategy is built around passenger traffic as well, the outlook may be on a par with the outlook for cruise concerns. This summer is already a write-off, and the attraction of staycations or holidays in home countries will look increasingly alluring to middle-class Europeans.

Ports can ultimately reconfigure to capitalise on whatever patterns of trade eventually emerge. But that cannot be done overnight — and may, indeed, require many years.

Those that have already bet the ranch on the past may find themselves ruinously out of pocket in the future.

Here in Britain, we face an additional layer of uncertainty from Brexit, given that the government's ardour to complete disentanglement from the European Union appears undiminished.

That would have been a challenge at the best of times, and will surely present a greater challenge now.

One day, our descendants will look back on us and reach retrospective judgment on how we have handled this crisis.

The Yom Kippur War and the Iranian revolution triggered the events the history books have come to record as the oil shocks of the 1970s; coronavirus will surely be seen as the "everything shock" of 2020.

baileyc1/Shutterstock.com

The woes of the cruise industry are attested by the number of vessels laid up off Miami.

"For those whose strategy is built around passenger traffic, the outlook may be on a par with the outlook for cruise concerns. This summer is already a write-off, and the attractions of staycations or holidays in home countries will look increasingly alluring to middle-class Europeans"

Services. The market is recognizing Liberia's superior services that save clients time and money.

Just ask the hundreds of clients that registered with Liberia this year.

ALL FLAGS **ARE NOT ALIKE**

2019 FLEET GROWTH (YTD)

FLAG STATE	GROWTH RATE
LIBERIA	**+9.1%**
MARSHALL ISL.	+4.4%
PANAMA	-0.7%

Source: Clarksons World Fleet Monitor, November 2019

OVIA

www.LISCR.com

How one shipping leader has adapted to the new normal

Wrist Group chief executive Jens Holger Nielsen is one of many industry leaders to whom Lloyd's List has spoken about adapting to the coronavirus climate. Here he discusses running a global business remotely, **Janet Porter** reports

Wrist Ship Supply

Nielsen: has been working in a different location to his chief financial officer.

Jens Holger Nielsen did not wait for official advice before taking decisive action to ensure his company remained fully functional as the coronavirus pandemic spread.

While politicians around the world dithered, the group chief executive of Wrist Group started making preparations more than two months earlier.

His message to staff was simple: "Our mission, purpose and obligation is to keep people at sea provisioned and provided with what they need on board vessels and offshore facilities."

As the world's largest supplier of food provisions and stores for those working at sea, Wrist's priority has been to make sure its supply chains have remained intact and there has been no — or very little — disruption to deliveries, especially at a time when many are unable to come ashore because of restrictions on crew changes.

Seafarers may have been receiving less attention than healthcare workers and others on the front line of treating those infected with coronavirus, but they are also heroes in this fight to save lives.

"We want to be their heroes," says Mr Nielsen.

So as the scale of the outbreak in China became clearer, he began reorganising the company in order to minimise the impact of any staff sickness or mandatory isolation on the business.

"No matter what governments were advising, I said to my management team not only to rely on what politicians were saying, but also on what medical professionals and pandemic experts were saying — and on our own logic, expertise and knowledge," Mr Nielsen recalls.

> *“No matter what governments were advising, I said to my management team not only to rely on what politicians were saying, but also on what medical professionals and pandemic experts were saying — and on our own logic, expertise and knowledge”*

"And our logic was telling us that in view of the drastic action the Chinese government had taken — which was much more than during the Sars pandemic — there was no way this was not going to spread globally, so we needed to draw up a contingency plan."

Preparation work

After that, the group's main divisions — Wrist Ship Supply, Garrets for vessel budget management and Strachans for offshore — did an enormous amount of preparation work to protect staff, ensure business continuity and flatten an eventual infection curve.

The first step was to ensure that personnel in different regions would be safe and able to operate.

Mr Nielsen and the chief financial officer also made sure they were not working in the same area.

Instructions were issued to employees in Wrist's 30 sites in the US, Europe, Middle East and Asia to start remote

working, or in shifts, where possible. This was to ensure that as few people as possible would be on the sites at any point in time.

The company also imposed staff travel bans earlier than most companies and started tracking their personal movements. Those returning from ski holidays in Italy a few weeks earlier had been quarantined, for example.

That caused a bit of a stir initially, "but six to 10 days later, they understood", says Mr Nielsen, as the scale of the outbreak in Lombardy became apparent.

Canteens were closed; face-to-face staff meetings were banned; Wrist offices and depots were deep-cleaned; stringent management of anti-infection measures and World Health Organisation recommendations on personal hygiene were imposed.

They also put plans in place on how to get people home in the event of a local outbreak and absence of immediate official guidance.

Working from home requires a state-of-the-art enterprise resource planning system — which Wrist says it has — to make working from home for office workers almost as effective as being on site. At the same time, it protects the staff remaining at location.

Each day, there has been a call in the coronavirus interaction group, Wrist's long-established crisis response team consisting of senior officers and support. This includes input from an epidemiologist and a business psychologist, who is able to provide advice on how to deal with the strain of home working.

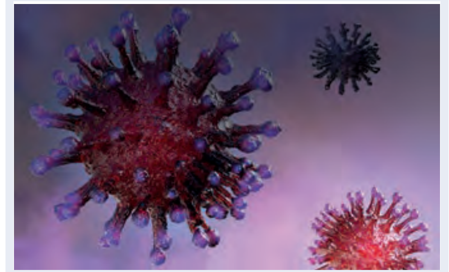
"Our whole mantra is around protecting our staff and business continuity — and that is about one objective: making sure we can deliver to people at sea what they need in order to keep going," says Mr Nielsen, who joined Wrist in 2019 from Samskip, where he was chief executive.

"Now is the time to prove that we are there for the people at sea."

There was plenty of scepticism at first about whether Wrist's response to coronavirus was too extreme.

"When you guys started this... we thought you were nuts," Mr Nielsen was hearing from suppliers, clients and even staff.

Not any more.



More on coronavirus

In our dedicated section online, the Lloyd's List team of expert analysts guide you through what the Covid-19 pandemic means for global trade, shipping and maritime, with daily updates and interviews

http://lloydslist.maritimeintelligence.informa.com/hot-topics/coronavirus

READ MORE ONLINE
www.lloydslist.com

IMO REGULATIONS: HOW BEST TO COMPLY?

ALREADY 47 LNG-FUELLED CONTAINER SHIPS*, WHAT ARE YOUR PLANS FOR 2020?

LNG as fuel not only complies with 2020 Global Sulphur Cap but also future regulations cutting CO_2 emissions.

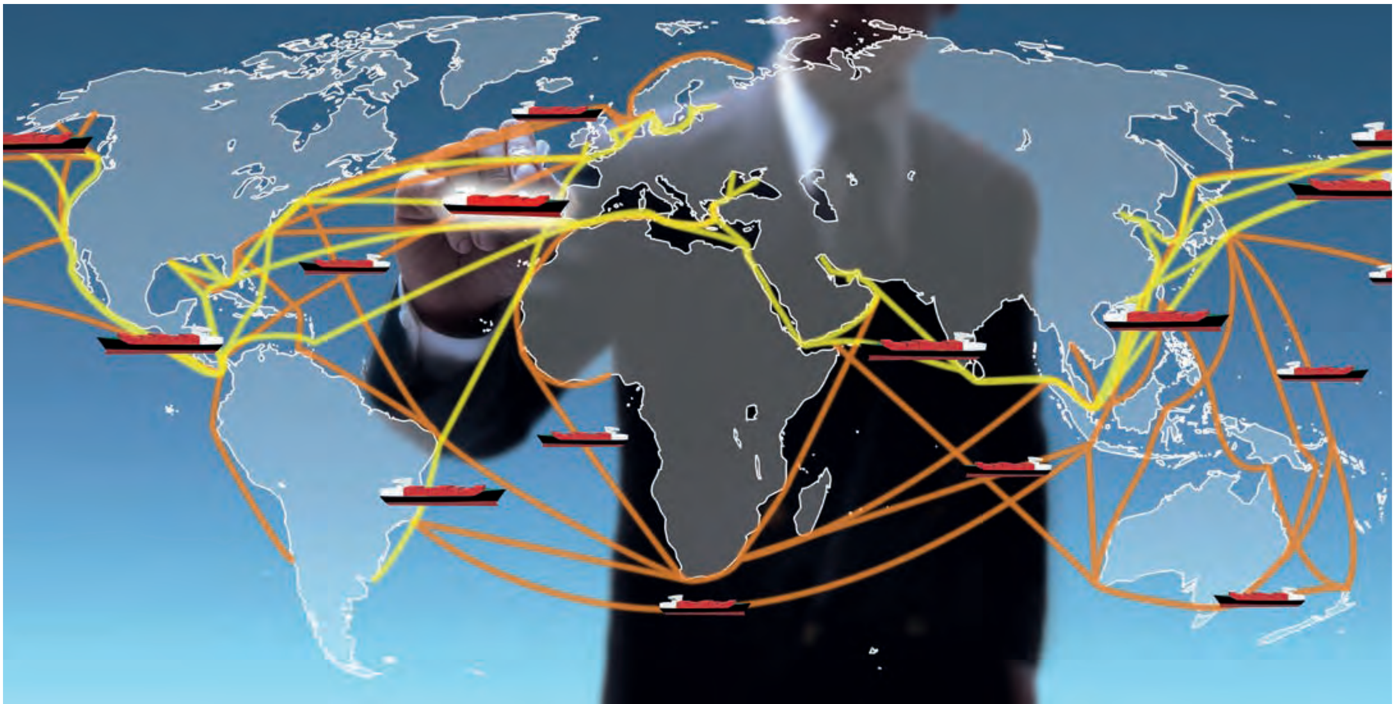
GTT has developed over 55 years LNG tank technologies used in more than 490 LNG Carriers**. GTT makes its expertise and experience available for shipowners looking at switching to LNG.

Compared to other LNG tank solutions, GTT solutions allow owners getting the highest LNG autonomy with the smallest impact on their cargo capacity.

Today, GTT aims at helping you in your energy transition.

*in operation or in order as of March 10th 2020
**as of Dec 31st 2019

Learn more on www.gtt.fr



Atiketta Sangasaeng/Shutterstock.com

The pandemic has shown the fragility of global supply chains and the huge reliance economies place on China's manufacturing hubs.

Changing trade lanes

The coronavirus pandemic is already seeing dog-whistle calls for protectionism and avoiding a reliance on China. Yet can globalisation be reversed — and what would be the impact on container shipping? **James Baker** reports

Container shipping lives and dies by trade. It has arguably been one of the driving forces behind the globalisation of manufacturing that has taken place since containerised freight services became mainstream in the 1960s.

Since then, containerised freight volumes have grown every year bar one: following the global financial crisis in 2008-2009.

The coronavirus pandemic is set to record a second year of declines, likely greater than those of 2009. Yet it is what comes afterwards that may be an even bigger threat to the box trades.

The pandemic has demonstrated both the fragility of global supply chains and the huge reliance global economies place on the manufacturing hubs of China.

And now noises-off from politicians threaten to disrupt the well-oiled machine that is the global supply chain.

"I think there will be pressure from policymakers towards what we might call a flight to resilience," says Greg Clark, MP, chairman of the UK parliament's science and technology select committee.

> *Politicians will make all the irrational economic arguments and do all the wrong things*
>
> **Peter Sand**
> Chief shipping analyst
> BIMCO

"This will be seen as an event that we need to be better prepared for in future. This is a point of danger for international trade, as I think it will be possible to think that resilience means national self-sufficiency; that that is the way you can protect against a future shock."

BIMCO chief shipping analyst Peter Sand also warns against a knee-jerk reaction from politicians, but fears that warning will fall on deaf ears.

"Politicians will make all the irrational economic arguments and do all the wrong things," he says.

"When you look at your unemployment figures in the double digits, do you promote globalisation or protectionism?"

However, rolling back globalisation is not the answer, he adds.

"What do you get out of protectionism? More expensive goods, fewer choices and lower quality. You see that every time you go to the protectionist weapon."

Some in container shipping are already preparing for a new world order in which regionalisation plays a bigger role than globalisation.

CMA CGM chief executive Rodolphe Saadé says global supply chains will need to be redesigned following the coronavirus pandemic, with the global economy "heading towards a reorganisation of international exchanges with diversified sourcing for companies and the development of intra-regional exchanges".

Hapag-Lloyd chief executive Rolf Habben Jansen also suggests there may be some changes coming.

"I think there will be some commodities where things will change," he says.

"People may want to reconsider in some cases having a single sourcing strategy and maybe opt for being a little bit broader."

Yet it is still too early to tell what the impact on shipping will be, he adds.

"I don't think there will be a permanent retrenchment, but I think there will be changes and we'll need to adjust to them.

"I do expect to see changes to supply chains and to some critical things, like personal protective equipment in the current crisis. I wouldn't be surprised if people are going to produce a little more of that at home."

Protectionist policies

In the US, the protectionist policies promoted by President Trump have gone into overdrive since the outbreak of the pandemic.

The US administration has doubled down on the trade war — which now seems only a taster of what might yet come — and is increasingly talking about bringing manufacturing back to the US heartland.

However, much manufacturing cannot simply be brought back home, unless consumers are willing to pay far higher prices for their goods.

One of the principles of globalisation has always been labour arbitrage, the use of low-labour-cost countries to manufacture goods that are consumed in higher-cost-consuming countries.

The trade war between the US and China resulted in higher prices via the imposition of tariffs, and instead of doing much for US manufacturing, simply saw Chinese companies invest in plant in non-tariffed countries, with Vietnam, Thailand and Malaysia among those to benefit.

HBY Studio/Shutterstock.com

In the US, the protectionist policies promoted by President Trump have gone into overdrive.

> *I don't think there will be a permanent retrenchment, but I think there will be changes and we'll need to adjust to them*
>
> **Rolf Habben Jansen**
> Chief executive
> Hapag-Lloyd

Moreover, the idea of gaining security of supply by sourcing goods locally rather than via an extended supply chain gives a false sense of security, says Mr Clark.

"Resilience comes from diversity and agility. To take the current crisis, the fact that different countries have experienced coronavirus at different times and are coming out of it in different ways means it is possible to source supplies from those countries coming out of lockdown, even when your own country has tighter controls."

Trade contributes to that diversity, he adds.

Port Equipment Manufacturers Association president Ottonel Popesco says the current crisis should be seen as a chance to reshape trade, rather than reduce it.

"Humanity is at war, but for the first time we are all on the same side," he says. "This is a great opportunity to see what is coming positively from this pandemic."

As well as the threat of localisation, where protectionist policies lead to production being relocated closer to home to avoid reliance on foreign suppliers, Mr Popesco also sees scope for more regionalisation.

Suwin/Shutterstock.com

The fourth industrial revolution of robotics and digitalisation means products can be made with less scale and with more customisation.

"A global brand will sell its products in Asia using production facilities there, and the same brand will do the same in the Americas using local suppliers," he says.

Green Consulting chief executive Lars Green already sees this happening.

"Adidas opened its latest new factory outside of Munich instead of in Asia to produce for European consumers," he says.

"They kept their facilities in Asia for the Asian market. It has, in a sense, escalated — and we may see some more change."

Customised products

The fourth industrial revolution of robotics, artificial intelligence and digitalisation also means products can be made with less scale and with more customisation.

Rather than a mega-factory in China making millions of mobile phones, smaller local facilities could produce goods individualised for specific markets.

An equalisation of labour costs is making this more likely, Mr Green says, as the cost of labour in China means it is not as competitive as it once was.

However, risk and sustainability could also drive this move towards regionalised production.

"The risk is putting too much production into one country or area.

Humanity is at war, but for the first time we are all on the same side This is a great opportunity to see what is coming positively from this pandemic

Ottonel Popesco
President
Port Equipment Manufacturers Association

"Linked to that is sustainability, not in its green sense but more in its social and economic dimension," he says.

Mr Green points out that China's One Belt, One Road initiative has turned out to be "a bit of a death trap" for some countries that had signed up to its open flow of cheap goods.

"It has a much wider agenda from the Chinese authorities than we originally thought," he says.

"People now understand that perhaps China had a hidden agenda and we have to be a bit careful."

However, he points out that in the 20 years since China joined the World Trade Organisation, it has aligned itself perfectly with the needs of European and US brands.

"They have built up a tremendous capacity in China, with flexibility, skills and technology, in order to manage these highly complicated and complex supply chains," he says.

"There is nowhere in Europe where there is the capacity or capability to do likewise. We won't come close to that.

"Some of the Chinese have been smart enough to move to Vietnam or Cambodia, but they are still Chinese companies.

"It is going to be incredibly difficult to break up complex supply chains as they are designed right now."

BIMCO's Mr Sand says nearshoring

could work in some cases, but only for a limited range of commodities.

"In my view, that would be the very time-sensitive goods, like automotive parts and apparel, which have just-in-time delivery schedules."

Yet nothing could replace China's role as the "magnificent and efficient manufacturing hub of the world", he adds.

Nevertheless, the headwinds of protectionism and anti-globalisation will continue to buffet container lines.

"Most shipping companies have smelled this coming," says Mr Green.

"If you look at the transformation of Maersk, CMA CGM and the Japanese and Chinese carriers, I think they have an awareness that this is happening.

"They are going deeper into the supply chain to be considered a serious player, so they are expanding their logistics activity.

"Normally carriers are a fixed-asset operator and going from this to a soft-asset operator or a hybrid is not easy."

However, Mr Sand says there is a sense in which box lines could benefit from the inefficiencies that deglobalisation and protectionism against China would entail.

"The shipping industry has been its own worst enemy in becoming so efficient, but when this is reduced, you tie up capacity," he says.

"When you take production from China to Vietnam, for example, you reduce efficiencies."

That may be the only silver lining.

"It could introduce more time spent in transhipment and also maybe a few more port calls for the ultra large containerships.

"Introducing more inefficiency into the network will tie up more capacity doing the same amount of work."

Eventually, however, the economics will prevail, he says.

"There were moves to bring production closer to home during the global financial crisis and talk of bringing robotics into our own backyards," Mr Sand says.

"What we saw was that globalisation was simply shifting down through the gears, not going into reverse. This time again, globalisation will take a hit, but it will not go into reverse."

Normally carriers are a fixed-asset operator and going from this to a soft-asset operator or a hybrid is not easy

Lars Green
Chief executive
Green Consulting

Travel mania/Shutterstock.com

Technology people do not always understand shipping markets, while shipping people rarely grasp the full potential of new technology.

Post-crisis consolidation targets are not where you think

The economic shock from the coronavirus pandemic will leave many shipping companies vulnerable to takeover. The place to look for consolidation is asset-light, knowledge-rich, innovation-driven businesses seeking to expand by linking their capabilities together, **Richard Clayton** reports

The connection between business executives learning to work from home and consolidation in the maritime industry is not quite as tenuous as it appears at first sight.

Coronavirus has forced executives to reflect on how to continue business activity in spite of severe travel restrictions.

If they do not need to travel now, they will carry that experience forward as lockdown eases and then into the "new normal".

If one journey in five — by road, rail or air — is no longer deemed necessary, then pressure on cars, trains and planes is eased. And so is pressure on road, rail and aviation infrastructure.

Moreover, if a greater number of people elect to work from home after the coronavirus pandemic, rail capacity will be freed up enough to stimulate a modal shift from tar to track.

The economic shock of the health crisis has been so great that governments can be expected to dust off plans to create strategic manufacturing and production hubs that would provide resilience, while acting as an economic booster to specific regions.

In short, according to Matt East, logistics and infrastructure policy adviser at GHD, a professional services company: "Beyond economic stimulation, the need for a more resilient supply chain to mitigate potential disruptions from future similar events could see producers and distributors looking to local manufacturers rather than international suppliers."

Fear of becoming locked in an economic straitjacket by "future similar events" is likely to lead, in the medium term, to reduced overseas trade.

In a few short months, coronavirus has undermined forecasts of economic growth that suggested trade by volume in 2050 would be up to four times higher than in 2010. The new normal cannot be expected to return to the old rate of expansion.

This will reduce demand for shipping capacity. Consumers have learnt through lockdown to consume fewer material goods; energy suppliers are likely to accelerate the transfer from coal and oil to gas and renewables; community efficiency drives will cut waste and censure excess.

Together, these will lead to financial stress for businesses across a global supply chain operating at break-even levels.

And that is the point at which opportunities arise for consolidation through acquisition.

Consolidation is a form of economic realignment. Left alone, such a realignment would follow a rational path: the strongest or the most agile would survive; the weakest would fall.

However, the significance of shipping to national economies means realignment in maritime can be anything but rational.

The clearest example of political interference in rational thinking is in shipbuilding.

Demand for newbuilding ships since 2006 has been extremely volatile, with a peak in 2006-2008 before the financial crash, followed by surges and slumps every two or three years.

Sign of uncertainty

It is a sign of uncertainty when the governments of the three major shipbuilding nations all undertake significant realignments at the same time.

In Japan, Imabari is reported to have reached agreement to form a joint venture with Japan Marine United.

At the same time, the government in Tokyo is in talks to combine 15 other constructors into a single enterprise, All-Japan Shipbuilders.

This followed Beijing's responding to the slowing in new orders with a merger of state-owned China State Shipbuilding Corp and China Shipbuilding Industry Corp.

Seoul's desire to consolidate Hyundai Heavy Industries with Daewoo Shipbuilding & Marine Engineering remains unconcluded.

Container shipping has already suffered several bouts of consolidation. The coronavirus crisis has left liner operators vulnerable.

However, a mitigating factor may be the pain caused by the collapse, in 2016, of Hanjin Shipping: the entire supply chain will not want to repeat that experience.

The conventional reefer sector, seriously eroded over many years by containers, will continue its decline.

In the pure car carrier sector, with global car sales at minimal levels, demand for capacity will be low for many months.

Dry bulk rates have been uninspiring for the past eight years. None of these will stimulate much corporate acquisition activity.

In container shipping, the pain caused by the collapse, in 2016, of Hanjin Shipping means the entire supply chain will not want to repeat that experience.

> *Consolidation is a form of economic realignment. Left alone, such a realignment would follow a rational path: the strongest or the most agile would survive; the weakest would fall. However, the significance of shipping to national economies means realignment in maritime can be anything but rational*

Even the tanker sector, enjoying short-term spikes in freight rates, driven by demand for floating storage, hardly inspires a long-term punt.

Post-coronavirus consolidation targets among the shipbuilders and shipowners are not obvious.

Buyers will be identifying high-performing assets, and few are available.

The place to look for consolidation targets is among the asset-light, knowledge-rich, innovation-driven businesses seeking to expand their reach by linking their capabilities together.

Technology potential

Technology people do not always understand shipping markets, while shipping people rarely grasp the full potential of new technology.

When they get together, initially through partnership and ultimately through acquisition, the result could be significant.

Yet buying a start-up is a risk few are willing to take.

Some executives working from home will spend non-commuting hours seeking potential business partnerships. Some of these will lead to acquisition — and consolidation.

While disruptive, the coronavirus outbreak will have precipitated a degree of realignment.

The shipping industry has committed to reducing greenhouse gas emissions by at least 50% by 2050 compared with 2008.

Virus will slow innovation, but collaboration holds key to success

Shipowners have reported they expect 2020 to be a difficult year, with losses in turnover and reductions in seafarer and onshore jobs. The appetite to spend on technologies appears to be shrinking. But does that really affect the prospects of technological innovation in maritime? **Anastassios Adamopoulos** reports

The year 2020 was supposed to be *that* year. Slowly but surely, the 0.5% global sulphur cap — whose introduction on January 1 had absorbed so much energy and concern the previous two years — was going to become another fact of life in the shipping business.

Attention could now turn to other issues, like technological advancement, decarbonisation efforts, automation — things whose cultivation is meant to generate new opportunities and solve chronic problems.

The coronavirus pandemic has thrown this trajectory into doubt and raised questions about the potential for technological innovation, which will be required to make maritime safer and more sustainable — particularly for the short term.

Early signs are not promising. The financial repercussions have already begun, with unemployment rising alarmingly in the US and forewarnings of a global financial recession.

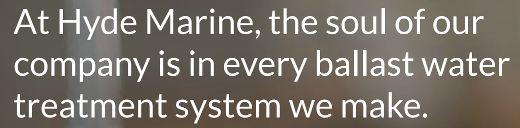
The International Monetary Fund projected in April that the global economy would shrink by 3% in 2020, surpassing the contraction seen during the 2008-2009 financial crisis.

The record-breaking earnings of tankers so far this year are outliers and maritime overall will suffer in 2020 as well.

European shipowners openly expect a loss in turnover and cutbacks in seafarer and onshore employment as a result, according to a recent survey conducted by the European Community Shipowners' Association.

Only 26% of the respondents said they expect to resume the same level of planned investment on reducing air emissions, while 44% do not expect to invest at all.

There also does not appear to be much willingness for fleet renewals for the time being. That diminished appetite for new tonnage means less money for engine providers who would develop new propulsion technology.



At Hyde Marine, the soul of our company is in every ballast water treatment system we make.

Learn more about what Hyde Marine puts into manufacturing the highest quality ballast water treatment systems in the world.

WITH US, IT'S WHAT'S
INSIDE THAT COUNTS.

Ballast Water Management Technology

A CALGON CARBON COMPANY

+1.724.218.7001 | www.hydemarine.com

tonton/Shutterstock.com

Digitalisation has been a subject of maritime debates for years. For some it is an exhausted buzzword; others have taken it more to heart.

Part of the problem owners are facing is lack of adequate financial support, both from governments and banks, according to this survey. For a return to the pre-coronavirus plans for innovation, investment will be necessary in some shape or form.

Access for entrepreneurs

Nautilus Lab chief executive Matt Heider recently told Lloyd's List that financing access for entrepreneurs in the maritime sector will depend on their ability to focus on generating real revenue and ensuring their future, while preparing for the storm of a global financial crisis.

"Any time there are problems to solve and pain to be washed away with technology, it creates an environment for entrepreneurs not just to survive but to thrive," he said.

Digitalisation has been a subject of maritime debates for several years now; for some it is an exhausted buzzword, while others have taken it more to heart, investing to make their operations more efficient, reduce fuel consumption and emissions, as well as wasted voyages.

Mr Heider questioned whether the coronavirus pandemic will widen the gulf between those who have already advanced in this regard, or if it will act as a warning call for laggards to begin adopting digital practices more rapidly.

"We have seen the change over the years from the concerns about data ownership to connection and collaboration"

Roger Holm
President
Wärtsilä marine

Wärtsilä marine president Roger Holm said there is currently scrutiny on spending from shipping companies and that will be more accentuated, depending on the vessel segment.

Digital investment costs, however — such as fleet operations solutions, automation and connectivity between vessels and ports — are small in the big picture and are not on the same level as building a new vessel.

Digitalisation adoption

The momentum of digitalisation adoption has already started and Mr Holm believes that when the benefits begin showing, nothing will stop it.

"We have seen the change over the years from the concerns about data ownership to connection and collaboration," Mr Holm said.

The challenge for the maritime ecosystem is to elevate that collaboration.

Arguably the biggest concern for the shipping sector throughout the pandemic has been the herculean task facing seafarers who have been stranded at sea, as governments have refused or complicated crew changes on their shores.

Companies have also imposed restrictions on their ships to prevent crew contamination and minimise operational disruption.

Lloyd's Register marine director Nick Brown said critical technologies for seafarers during this period has been their connection with shore through calls, social media and other tools.

"It has helped alleviate some of the mental strain and stress people would feel if they were completely disconnected from home," he said.

However, in the longer term, the experiences of the present situation may accelerate the exploration of increased automation on board vessels, he argued.

"I think the experience of Covid-19 may also stimulate thoughts on what extra automation can we build into vessels in the future and do we need as many people on board as we currently have," Mr Brown said.

However, that has to make commercial sense, he added.

Banding together

Classification societies have responded to operational disruptions caused by the pandemic by banding together, albeit temporarily. IACS members agreed in April to begin using each other's surveyors in cases where getting their own will be difficult.

Mr Brown, who has argued in favour of moving from the current time-based surveying regime to a more data-based one, said there has been a significant increase in the desire for remote surveys over the past three months.

That will hopefully extend to more innovative action in the future, like trialling and piloting of data-based tools, such as digital twins.

Although Mr Brown believes data can supplement and complement physical audits, he does not see inspections being fully replaced any time soon.

"However, I think we will have the opportunity to adopt technology at a greater pace and be more comfortable that it is not risking the safety of the industry and environmental performance," he said.

This underscores a wider trend seen since the coronavirus pandemic: the slowdown in the short term may be inevitable as the priority shifts to staying afloat.

However, the long-term aims are unchanged and perhaps have become even more important.

Norwegian shipowners pledged in late May to have a carbon-neutral fleet by 2050 and not to order vessels without zero-emission technology from 2030 onwards.

TippaPatt/Shutterstock.com

Critical technologies for seafarers during this period has been their connection with shore through calls, social media and other tools.

Cargill, a major charterer, expects difficulties in fulfilling its sustainability goals this year but sees the current health crisis accelerating the decarbonisation trend.

Collaboration also appears to continue as if unimpeded, with the wider decarbonisation pledges looming large.

The latest coalition of industry bodies, researchers and NGOs with P4G, which funds public-private projects in developing nations, will identify decarbonisation opportunities for shipping in emerging economies.

"The P4G Getting to Zero Coalition Partnership aims to identify new growth opportunities that will be needed as countries seek to recover better from the current Covid-19 pandemic," they said.

This point summarises well the mindset that prevails more broadly. Collaboration can help spur the long-term innovation that is required, even if short-term prospects look bleak.

> *"I think we will have the opportunity to adopt technology at a greater pace and be more comfortable that it is not risking the safety of the industry and environmental performance"*
>
> **Nick Brown**
> Marine director
> Lloyd's Register

Seafarers look to uncertain future as crew change crisis continues

CANARAN/Shutterstock.com

Stranded: more than 150,000 seafarers were unable to leave ships as authorities restricted movement to slow the coronavirus pandemic.

Crews are slowly being repatriated after lockdowns stranded seafarers around the world. The industry's combined response has been impressive, but the pandemic has a long way yet to run, **Declan Bush** reports

Three days before the end of a two-month voyage, an engineer on a containership was called to his captain's office and told his sign-off was cancelled.

The engineer — who, for the purpose of this article, will be referred to as Justin to protect his identity — was told his next chance to go home to England was the following week.

Then his company suspended all changes until mid-April. Then mid-May. By then, some crewmates on five-month contracts had been on board the vessel for seven months.

"I feel like I have less hope than I did when it all started," Justin told Lloyd's List. "And the lack of information [or] regular updates from the company does not help mentality out here. It feels more like out of sight, out of mind."

Justin is one of more than 150,000 seafarers who were unable to leave ships as authorities restricted their movement to slow the coronavirus pandemic.

The latest Seafarer Happiness Index paints a grim picture.

"Seafarers reported feeling that not enough is being done to ensure the safety of those on board," it said.

"They reported feeling physically exhausted, mentally disturbed, homesick and anxious."

Stress and financial hardship

Calls to the International Seafarers' Welfare and Assistance Network helpline have tripled as crews seek assistance for psychological stress and financial hardship.

The industry scrambled to come up with protocols to change crews safely.

An alphabet soup of industry groups and the International Maritime Organization put out a 12-step road map early in May.

However, since it has been up to individual governments to make the changes, progress has been slow.

"It's been two months and it's probably going to be another month," International Chamber of Shipping secretary-general Guy Platten predicted, as unions agreed on a 30-day crew change 'implementation period'.

Andy Cook, global crew operations director at V.Group, says tensions were rising as crew got further overdue.

He says some countries have recognised seafarers as essential workers, but besides a greater appreciation of their work, "I don't see a lot of tangible changes that have helped the situation right now".

"We are at the mercy — to some degree — of the authorities and also of air transport," he says.

Uncertainty is also a problem for those on shore. Jamie Edwards, a second officer at Princess Cruises, spent weeks at home waiting for the call to board. He was still being paid but worried for those seafarers who were not.

"If they can't get out soon enough, then they're going to have to look for other jobs," he says.

Danica Crewing Services managing director Henrik Jensen says about one-third of his seafarers were overdue. The ships he crews are mainly bulk carriers on the tramp and spot markets, so it can be hard to plan two weeks ahead to allow for quarantines, he says.

Mr Jensen says his seafarers — mostly from Eastern Europe — do not have access to the government benefits rolled out in western countries. He says their lot may worsen as the coming economic downturn causes companies to lay up vessels, creating a labour surplus.

Carl Court/Getty Images

The Diamond Princess cruiseship was held in quarantine in Japan. Cruiseship crews are more numerous and less welcome ashore than their cargo counterparts.

Medical help

Crew at sea have also been unable to get medical help for coronavirus and other ailments.

Robert Verbist, president of the International Maritime Health Association, says authorities in many ports have prevented doctors from treating seafarers.

Ships, seen as carriers of disease during the Ebola outbreak, are now more at risk from infections on land, he says.

Kuba Szymanski, secretary-general of Intermanager, says crew changes were more difficult, but were still happening.

He says Polish seafarers were being sent through Germany, and Ukrainians through Belarus, as managers found ways around travel bans.

Media "myths" about the extent of the problem have not helped, he adds.

"When we hear, for example, airports closed — yes, for the general public, but not for us," he says. "The charter flights are flying, seafarers are going through."

Capt Szymanski says he has been working closely with ports, customs and other authorities and feels the industry has shown its strength with its collaborative response.

He is also quick to dismiss the idea that virus fears could put seafarers off returning to sea: "Seafarers are very keen to go back to work because they need money."

Cruiseship crews are more numerous and less welcome ashore than their cargo counterparts. The Cruise Lines International Association estimates about 70,000 crew would go home by sea as ships were forced to sail for days to drop crew off at their home countries.

> *"A responsible flag state should be there 'not just when the sun is shining, seas are calm and income opportunities from vessel registration seem ripe'"*

In the Bahamas, companies were transferring crew according to nationality to sail home some 50,000 people before the June hurricane season. The Norwegian Seafarers Union has criticised the major flag state for not allowing charter flights out, accusing it of doing the bare minimum to help.

NSU director of cruise operations Lena Dyring told Lloyd's List a responsible flag state should be there "not just when the sun is shining, seas are calm and income opportunities from vessel registration seem ripe".

Mr Platten says the pandemic has a long way to run and travel restrictions will stay in place for some time.

However, green shoots are emerging, with some countries allowing changes and others easing restrictions.

"I do sense now that things are starting to move. We just need to keep the pressure on," he says.

Virus testing

ICS says it is working on improving crew access to medical care, a common protocol for virus testing, and help for crew renewing visas and passports.

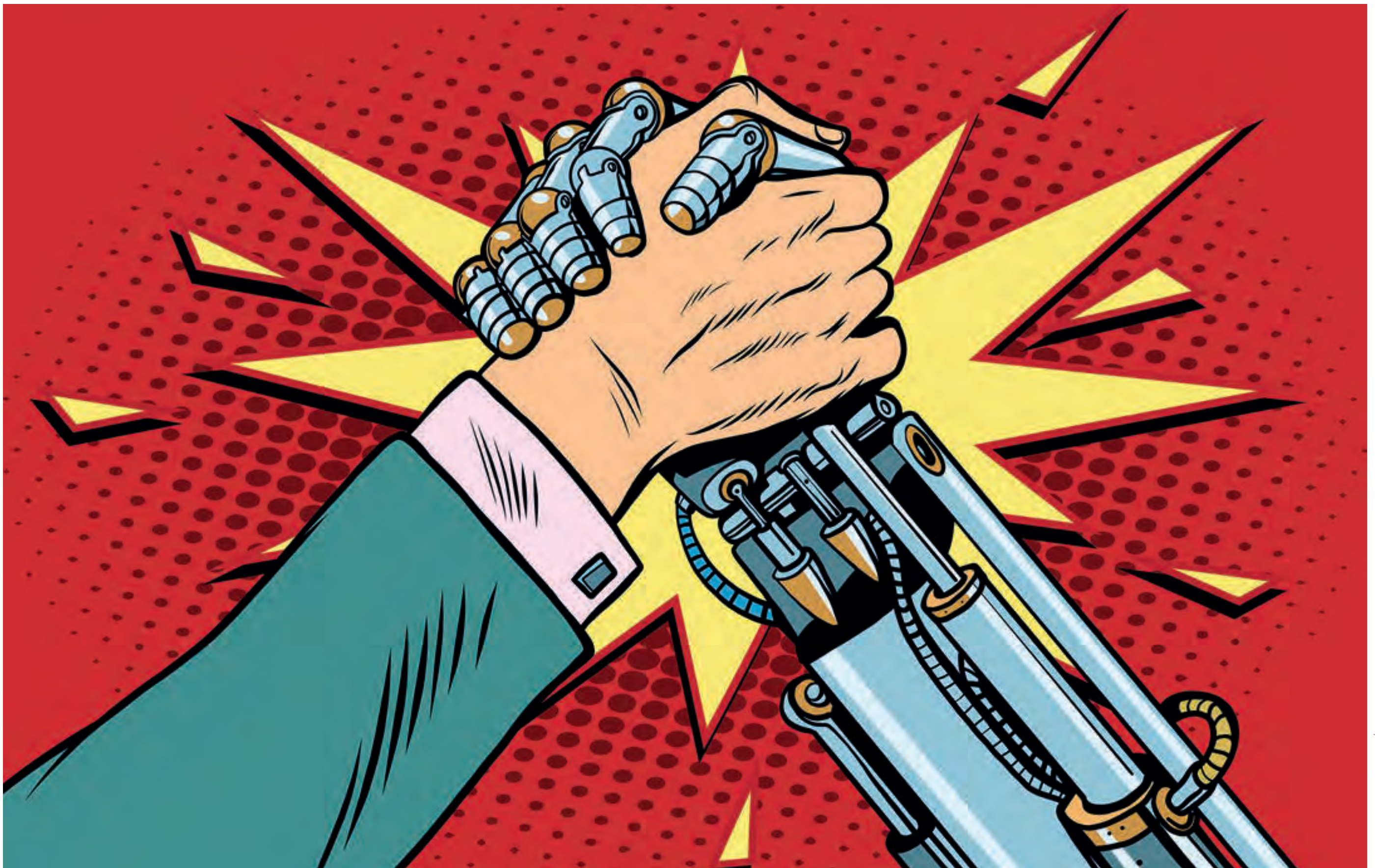
Mr Platten says the collaboration between the industry groups and UN agencies has been second to none: "I've really seen the best of our industry in this pandemic."

Yet Justin, who was still on board his containership, says the industry has not done enough.

"They seem quite happy to continue to trade and line their pockets, but seem no closer to a real solution to crew change than they did two months ago," he says.

Justin says there are now so many conditions preventing crew changes that it feels like "an unlimited extension". And even if these are met, the biggest hurdle for him is having a reliever.

"Until I know India or the Philippines are allowing seafarers to leave their home countries, I can't be relieved, and therefore won't be able to leave the ship, even if we call into ports that are allowing crew change."



studiostoks/Shutterstock.com

The automation process faces union opposition in the US and is "way behind compared to terminals in Asia, Europe and the Middle East".

Automation remains (quietly) on the US agenda

Although a sensitive subject — particularly at the San Pedro Bay ports, California — the Covid-19 situation has only accelerated people's desire to move beyond what we have already seen in automation, **Eric Watkins** reports

The coronavirus pandemic may have boosted the prospects of automation in the US, as several of the country's terminals closed at least briefly after dockworkers tested positive for the disease.

Even so, automation remains a sensitive word in the San Pedro Bay Ports of Los Angeles and Long Beach.

"I think this Covid-19 situation has only accelerated people's desire to move even beyond what we have seen in automation," says Jesper Kjaedegaard, a partner with consultants Mercator International.

Given social distancing restrictions, Mr Kjaedegaard believes that work done at centralised control centres could be moved out of offices and directly into people's homes.

"My vision is that it won't take long before — given the situation we've just been through here, we are going through — some of these joysticks will be moved back home. And why not?

"Rather than traveling one hour in traffic to get to that office at the terminal and travel one hour back, you can just have your breakfast at home, take your kid to school and at 8.30 in the morning, you log on. You don't need to travel," Mr Kjaedegaard says.

Still, he recognises opposition to automation and especially in the US, where "you have intense opposition by the unions and the automation process is way behind compared to most terminals in Asia, Europe and the Middle East".

Dane Jones, who serves as clerks' technology co-ordinator for the International Longshore and Warehouse Union, recognises the right of the union's employers to automate – with qualifications.

Commitment to Service

The Port of Long Beach is the greenest, fastest, most efficient gateway for goods moving to and from Asia and marketplaces across America.

We're keeping our competitive edge while working sustainably, offering unrivaled customer service while we build the Green Port of the Future.

Port of
LONG BEACH
The Green Port

TraPac

Automated straddle carriers at the TraPac terminal, Los Angeles: one of the two automated terminals in the San Pedro Bay ports.

"We think that people are much better and more effective and more cost-effective at moving cargo. But if our employers are determined to automate it, then we are adamant that they live up to their agreement to include us in their new methods of operation," Mr Jones says.

Still, he questions the timing of any efforts to automate right now.

"Cargo on the [US] west coast is suffering from some unfortunate trade policies and the serious effects of a global pandemic. Right now, nearly 20% of the world's container shipping capacity is idle.

"I don't understand how any responsible business would take this opportunity to leverage up and extend themselves when cargo volumes are so volatile," Mr Jones says.

Jim McKenna, president of the Pacific Maritime Association, is well aware of union concerns about automation — but equally aware of the need for it, if US west coast ports are to retain their competitive advantage.

> *We think that people are much better and more effective and more cost-effective at moving cargo. But if our employers are determined to automate it, then we are adamant that they live up to their agreement to include us in their new methods of operation*
>
> **Dane Jones**
> Clerks' technology co-ordinator
> International Longshore and Warehouse Union

For Mr McKenna, whose organisation negotiates labour agreements with the ILWU on behalf of terminal operators and shipping lines, the key concepts are discretionary cargo and cost-cutting.

He points out that the widening of the Panama Canal has created new routing options for shippers, giving them discretion over the routes their cargo can take.

Those options also include greater use of the Suez Canal as supply chains have shifted due to the Sino-US trade war.

Not least, ports along the US east and Gulf coasts have invested heavily to attract the discretionary cargoes that would normally flow from the Far East to the US west coast

"You have all this money that's been poured in waiting to try and accept this additional cargo and it's worked. It's a magnet to some of this cargo and again, it diversifies the benefits of cargo owners from having all of their eggs in one basket," Mr McKenna says.

"So, we need to find a way to make our ports more competitive and it's not one thing that'll fix this. It's a lot of people coming together and figuring out how we can reduce costs in these ports. One of those ways to do it is through automation.

"Automation is not cheap by any stretch of the imagination, but it is a way to lower your cost per box handling and ultimately that will help retain discretionary cargo" — which, as he says, "employs a lot of longshoremen on the west coast".

Weston LaBar, chief executive of the Harbor Trucking Association, which represents thousands of drayage drivers up and down the US Pacific coast, says his membership favours automated terminals.

Turn times

More to the point, he notes that turn times at the two automated terminals in the ports of Long Beach and Los Angeles average 43 minutes, versus 84 minutes in non-automated facilities.

"So, we've been supportive of automation on the container delivery side to the truck as a form of efficiency and optimisation," he says.

These are especially important "in a world that has ever-growing congestion due to larger vessels and what we're calling mini peaks".

While optimistic about the efficiencies of the ports' automated terminals, Mr LaBar — reflecting the sensitivities of many people in the harbour district — says: "We're not in favour of using automation as solely a way to displace workers."

> *Automation is not cheap by any stretch of the imagination, but it is a way to lower your cost per box handling and ultimately that will help retain discretionary cargo, [which] employs a lot of longshoremen on the west coast*
>
> **Jim McKenna**
> President
> Pacific Maritime Association

> *We've been supportive of automation on the container delivery side to the truck as a form of efficiency and optimisation*
>
> **Weston LaBar**
> Chief executive
> Harbor Trucking Association

The port of Los Angeles has long recognised the sensitivities of port workers and, in 2017, hired Avin Sharma as its first-ever director of labour relations and workforce development.

"In addition to its being a new role for me personally, it's also a new position for the port and my position was really a brainchild of the late commissioner David Arian," Mr Sharma says, referring to the former ILWU International and Local 13 president and long-time union activist.

"I still remember my interview with him and my first meeting with him, talking about the importance of the port's role in looking at workforce development," he says.

Primary liaison

One part of Mr Sharma's role is to serve as the "primary liaison" between the harbour department and "all of the unions" that operate in the port community, the largest being the ILWU.

However, the other part of his job involves workforce development "and thinking about the training that's needed today and thinking about the changing nature of work and what, potentially, the jobs of tomorrow could look like".

So far, according to Mr Jones, the effort is working.

"The port has, by and large, done an excellent job of courting cargo and companies that do a good job of moving it and we're appreciative of their efforts to keep our local workforce as a constructive part of that equation."

Long Beach Container Terminal is the most advanced container terminal in the US.

Ask the Analyst with Sebastian Villyn

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

Benchmarking vessel risk

Marine casualties, AIS records, port calls and changes of flag, classification society or ownership all tell a story about a vessel's behaviour. Interpreting this behaviour is a frequent ask of our analysts. Now there is a tool to assist with that, reports Sebastian Villyn

Marine casualty reports and subsequent investigations capture key information and, over time, expose recurring patterns of fleet (mis)management, weaknesses in vessel builds or manufacturing errors, and even high-risk areas.

Regulatory frameworks are born out of serious casualties. As reported by Lloyd's List, amendments to the International Maritime Organization's cargo transport units code on dangerous goods has come from a series of fires on board containerships, following pressure from P&I clubs.

Amendments to the International Convention for the Safety of Life at Sea (SOLAS) on planning for evacuation on cruiseships and lifeboat maintenance were spurred by what is still the largest marine loss of the past decade, of $2bn, arising from the 2012 *Costa Concordia* disaster. Scrutiny is now directed at liquefaction casualties.

The rise in offshore kidnappings and hijackings in the Indian Ocean and Gulf of Guinea have prompted the Lloyd's Joint War Committee's listed areas, subject to increased insurance premiums.

Similarly, vessels with regular port callings in countries exposed to civil unrest and war, like Libya, Yemen or Syria, or areas under sanctions, like Crimea, expose operators and crew to hostilities and potential sanction breaches. These can also be used as a basis for risk calculations.

> *"Building a picture of fleet risk and vessel behaviour is important not only to the insurance industry and underwriters, but also to legislators, charterers, shippers, traders and the trade finance community"*

Building a picture of fleet risk and vessel behaviour is important not only to the insurance industry and underwriters, but also to legislators, charterers, shippers, traders and the trade finance community.

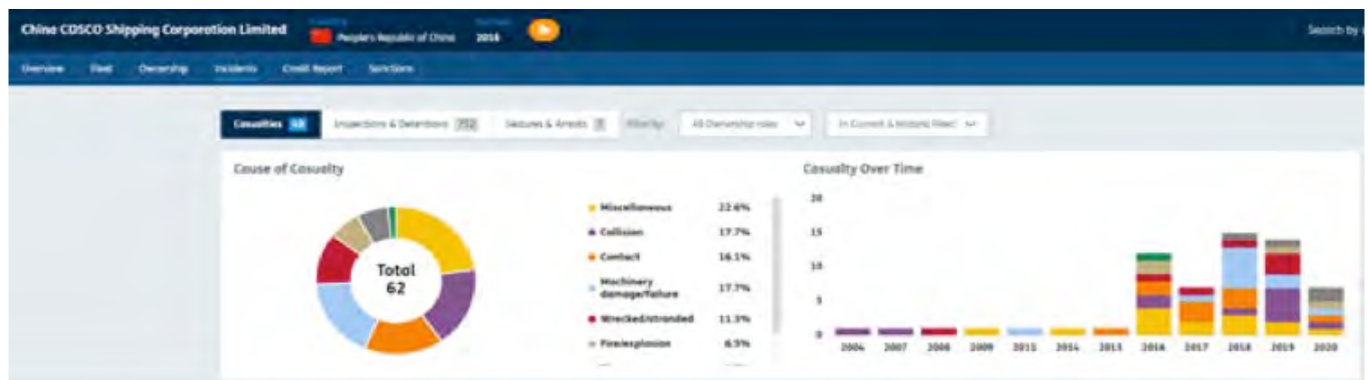
Overcoming underreporting

A lack of transparency in marine casualty data is a critical problem, risking missing valuable industry-applicable lessons learned.

Official reporting of casualties is recognised as poor. In 2019, Lloyd's List found that over a five-year period, less than 50% of mandatory reports on very serious casualties due to be submitted to the IMO by flag states were registered. IMO secretary-general Kitack Lim told Lloyd's List in December 2019 that he wanted to raise the reporting to at least 80% by 2022.

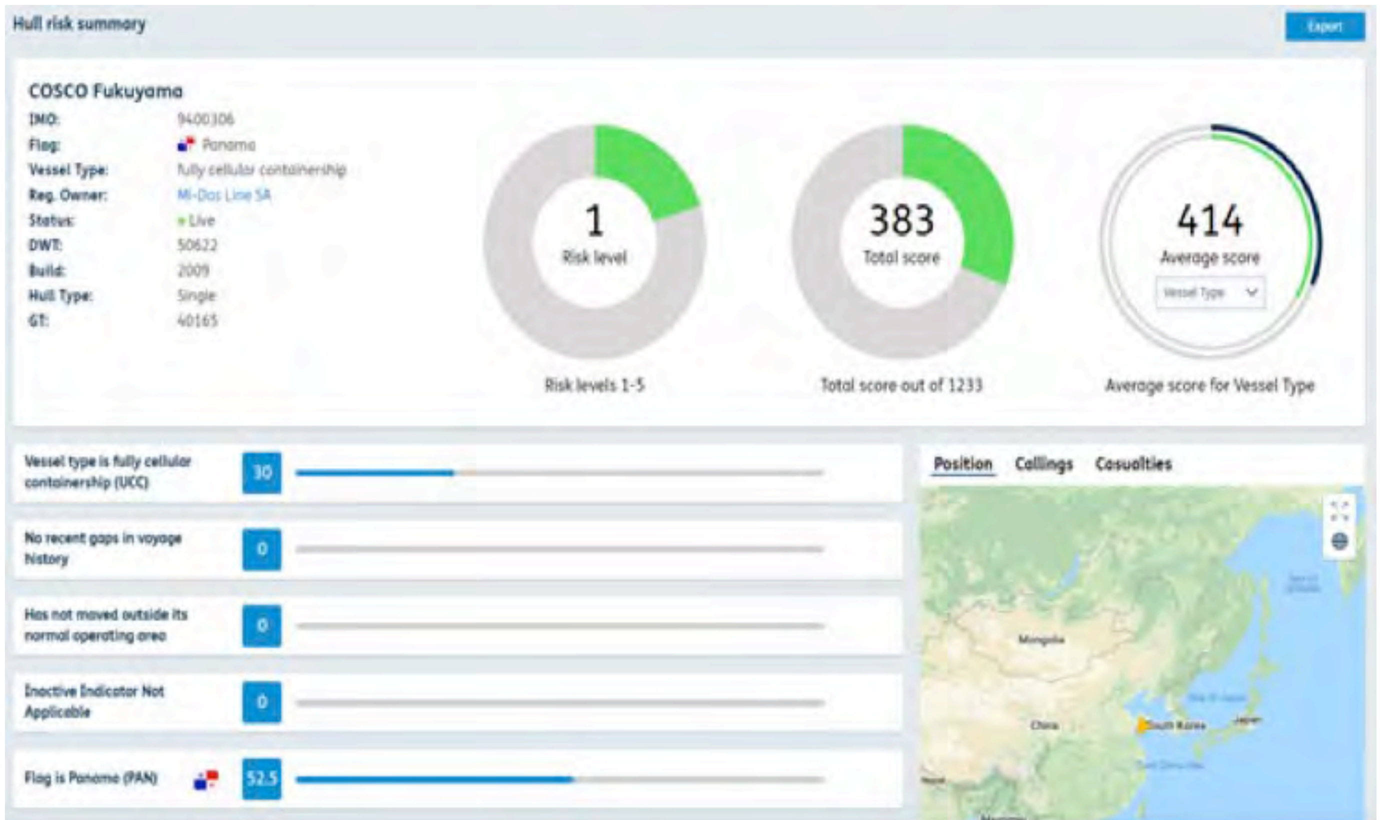
That is why Lloyd's List Intelligence has a longstanding casualty team providing intelligence on vessel casualties and port incidents, gathered on a 24-hours-per-day, 365 days-per-year basis, supported by Lloyd's Agency and with dedicated casualty correspondents.

With an archive containing more than 400,000 casualty reports dating back to 1990 — the most comprehensive casualty database in the market — this gives a solid base to assess marine risk.



Lloyd's List Intelligence has the most comprehensive casualty database in the market , which gives a solid base to assess marine risk.

Lloyd's List Intelligence



In May, Lloyd's List Intelligence announced the launch of its new Hull Risk tool.

Benchmarking risk

Marine losses make up 15% of the value of all commercial losses, but 49% of the number of claims, based on analysis of 471,326 corporate insurance claims from 206 countries and territories, as reported by Lloyd's List (see panel, right).

In order to provide a benchmark for the industry to assess vessel risk, Lloyd's List Intelligence has worked with leaders in the insurance industry to define the risk indicators associated with a vessel or a fleet. In May, it announced the launch of its new Hull Risk tool.

The tool comprises 25 key risk indicators, reviewed and approved by the London insurance market, providing underwriters and claims adjusters with an independent system for assessing vessel risk by offering vessel and fleet comparisons, and casualties by vessel segmentation and incident type.

These risk variables have differing levels of impact on the total Hull Risk Ratings score, based on their relative importance.

The Hull Risk tool allows users efficiently to verify history and behaviour, understand which characteristics contribute more to risk, and compare fleets to see who has the higher risk score.

All scores are based on risk variables that are behavioural and dynamic.

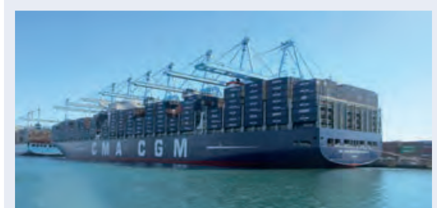
Using data on casualties, detentions, arrests, ownership, vessel engines, classification and flag registries, these scores create a comprehensive risk rating for every vessel that changes over time, providing a benchmark score against other vessels in the global fleet.

When the next incident may occur, or which vessel will be impacted is subject to numerous 'unknown' variables.

However, a vetted system with robust casualty data can determine where to look and at what type of vessels, as part of minimising risk exposure.

For more information on Lloyd's List Intelligence's casualty reporting or the Hull Risk tool and insurance service, please contact:
client services@lloydslistintelligence.com

Sebastian Villyn is an entity analysis manager at Lloyd's List Intelligence



Bigger ships, bigger losses

Analysis based on 471,326 corporate insurance claims from 206 countries and territories, with total value of $66.5bn. Marine losses make up 15% of value of all commercial losses, but 49% by number

https://lloydslist.maritimeintelligence.informa.com/LL1126884

READ MORE ONLINE
www.lloydslist.com

China's Jinhai shipyard dock expects to see a downturn in demand in the near future.

Global shipping fleet to grow at reduced rate over next five years

During the 2020-2024 period, annual growth of the global fleet of seagoing trading ships will be at a much slower rate than in the previous five years, according to a new forecast from Lloyd's List Intelligence, **Adam Sharpe** reports

The global fleet stood at 128,953 vessels in early May, with a total capacity of 2,199m dwt, according to the latest Lloyd's List Intelligence Shipbuilding Outlook.

Of the total, the offshore and service segment has the largest share, with 27% (35,191 vessels), followed by bulker and general cargo, which accounts for 25% (32,003 vessels). Tankers is the third-largest segment, with a 13% share (17,278 vessels).

For the 2020-2024 period, it is predicted that the total fleet will grow at an average annual rate of just 0.9%, adding 5,597 vessels, which is 35% less — or 1,964 vessels fewer — than in the 2015-2019 period.

However, in dwt terms, the average growth will be much higher, at 3.9% on average per year.

The tanker fleet will have the highest growth rate over the coming five-year period, at 10.1%, increasing the fleet to 18,941 vessels.

The container and ro-ro fleet will grow by 7% to 7,737 vessels. Up to 2024, the passenger fleet is set to grow by 5.7% to 11,255 vessels. The bulker and general cargo fleet will grow by 5% to 33,485 vessels.

2020 deliveries

Some 2,279 vessels are forecast to be delivered in 2020 in total, up from 1,872 vessels in the previous year but lower than the 2,312 vessels delivered in 2018.

"The coronavirus outbreak will mean lower deliveries in 2020 than originally scheduled, but since the Chinese shipyards have the majority of the orders, work has resumed quicker than in many other parts of the world," Lloyd's List Intelligence said.

"Another obstacle highlighted for shipyards is that owners from Europe will have problems in taking delivery of ships due to travel restrictions for both management and crew."

Contracts in China, the world's biggest shipbuilder, are forecast to shrink to 388 vessels in 2020, which is its lowest number

since 2001. However, that figure will grow to 1,134 vessels by 2024.

In the 2020-2024 period, a total of 12,461 vessels will be delivered to the market, which is a decrease of about 220 vessels compared with the previous five years.

Most delivered ships will be bulker and general cargo, with 3,823 ships forecast for this type. Tanker deliveries are predicted at 3,013 vessels and offshore and service at 2,428 vessels.

Of the 6,034 ships in the current order book, China has the largest number of contracts, with 2,514 ships (42% share), followed by Europe with 1,102 vessels (18% share). South Korea has 891 ships (15%) on order and Japan 723 vessels (12%).

Global orderbook

In terms of capacity, the global orderbook currently stands at 336m dwt, of which 49% of capacity is placed in China (164m dwt). Korean yards have 100m dwt on order (30%) and Japanese yards have 48m dwt (14%). The Other Asia orderbook is 11.7m dwt (3%).

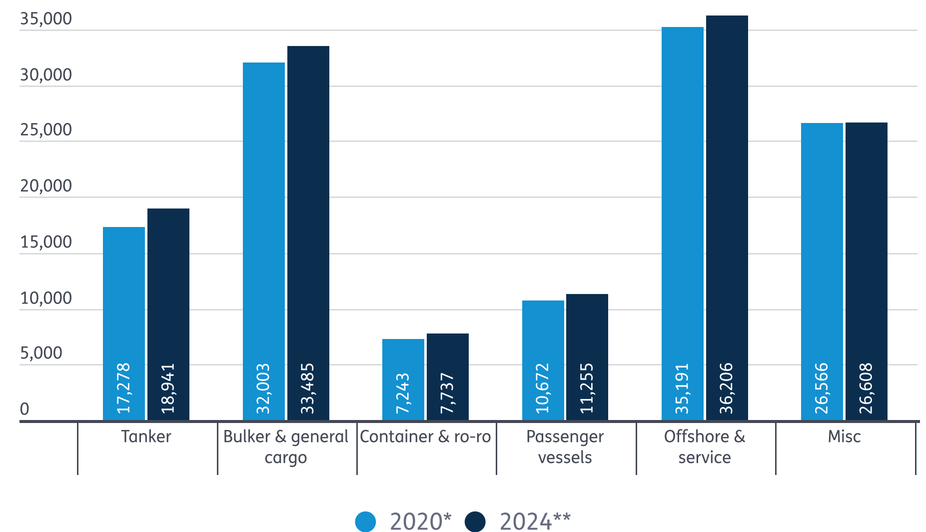
This year, 1,248 vessels will be removed from the fleet, which is almost 200 vessels more than in 2019.

In 2020-2024, the global removals will reach 6,864 vessels, 34% more than in the previous five years.

The increase will be driven by the tanker, passenger and offshore and service segments, which will each have in excess of 500 ships removed — more than in the previous five years.

Fleet size by vessel type (no. of vessels)

The tanker fleet will have the highest growth rate over the coming five-year period, at 10.1%. The container and ro-ro fleet will grow by 7%, while the passenger fleet is set to grow by 5.7%. The bulker and general cargo fleet will grow by 5%.



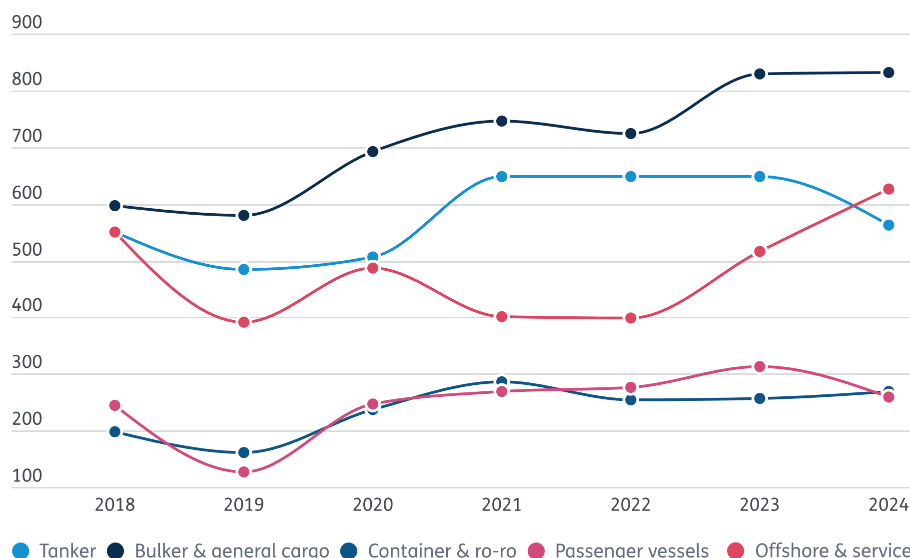
* as of end April 2020 ** forecast

Source: Lloyd's List Intelligence

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

Annual deliveries by vessel type (no. of vessels)

In the 2020-2024 period, a total of 12,461 vessels will be delivered to the market, which is a decrease of about 220 vessels compared to the previous five years. Most delivered ships will be bulker and general cargo, with 3,823 ships. Tanker deliveries are forecast at 3,013 vessels and offshore and service at 2,428 vessels.



NOTE: 2020-2024 = forecasts

Source: Lloyd's List Intelligence

> *The coronavirus outbreak will mean lower deliveries in 2020 than originally scheduled, but since the Chinese shipyards have the majority of the orders, work has resumed quicker than in many other parts of the world*

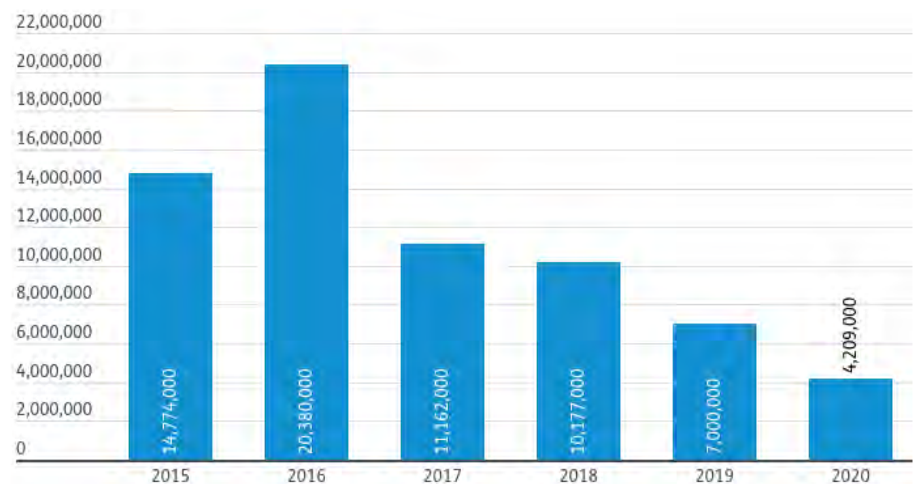
The month in charts with Adam Sharpe

Scrapping volumes at new low, floating storage at record high

The past month has seen further evidence that the coronavirus pandemic is having significant impacts on the shipping sector, from the number of vessels sent for scrapping to tanker capacity being used as floating storage for crude oil

Ship scrapping volume in dwt (Jan-Apr)

In the first four months of 2020, some 55 vessels of more than 10,000 dwt have been scrapped — the lowest number since 2008, when the figure was 52 vessels over the same period



Source: Lloyd's List Intelligence

Stronger tanker earnings coupled with lockdowns affecting demolition yards around the world are set to drive scrapping volumes this year to the lowest since at least 2008, which was the height of the commodities super-cycle.

So far in 2020, some 55 vessels of more than 10,000 dwt have been scrapped, according to data from Lloyd's List Intelligence. That is the lowest number since 2008, when 52 ships totalling 2.7m dwt were broken up over the same period.

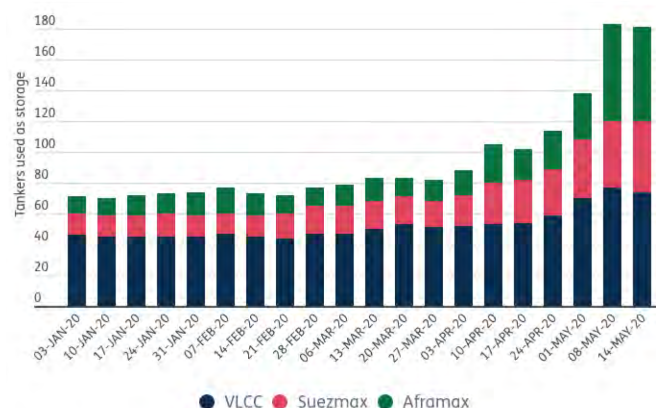
The 55 vessels of more than 10,000 dwt recycled over the January to April period totalled 4m dwt, down 42% on the same period of last year.

Nine very large ore carriers or capesize bulk carriers account for just over half of scrapping activity in the first four months of 2020, Lloyd's List Intelligence statistics show, reflecting poor rates across the sector.

Tanker earnings reached record levels over the first quarter as historically low oil prices increased demand for floating storage, limiting scrapping to three suezmax and four aframax-sized crude tankers, compared with 27 bulk carriers and 40 containerships.

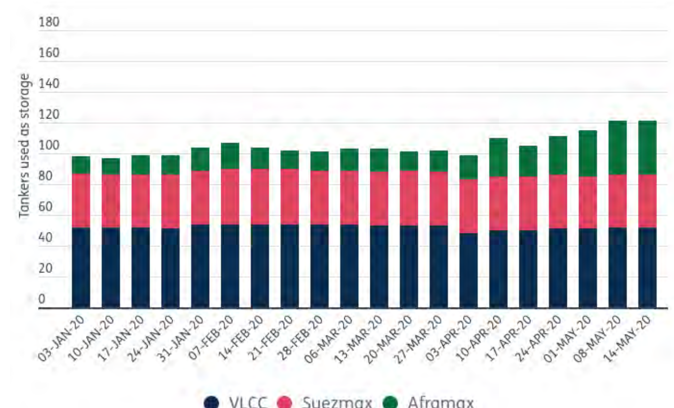
Tanker capacity used as floating storage

Short-term storage tanker fleet



Source: Lloyd's List Intelligence

Long-term storage tanker fleet



Source: Lloyd's List Intelligence

Floating storage record

In the tanker market, oil-on-water and floating storage volumes that have propped up demand for crude and product tankers have peaked, according to the International Energy Agency.

IEA director Fatih Birol said in early May that global oil production for the month was falling faster than indicated and an anticipated shortage of land-based storage capacity was now seen as "a less pressing problem".

That will have implications for the global tanker fleet, with the Paris-based agency suggesting "destocking" of surplus crude and refined products in storage would begin in the second half of 2020 as lockdown restrictions eased.

Some 230m barrels was being stored on 156 tankers as of May 14, according to data from Lloyd's List Intelligence. That was the first decline in storage volumes seen in more than six weeks.

The record was reported in mid-April, when 234m barrels was attributed to floating storage. Still, volumes spiked in the few weeks that followed, up from 196m barrels on April 30, data shows.

Chinese port calls

The global economic downturn is reflected in the year-on-year drop in ships calling at the two major Chinese container ports of Shanghai and Yangshan, but there is evidence that things are returning to near seasonal norms.

This was most starkly reflected in weeks 18 and 19 of the year, when calls fell by 17% and 23%, respectively, before week 20 recorded just 21 fewer calls compared with 2019.

However, calls are likely to diverge again further into the year as more blanked sailings are announced in the peak third quarter.

Shanghai and Yangshan port calls (2019 vs 2020)

Source: Lloyd's List Intelligence

Maersk warning

Finally, the world's largest ocean carrier, Maersk, became the first of the major European lines that post financials to publish results for the first quarter of 2020, in early May.

And for Maersk, the results were pleasing, with improvements on the corresponding three-month period across the board.

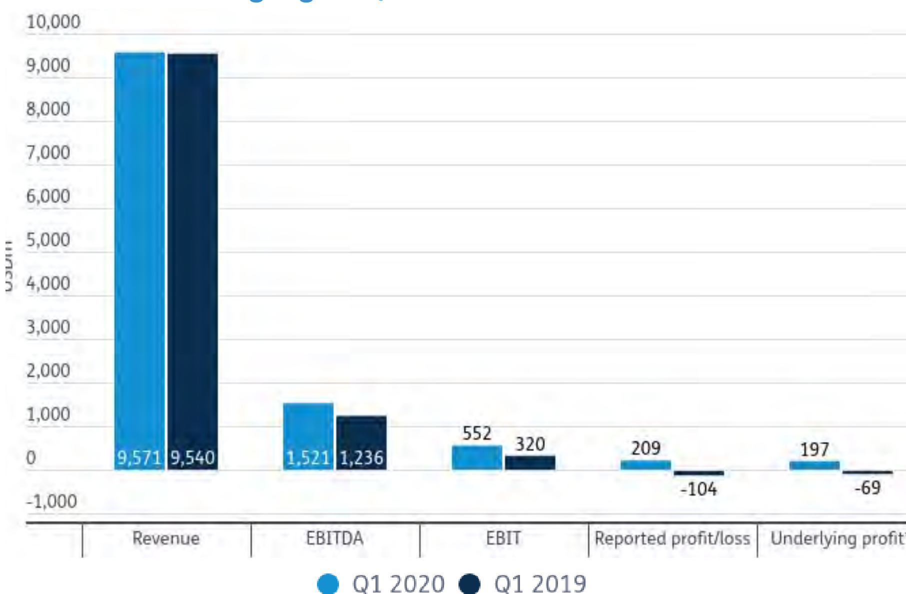
Revenues, profits and the group's operating result were all up. However, the result was marked with a clear indication of worse to come.

The carrier issued a stark warning for the second quarter, when the impact of the coronavirus pandemic on its core business will be evident.

The Danish giant said it anticipated container volumes to fall by as much as 20%-25% for the second quarter. This included all sectors of the business.

Chief executive Søren Skou expected a "challenging year", to say the least, but was confident Maersk was well positioned to weather the storm.

Maersk financial highlights Q1 2020



**Underlying profit/loss is profit/loss for the year from continuing operations adjusted for net gains/losses from sale of non-current assets etc and net impairment losses, as well as transaction, restructuring and integration costs related to major transactions. The adjustments are net of tax and include AP Moller-Maersk's share of mentioned items in joint ventures and associated companies.*

Source: Maersk

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

insuranceday
Business intelligence | informa

Lightboxx/Shutterstock.com

Many problems have arisen from inconsistent Covid-19-related port and border closures or entry restrictions.

Shipowners look to force majeure as BI cover fails against Covid-19

China and India are issuing force majeure certificates for the purpose of 'shielding' companies in the maritime sector from legal damages resulting from the pandemic, **Rasaad Jamie** reports

The concept of force majeure is a familiar one in the maritime sector, but in relation to Covid-19, it is proving highly contentious as a basis on which to make — but also, increasingly, on which to deny — an insurance claim.

For insurers, the issue is further complicated by the fact that some jurisdictions are considering passing emergency legislation with the effect of allowing businesses, under certain circumstances, to make a claim on their business interruption policies where they would not have otherwise been able to do so.

This proposal is still very much in its infancy, but the re/insurance industry and its lawyers are keeping a watchful eye.

Typically, as far as the liability of a carrier, a charterer or logistics service provider is concerned, the inability to provide services as a result of quarantines associated with Covid-19 is likely to be governed by the force majeure provisions, which are included in most transportation contracts.

For example, the standard bill of lading or contract terms of carriage are likely to free charterers and logistics companies from the responsibilities inherent in those contracts due to their inability to provide services during the crisis.

However, loss adjusters say many problems and grey areas arise from the limited availability and unequal distribution of container volume across the world, as well

www.lloydslist.com

Get uniquely comprehensive coverage of the specialist insurance industry.
We provide the authoritative journalism and trusted data analysis you need to avoid market risks and spot the opportunities emerging for your business.

as from inconsistent Covid-19-related port and border closures or entry restrictions, which have led to goods being rerouted via ports different from those initially scheduled, thus leading to extra costs for demurrage, carriage, storage, handling and so on.

According to Dominique Breton, head of marine at Sedgwick France, vessels are sailing underloaded and the restriction of services at ports are causing extra delays.

"Under these conditions, the shipowners are unable to provide the service expected. The poor loading conditions for vessels call into question the contractual duties of the charter party and shipowners feel entitled to invoke force majeure," he says.

Limiting liability

Not surprisingly, numerous operators and service providers in the maritime industry are currently looking to invoke force majeure clauses within the contracts to limit their liability.

This is at the same time as they are considering whether or not their insurance gives them protection from the inevitable economic downturn.

However, companies quickly find they need to check their contract terms and conditions very carefully indeed to ensure force majeure provisions will apply.

"They also need to ensure they have the correct business interruption cover," Gemma Pearce, head of marine at law firm BLM, says. "They should also be liaising with the relevant governmental department so that whatever they choose to do is backed by the authorities."

Only a few businesses in the maritime sector will have taken out business interruption insurance, which is not usually offered as part of the standard marine insurance package. This is often added to existing covers for an additional premium.

However, the timeframe and the circumstance under which insureds can claim against such covers for loss of income during a period in which they cannot operate as normal is usually limited.

For example, insurance against the closure of the business, whether by the government or the competent authority, will obviously respond if the authorities close down the entire operation.

"But they won't necessarily be covered for the loss of revenue if only part of the business is out of action or if the workforce are struck down or simply refuse to work out of fear of infection," Ms Pearce says.

> *"It is safe to say Covid-19 has been a steep learning curve for business interruption policyholders in all industry sectors, but particularly so in the maritime sector"*

Indeed, Covid-19 has significantly increased the level of uncertainty for marine policyholders in terms of how their insurance cover will respond.

According to Mr Breton, a critical question raised previously, but very much highlighted by the Covid-19 crisis, as to whether an underloaded vessel can, or cannot, legally be considered to be off-hire, is still unresolved and fuelling the sense of uncertainty.

Another issue for the sector is the deterioration of insured goods as a result of delays. Under some war risk contracts — particularly those issued in France — this risk is excluded.

"However, the natural deterioration of goods insured as a result of delays is indemnified when it occurs on board a ship. In general, these cases are reviewed by insurers on a case-by-case basis," Mr Breton says.

It is safe to say Covid-19 has been a steep learning curve for business interruption policyholders in all industry sectors, but particularly so in the maritime sector. Such cover needs to be considered carefully and, essentially, from the insured's perspective, policy terms and conditions should be as wide as possible.

For example, the marine equivalent of business interruption cover is loss of hire insurance, which, like business interruption insurance, generally only responds in the case of an event causing physical loss or property damage. This is particularly the case if the business interruption cover is attached to a cargo insurance policy.

"There may be some policies that will extend cover beyond physical damage, but these are rare and few of them cover losses arising out of a pandemic and/or specific acts of governments," Ms Pearce says.

She refers to reports of arguments being raised in recent court cases in the US that Covid-19 does, in fact, cause physical property damage.

"This is being argued on the basis that contamination from toxic substances has, in the past, been considered such by courts around the world, including in the US, England, Australia and France," she continues.

However, this is an argument that has rarely succeeded in the past and the physical damage requirement remains the issue — and a very significant one — for parties to overcome.

"If a policy specifically excludes damage from contamination or a pandemic or another applicable event, this argument is likely to be undermined further," Ms Pearce adds.

Redress under force majeure

Given the lack of mitigation from the insurance industry of businesses' Covid-19 losses, companies in the maritime sector and governments are increasingly looking to what solutions for redress can be provided under force majeure provisions.

For contracts entered into after the outbreak of the pandemic in China, it may be more difficult to argue Covid-19 should fall within more general wording. From an insurance perspective, Ms Pearce says, it is likely Covid-19 will be classed as an unforeseeable event, until such time as evidence to the contrary may be adduced.

"That said, once again, for contracts entered into after the outbreak, it is unlikely the unforeseeable element of the force majeure clause may prevent reliance on the same," she says.

Ms Pearce points out there is no general concept of force majeure in English law; an expressed contractual clause is required and its effect will depend upon the specific wordings of the clause.

"Force majeure clauses are generally construed strictly, although due to the current climate, there is likely to be more leniency by the courts in allowing a party to rely on such a clause," she says.

"The question of whether a party can invoke such a clause and how this is to be considered by insurers will much depend on how, if and when Covid-19 will be classed and whether it can in fact be classed as a force majeure event."

i-law.com
Maritime intelligence | informa

Managing a charterparty through the Covid-19 pandemic

James Mackay, of The Swedish Club, gives a P&I Club perspective on the Covid-19 pandemic and the impact on charterparties

The World Health Organization classified Covid-19 as a pandemic on March 11, 2020. In response to the outbreak and spread of the virus, ship operators are likely to encounter a number of legal issues in relation to charterparties as a result of the measures that are being imposed by national authorities.

Port safety

Time charterers may not order a vessel to an unsafe port in breach of an express or implied warranty in the charterparty.

The test is whether at the time when the order is given, the vessel can reach it, use it and return from it without being exposed to dangerous features that are not the result of an abnormal occurrence.

There is also an obligation to change voyage orders if the port subsequently becomes unsafe before the vessel reaches it.

In some charters (the Baltime form, for example), there is an express prohibition on the charterer ordering the vessel to a port where fever or epidemics are prevalent.

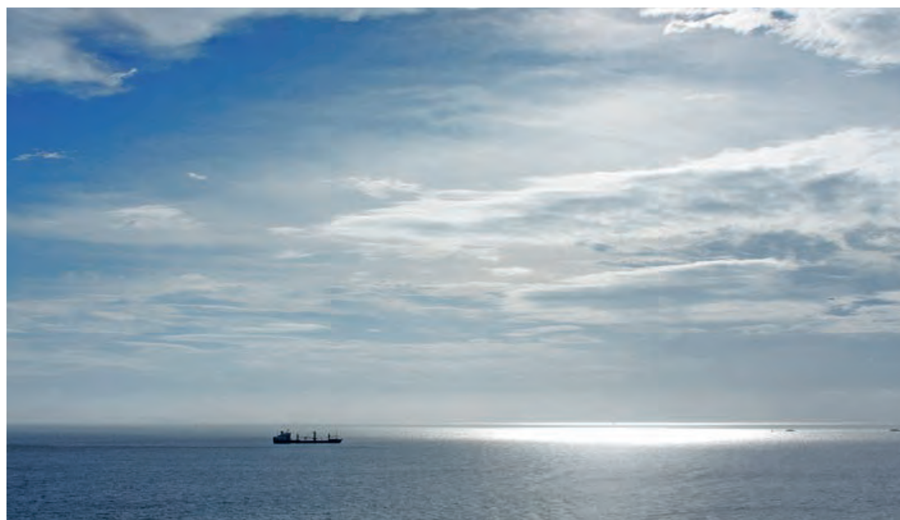
Where there is no express provision such as that, however, there is likely to be substantial doubt as to whether the safe port warranty permits the rejection of an order by reference to concerns about Covid-19. It involves questions of fact and law.

Case law: Generally, case law deals with the risk of physical damage to the vessel or detention due to political risks.

In theory, it is conceivable for a port to be unsafe if the spread of infection at the port would put vessels at risk of being disabled by crew sickness or would cause vessels calling at the port to be barred or detained at other ports.

Such scenarios, however, seem unlikely in practice; health risks can be avoided if the crew take proper and effective precautions.

Although vessels might be subject to quarantine delays at subsequent ports, it is unlikely that they will be permanently blacklisted, detained or impounded. Also, it is questionable whether an outbreak of Covid-19 would be a feature of the affected port, rather than an abnormal occurrence.



Voyage orders are obliged to change if a port becomes unsafe before the vessel reaches it.

cozyta/Shutterstock.com

Individual circumstances: Each case will be decided on its specific facts and will require careful consideration, bearing in mind that the refusal of a legitimate order can constitute a repudiatory breach of the charter.

Aside from that, if the vessel is laden, the owner will be subject to separate obligations to the shippers/consignees under the bill of lading contract to deliver the cargo at the contractual discharge port.

Time charters: If an owner accepts a time charterer's voyage orders in full knowledge of the unsafe features of the nominated port, the owner may have waived the right to refuse to obey the order.

This will not necessarily mean that the owner has waived the right to damages for breach of the safe port warranty, or an indemnity for complying with the charterer's orders.

Voyage charters: The position is different for voyage charters, where the port has already been nominated without an express warranty of safety.

The general view is that there is no implied warranty under a voyage charter, and the charterer is not under a duty to re-nominate on grounds that the nominated port is unsafe.

Port closure

Time charters: If Covid-19 results in the closure of a port to marine traffic, it will not be possible for a vessel on time charter to perform the charterer's order to load or discharge cargo at the port and the charterer should give replacement orders.

Voyage charters: In a voyage charter, if the closure prevents the vessel from arriving at the port to load cargo before the end of the laycan period, the likely outcome will be that the charter will be cancelled.

www.lloydslist.com

Legal research can now be done in minutes; and without compromising quality
i-law is a vast online database of commercial law knowledge. It contains thousands of pages from many trusted legal sources. Sources that top lawyers and companies rely on daily.

If the discharge port is closed, there will probably be a liberty that permits discharge of the cargo at some other port (eg, "so near thereto as she may safely get").

Owner's protection: There is also some protection for the owner in that situation under article IV(2) of the Hague and Hague-Visby Rules (if incorporated into the charter), which states that neither the carrier nor the ship shall be responsible for loss or damage arising or resulting from: "(h) quarantine restrictions; … (j) strikes or lockouts or stoppage or restraint of labour from whatever cause, whether partial or general; … (q) any other cause arising without the actual fault or privity of the carrier".

Delays

Delays in port to vessels in or arriving from affected areas might arise in relation to granting free pratique, the availability of pilots or quarantine arrangements.

Precautions that owners may take to minimise the risk of such delays include making a pre-arrival declaration of health and documenting measures taken on board to reduce the risk of contamination.

The allocation of risk between the owner and charterer for delays will depend on the relevant facts and the charterparty wording.

Time charters: Time charterers are obliged to pay hire continuously throughout the charter period unless they can prove that an exception applies.

Some examples of possible off-hire events under the New York Product Exchange (NYPE) form are: "deficiency of men", where time is lost due to crew members being incapacitated/repatriated due to illness or the imposition of quarantine restrictions; delay caused by the refusal of free pratique as a result of suspected infection on the ship where off-hire events extend to "any other cause whatsoever preventing the full working of the vessel".

In the Shelltime 4 form, time lost due to "quarantine restrictions" is an explicit off-hire event.

An owner may be entitled to an implied indemnity, arising from compliance with the time charterer's orders to call at a port in an infected region, for losses resulting from consequential delays, including loss of income for off-hire periods.

Mackay: ship operators are likely to encounter a number of legal issues due to the Covid-19 pandemic.

Voyage charters: For a voyage charter, it is necessary to examine specific laytime/demurrage provisions and exceptions.

A valid notice of readiness (NOR) requires the vessel to be physically and legally ready for cargo operations.

While a "whether in free pratique or not" (Wifpon) provision may permit NOR to be given before clearance has been granted by the health authorities, it probably does not override the common law position, which prevents laytime from commencing if it is not simply an administrative formality but instead is specifically refused or delayed for reasons related to the health status of the crew.

It is possible that some charters may include provisions (including a force majeure clause) that exclude from the running of laytime or demurrage periods of delay directly caused by quarantine restrictions imposed on shore labour.

The rules of construction should be examined to determine the applicability of such provisions.

Doctrine of frustration: It will only be in relatively rare cases that the doctrine of frustration will enable the parties to treat the charter as terminated for reasons related to Covid-19, including delay.

For frustration to apply, the delay (or other circumstances related to Covid-19) must be of such nature and magnitude as to constitute an unforeseen event that makes it impossible to perform the charter or at least radically changes the nature of the contractual obligations outside the reasonable contemplation of the parties at the time of the fixture.

Also, it must not be "self-induced", in the sense that the party seeking to rely on it cannot have made the performance impossible by its own choice.

Force majeure

There is no English common law doctrine of force majeure, which excuses a party from performing its contractual obligations (other than an event that brings the contract to an end under the doctrine of frustration).

There can, however, be contractual terms that provide that a supervening event in a specified category beyond the control of one or both contracting parties may excuse non-performance or result in the cancellation of the charter.

The key points to consider in relation to a force majeure clause is whether the non-performance of the obligation due to a Covid-19 issue fits within the force majeure wording (eg, if force majeure events include "quarantine", "embargo", "disease" or "epidemic") and the event itself, rather than a consequence of it, is the proximate cause of the party's inability to perform its obligations by reason of circumstances that are beyond its control.

Performance: It is necessary to make a distinction between an event that prevents performance and one that renders performance more difficult or uncommercial.

The latter event does not itself prevent performance but rather the non-performance is due to the party making a commercial choice to avoid loss of profit and will not meet the requirements of a force majeure clause, which describes events that prevent performance of contractual obligations.

Recommended clauses

Both BIMCO and Intertanko have published clauses for use in charters that deal with infectious or contagious diseases.

● For further details, including accompanying guidance notes, see: **www.bimco.org**

James Mackay is a claims executive and consultant, The Swedish Club

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

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

A bet on a nation's fortune

The merger of China's two largest state shipbuilding groups has gained the combined entity more weight in the eyes of Beijing's policymakers, enabling it to win more support from state-owned shipowners and leasing houses amid the market downturn

For many years, Japanese shipowners have been the most loyal customers to compatriot shipyards and have carried them through numerous downturns. In the current slump, such countrymen's affection and ties seems to be a pattern picked up by their Chinese counterparts and it is exaggerated by state power.

For the first four months of 2020, Chinese shipbuilders won orders for 99 vessels, of which 62 were ordered by domestic owners, according to Clarksons' data.

This is a level that has rarely been reached in the past and it comes against a few interesting backdrops.

The merger between China State Shipbuilding Corp and China Industry Shipbuilding Corp has brought the enlarged company — the new CSSC — bigger influence in The State-owned Assets Supervision and Administration Commission of the State Council, which oversees the country's state-owned enterprises, said a senior yard executive familiar with the matter.

The heavier weight will secure more support, when necessary, from state-owned shipowners, including large Chinese leasing houses.

In fact, these lessors contracted half of the above-mentioned 62 newbuildings. Among the headlines are 12 dual-fuelled, long-range two tankers placed by Bocomm Financial Leasing linked to charters from Shell, as well as eight newcastlemax dry bulkers by CDB Financial Leasing supported by charters from RWE. Most of these orders are placed at CSSC's subsidiary yards.

Several years ago, leasing arms of large state-owned Chinese banks were under government pressure to shun newbuilding projects at foreign yards after complaints from the former CSSC and CSIC.

Now, the leasing funds are only expected to be more inclined to back the new CSSC, with its growing sway.

The new CSSC is now the world's largest shipbuilding group by asset size.

> *The strength and interests of the state has sent yards in China — especially the state-owned majors — far ahead in the order-winning game when pitted against their rivals in South Korea and Japan*

Also, bear in mind that since 2018, a string of state-backed investors have poured about $5.6bn altogether in the form of debt-to-equity swaps to rescue the financially distressed yards of CSSC and CSIC before their merger. They will make sure their investment gets paid back.

Of course, the traditional state shipping giants are not absent from this ordering binge. China Merchants recently ordered two eco-designed very large crude carriers at CSSC's Dalian Shipbuilding Industry Co. Cosco Shipping lavished nearly $780m for five supersized 23,000 teu containerships at its affiliated yard.

And their gas shipping joint venture, China LNG, is now bidding for Qatar Petroleum's $3bn newbuilding project for up to 16 large liquefied natural gas carriers at Hudong-Zhonghua Shipbuilding, another CSSC yard.

The upcoming orders are backed by the energy giant's charters. However,

CSIC's former chairman detained in corruption probe

THE former chairman of the China Shipbuilding Industry Corp is being investigated by the state anti-corruption agency, according to an official statement, *writes Cichen Shen.*

Hu Wenming, 63, is suspected of a serious breach of the country's laws as well as the Chinese Communist Party's disciplines, a common charge used by the Central Commission for Discipline Inspection to launch a probe against officials from government or state-owned enterprises.

No further details were given by the CCDI anti-graft agency in a statement.

Mr Hu stepped down in September last year in a move that surprised some industry observers. He had been deemed as a strong contender for the helm of the then soon-to-be-established new China State Shipbuilding Corp.

The company is now the world's largest shipbuilding group created by the merger between CSIC and the former CSSC.

Mr Hu alluded to the merger deal before the official announcement from the central government in a local newspaper interview — a rather unconventional practice for business leaders in the country's public sector.

The CSIC chairman was dismissed by Beijing from the post a month later, after which his CSSC counterpart Lei Fanpei was designated to the top seat of the combined shipbuilding group.

Mr Hu, who graduated from Nanjing University of Aeronautics and Astronautics, had been in China's aviation industry for more than 25 years before moving to the top management position at state-owned defence company Norinco.

Hu: relocated to CISC in 2015 and had held chairmanship of the company since then, until his retirement.

> *Mr Hu stepped down in September last year in a move that surprised some industry observers. He had been deemed as a strong contender for the helm of the then soon-to-be-established new China State Shipbuilding Corp*

He joined the previous CSSC in 2010 and was promoted to the helm two years later.

Mr Hu was once again relocated to CSIC in 2015, since when he had held the chairmanship of the company.

The veteran state-owned enterprise official was cited by state media as "the commander in chief" of the team for the development of the first China-built aircraft carrier, *Liaoning*, which entered into service at the end of 2019.

In June 2018, Mr Hu's second in command, the then CSIC general manager Sun Bo, was also detained by the CCDI as it conducted an investigation.

Mr Sun was sentenced to 12 years jail in July 2019 for acceptance of bribes and abuse of authority. It is not clear whether the two cases are related.

in essence, they are backed by China's purchasing power of the supercooled fuel.

The strength and interests of the state has sent yards in China, especially the state-owned majors, far ahead in the order-winning game when pitted against their rivals in South Korea and Japan.

The trend is likely to continue to keep the Chinese builders afloat amid the double whammy of the coronavirus backdrop and decarbonisation uncertainty. They will need to hold on until the next shipbuilding boom, which will be driven by the maturity of carbon-free fuel.However, what are the risks on the flip side of this strategic orchestration that is showing the trappings of success?

For the leasing lenders in China — as Bill Guo, executive director of shipping at ICBC Financial Leasing, has described — they are acting increasingly as real shipowners as they order new vessels on their own. Yet the charters to back those orders are getting shorter nowadays, enough to cover just one-third of the ship's lifecycle in many cases.

This means the lessor will be more exposed to assets' residual value at the time when the global trade paradigm appears to be shifting its direction.

After all, the future earnings and value of most of these newbuildings will arguably still rely on how well China can maintain its "world factory" position and the corresponding appetite for commodity trade.

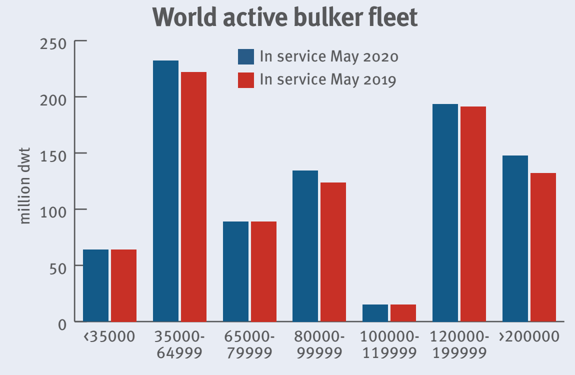
In this regard, the ordering is not only an investment in the future of Chinese shipbuilding, but also a bet on the nation's fortune.

MARKETS
DRY BULK

The global active fleet of bulkers totalled 11,994 vessels, comprising 875.9m dwt, in early May, 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 11.9% on the year-ago level. This was in addition to an 8.8% jump in smaller dry bulk units in the post-panamax sector, or between 80,000 dwt and 99,999 dwt, on 2019 levels.

The dry bulk orderbook stood at 920 units at the start of May, with a combined capacity of 87.1m dwt. In 2020, 622 more ships are due for delivery, with an additional 259 due to hit the water next year and a further 39 vessels from 2022 onwards.



Grains unlikely to support bulkers in the near term

Bulk carriers have been supported by grains trades through the coronavirus crisis, with volumes described as 'fantastic' so far, writes **Nidaa Bakhsh**

A slowing grains market is expected through the coming months as the South American season comes to an end, and before US exports begin, according to analysts.

While volumes up until now have been described as "fantastic", helping to support bulkers from supramaxes to panamaxes, June and July are expected to see softer trades.

"Grains is actually a weak spot at the moment," said Torvald Klaveness head of research Peter Lindstrom.

"It's still strong on a year-on-year basis, but the peak is now behind us as the strong Brazilian export season is winding down."

The "armada of panamax vessels" that has loaded soyabeans on the east coast of South America in the past couple of months will, going forward, be discharging in the Far East, which from here until July is "negative for the freight market", Mr Lindstrom said.

"But, from August, when the US season starts and once China continues to buy, we should see a more positive freight market as vessels are sourced for this trade," he added.

Indeed, there are hopes that China will return to the US market for soyabean shipments as it looks to replenish stocks amid concerns about supply chain disruptions due to coronavirus.

European Bulk Services

Grains market: June and July are expected to see softer trades.

According to Jefferies, there was some "positive news" for the dry bulk sector as Chinese importers reportedly bought 240,000 tonnes of US soyabeans for loading in July, with a further 1m tonnes likely in the second half of the year.

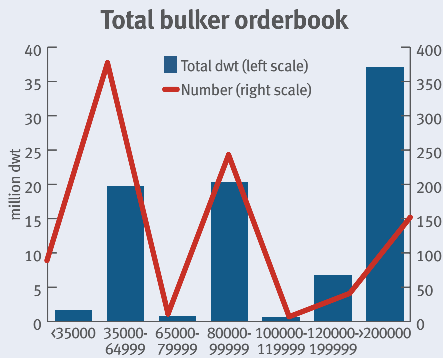
Longer term, China could even import 30m tonnes of US agricultural products, including 10m tonnes of soyabeans, Jefferies analyst Randy Giveans said.

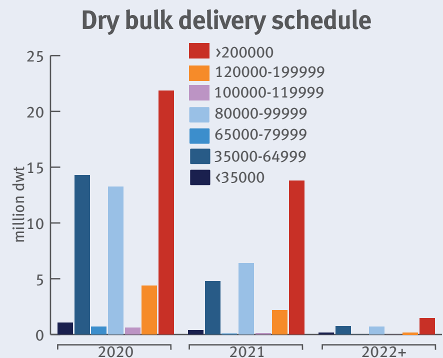
WANT MORE DRY BULK INSIGHT?
Go to:
http://bit.ly/drybulkLL

Relations between the two superpowers look to be thawing, with economic recovery the number one priority amid the virus pandemic, improving trade prospects, he said.

Price competitiveness

Klaveness' Mr Lindstrom believes that at this time, the US is still not price-competitive, meaning that commercial buyers in China continue to source their beans from Brazil, while state-run companies are buying US beans as they have quotas to rebuild stockpiles following the easing of its lockdown measures.





Data from:
Lloyd's List Intelligence
Maritime intelligence | informa
lloydslistintelligence.com

Yet as Brazilian beans become more scarce going into the third quarter, prices will rise, making them less competitive than the US. That, in turn, will attract China's commercial buyers, he noted.

A Singapore-based grains trader said that despite the phase one agreement between the US and China, not much grain movement has thus far been seen. Should China increase its purchases, as was the case last year, US soyabean exports in 2019/20 have the potential to still reach the US Department of Agriculture's current projection of 48.3m tonnes.

However, continuation of the current slow export pace will bring total US exports to around 45.1m tonnes, he said.

For Brazil, a weak real has incentivised exports.

Brazil had a bumper month in April, exporting a record 16.3m tonnes, three-quarters of which made its way to China. That followed shipments of 13m tonnes in March.

It has provided much-needed employment for panamaxes and kamsarmaxes while Atlantic coal trades have been weak.

Chinese appetite

"Increased buying interest from China has driven trade volumes as crushers have sought to fill both near-term and deferred requirements," said brokerage Simpson Spence Young in a note.

Chinese soyabean imports are forecast to reach 89m tonnes in the 2019/20 marketing year, 2m tonnes higher than the previous year, with further growth expected in the 2020/21 season

"I wouldn't say that grains are the only commodities that are helping the bulk market, but it is certainly a bright spot in an otherwise gloomy outlook. Overall, governments are naturally supporting grains production, which is heavily mechanised for key traded grains. So productivity is not significantly impacted by social distancing, and [grains] trade as a priority"

at 92.5m tonnes, it said, citing the International Grains Council.

While Brazilian volumes have soared, Argentina's exports of mainly soya meal have fallen due to pressures faced by farmers, SSY said.

In addition, low water levels on the Parana River have restricted the movement of soyabeans to crushing plants, it said, forcing exporters to load reduced cargo stems, which in turn, supported demand for some shallow-draughted geared vessels.

North Pacific trades are meanwhile also suffering from a seasonal supply slowdown and general uncertainty in the market related to the direction that China may take, according to Danish grains consultancy BullPositions.

"China is the epicentre of most of the Pacific trade flow concerns," managing director Jesper Buhl said, adding that despite the fact that the expected Chinese 2020/21 demand for wheat, barley, corn, rapeseed and soyabean imports had returned to an upwards trajectory, Pacific trades were on the decline.

And tariff threats "continue to crisscross the Pacific Ocean", he noted.

According to reports, there are growing tensions between Australia and China over a coronavirus inquiry, for example.

Yet all is not lost, as Brazil is expected to see corn exports boom thanks to increased plantings and good weather conditions for the Safrinha crop, Mr Buhl said, with forward sales at unprecedented heights, despite swelling global stocks.

Grain trades a priority

According to BIMCO's chief shipping analyst Peter Sand, the volume of grains traded has been "fantastic" and if it was not for that solid support, the dry bulk market would be in an even more dire situation.

That sentiment rings true for London-based Maritime Strategies International, which expects overall dry bulk demand to fall by more than 1% this year, while grains trades are expected to rise by 3%.

Earnings for panamaxes and smaller bulker sizes are thus forecast to increase through to October, although they will be lower than last year's levels due to weakness in other commodity flows.

Panamaxes are estimated to generate an average of $7,400 per day in the spot market in July, rising to $9,700 in October, MSI estimates show, while supramaxes should earn $6,200 in July and $7,500 in October, and handysizes should fetch $6,900 in July, increasing to $8,300 in October.

"I wouldn't say that grains are the only commodities that are helping the bulk market, but it is certainly a bright spot in an otherwise gloomy outlook," said MSI's lead analyst Will Fray.

"Overall, governments are naturally supporting grains production, which is heavily mechanised for key traded grains. So productivity is not significantly impacted by social distancing, and [grains] trade as a priority," he said.

Additional reporting by Inderpreet Walia

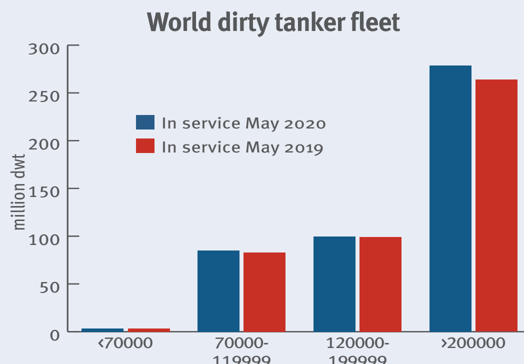
MARKETS

CRUDE TANKERS

The active crude carrier fleet comprised of 2,439 ships, equivalent to 466.5m dwt, at the start of May, 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 5.7% on year to 278.7m dwt. Aframax tankers between 70,000 dwt and 120,000 dwt continue to drive advances in the fleet too, up 2.5% on year to 801 vessels, representing 84.7m dwt.

The global orderbook was composed of 262 ships with a carrying capacity of 49.6m dwt. A further 21.3m dwt is due for delivery in 2020, with 21.4m dwt due in 2021 and just over 68.7m dwt from 2022 onwards.



US issues alert to shipping over 'sanctions evasion practices'

The latest US global advisory to the maritime industry highlights common deceptive shipping practices used to evade sanctions with respect to countries such as Iran, North Korea, and Syria, writes **Michelle Wiese Bockmann**

US government agencies have jointly issued new guidance for the international shipping industry to follow, so that operators can detect deceptive and illicit shipping practices used to evade sanctions imposed on Iran, Syria and North Korea.

The "best practice" recommendations include the introduction of "institutionalised" audited sanctions compliance programmes, as well as having sufficient resources and "relevant controls" to monitor ships' vessel-tracking data and ship-to-ship transfers.

The guidance also asks for insurers and other maritime business sectors to share information about their clients' possible deceptive shipping practices with competitors, where legally possible.

The six-page document targets marine insurance companies, shipowners and operators, flag registries, shipping associations, charterers and banks.

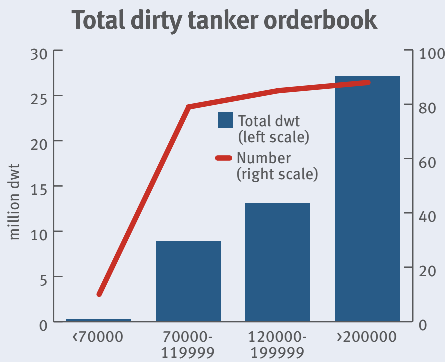
It has been issued by the State Department, the Treasury via the Office of Foreign Asset Control, and the US Coast Guard.

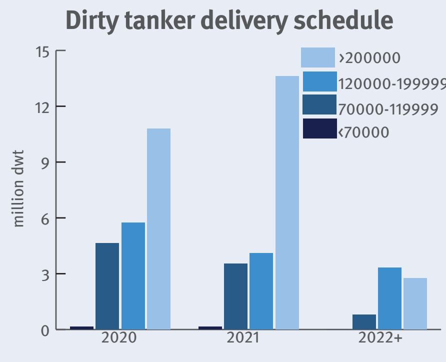
"Private industry... is encouraged to investigate signs and reports of Automatic Identification System transponder manipulation before entering into new contracts involving problematic vessels or when engaging in ongoing business," it reads.

As well as highlighting AIS monitoring to detect manipulation, the guidance suggested a number of "general approaches to aid in further tailoring due diligence and sanctions compliance policies and procedures".

The US has imposed unilateral sanctions on Iran's oil and shipping sector since November 2018.

Maxx-Studio/Shutterstock.com





Data from:
Lloyd's List Intelligence
Maritime intelligence | informa
lloydslistintelligence.com

These procedures aim to detect false cargo and vessel documentation, irregular voyages, and ship-to-ship transfers that conceal the origin and destination of sanctioned commodities.

Complex ownership and management chains, as well as flag-hopping and changing registries to mask illicit trade, are also cited in the document.

Shipping leaders have been anticipating the new guidance after a series of workshops with US administration officials soliciting feedback held over the past six months in London and Washington.

Initial proposals presented to the industry were said to be unworkable and onerous.

This guidance reflects a more measured response to sanctions compliance, "encouraging" and "recommending" protocols for those involved in commodities supply chains and for the industry to "take appropriate action as deemed necessary or advisable".

"The commercial world will be grateful that the US listened to its concerns and adopted a more realistic approach with 'as appropriate' and 'may wish to consider' constituting a welcome change of tone, certainly from the insurance point of view," said Neil Roberts, head of marine underwriting for the Lloyd's Market Association.

Port state control and port authorities are "encouraged" to investigate and ban any vessels that cannot account for inconsistent AIS broadcasts while in their jurisdiction.

Floating storage peak exposes tankers to post-crisis demand

Volumes of crude being held in floating storage have likely peaked as inventories draw down on improving oil demand, exposing the global tanker fleet to the post-pandemic landscape of fewer cargoes as producers cut output to stabilise prices, *writes Michelle Wiese Bockmann.*

Floating storage is tracked at 233.4m barrels on 191 tankers for the week ending May 18, according to Lloyd's List Intelligence.

That is up from 230.6m barrels on 181 tankers for the previous week, but down from the all-time record of 234.8m barrels in early May.

Some 7% (by dwt) of the live fleet of around 2,800 tankers is tracked in floating storage defined as laden tankers, from very large crude carriers to aframax vessels, at anchor for 20 days or longer — data shows.

That compares with 2.9% three months ago, before countries entered lockdown to restrict movement and control the coronavirus spread.

The scale and duration of floating storage is viewed as key to providing a floor for volatile spot tanker earnings, with daily assessments falling for three consecutive days.

Evidence now suggests the factors that rapidly built floating storage, which has nearly doubled in three months, are unwinding faster than anticipated.

Most of the 19 vessels tracked leaving floating storage in mid-May had previously been at anchor at ports near Singapore and the US west coast, where land storage tank shortages caused discharge delays. Some 32 tankers in floating storage in the Far East had loaded cargoes in February, before oil demand crashed by as much as a third in March and April.

How many tankers are simply delayed, versus those chartered for specific periods by oil traders for contango plays, is a further unknown that will also influence how quickly tankers exit floating storage.

Nightman1965/Shutterstock.com

The floating storage market for crude oil and related products is quickly reconfiguring itself.

Earlier in March, the spot oil price was significantly lower than the futures price in six months' time, a condition known as contango.

Some 10 tankers — including five VLCCs, which each hold 10m barrels — were at anchor off India, which reflects shortages of land-based storage, rather than contango charters, according to data compiled by Lloyd's List Intelligence. Floating storage in areas off the UK where oil traders are known to place tankers was much smaller, at eight tankers.

Agreed global output cuts of 9.7m bpd began in May, with tanker earnings slipping as demand for vessels for short-term floating storage wanes and fewer cargoes are exported.

The oversupply that has pushed oil prices to the lowest in nearly 21 years is now seen being reduced as exports are curbed to reflect slower refinery runs; some estimate the market could move into a deficit in the second half of 2020.

VLCCs account for the highest percentage of tankers in floating storage, at 9.1% of the 773 vessels totalling 238.5m dwt. Suezmaxes in floating storage are tracked at 6.6% from 576 tankers, and aframaxes 2.9%. There are 1,008 of this vessel type shown as trading.

2020
MULTIMODAL
NEC BIRMINGHAM UK 4-6 November

THE LOGISTICS SOLUTION FOR CARGO OWNERS

- discover the latest freight solutions with over 300 exhibitors under one roof
- network with the industry's elite and forge new business partnerships
- help us celebrate the best in industry at the Multimodal Awards

New for 2020!

BIFA Freight Forwarders Village: giving the opportunity for close range networking in a more personal environment

Unique Connections: Connecting our VIPs with our exhibitors and their peers

Vertical Seminar Content: offering content directly relevant to each genre of shipper

Tomorrow's World Today: a day focusing on training, recruitment and the skills gap bringing in ex-forces personnel, schools and colleges to explore opportunities, education and recruitment via seminars, initiatives and face-to-face conversations

"Enjoyable and informative.

"It was very educational and allowed me to connect with many potential suppliers.

"Multimodal provides me with the perfect platform to meet new suppliers, and to gain insight into new technologies and services.

Whatever your role, whether you're a retailer, manufacturer or import/exporter, you will find suppliers to solve your complex transport and logistics requirements. Improve your business by finding ways of moving products more efficiently and cost effectively.

MULTIMODAL.ORG.UK

Organised by CLARION EVENTS

The global active fleet of liquefied natural gas carriers comprised 566 vessels totalling 86m cu m as of early May, a 5.5% increase on its year-ago total, according to Lloyd's List Intelligence.

The LNG orderbook stood at 154 units, representing 23.4m cu m carrying capacity. Of this, 6.3m cu m is scheduled for delivery in the rest of 2020; 9.9m cu m in 2021; and nearly 7.1m cu m in 2022 and beyond.

For liquefied petroleum gas tankers, the active global fleet was composed of 1,568 ships, with a carrying capacity of 36.1m cu m, up nearly 6% on year.

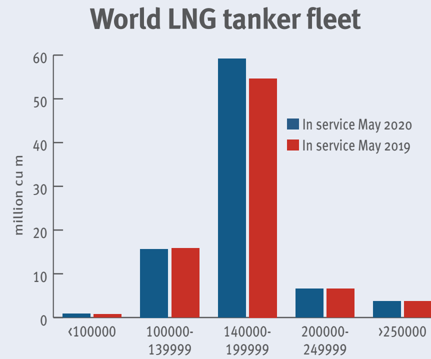
The LPG orderbook is dominated by very large gas carriers. Of the 129 vessels on order, 62 VLGCs, or 22% of the LPG fleet, are due for delivery.

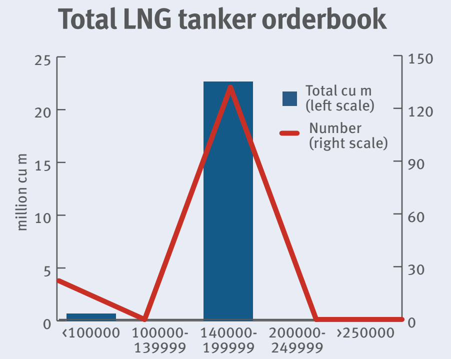
The global fleet of product tankers comprised 8,799 vessels with a carrying capacity of nearly 196m dwt, up 2.3%.

The product tanker orderbook stood at 314 ships, comprising 14.4m dwt:157 MR vessels, 14 LR1s and 44 LR2s.

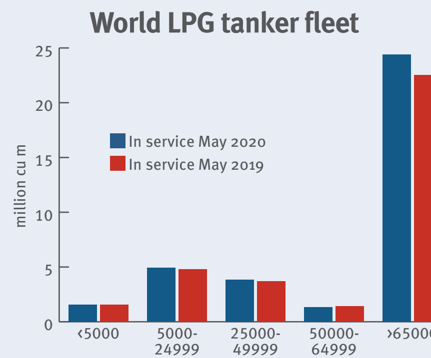
Data from:
Lloyd's List Intelligence
Maritime intelligence | informa
lloydslistintelligence.com

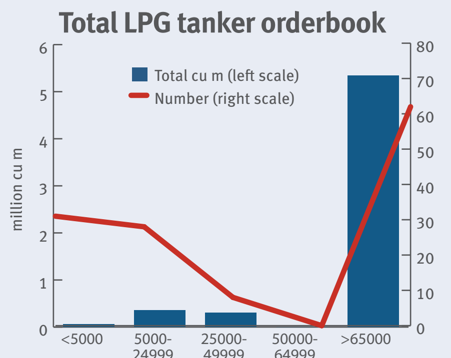
LNG TANKERS



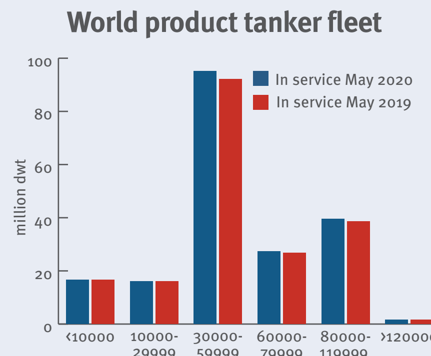


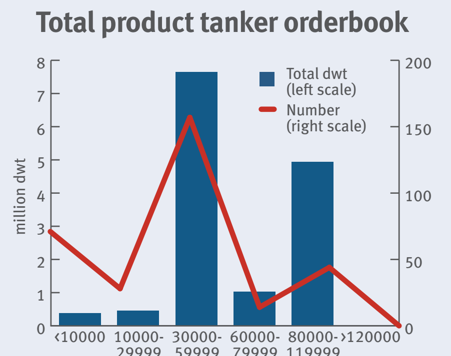
LPG TANKERS





PRODUCT TANKERS





The guidance also suggests that owners, managers and charterers can supplement AIS monitoring with "periodic" Long Range Identification and Trading signals.

Unlike AIS data, LRIT data is not commercially available for interrogation but also provides a vessel's position and identifying features.

"These compliance programmes may establish that engaging in sanctionable conduct is cause for immediate termination of business or employment, or could determine that appropriate controls have been adopted that adequately mitigate potential risks associated with the activity," the guidance said.

"Sanctions compliance programmes may include communicating to counterparts, including but not limited to shipowners, managers, charterers, and operators, an expectation that they have adequate and appropriate compliance policies that respond to their internal risk assessments."

> *Sanctions compliance programmes may include communicating to counterparts, including but not limited to shipowners, managers, charterers, and operators, an expectation that they have adequate and appropriate compliance policies that respond to their internal risk assessments*

Industry groups were encouraged to share information. Unlike the initial proposals, though, the guidance now qualifies that they should only do so if it does not break local laws or regulations.

"For example, when a protection and indemnity club insurance company becomes aware of illicit or sanctionable activity or new tactics in sanctions evasion, it may wish to consider notifying other P&I clubs, as appropriate, redacting personally identifiable information that cannot be shared with third parties where necessary," the guidance said.

"Similarly, vessel owners and clubs are encouraged to share information with the financial industry, potentially working though competent authorities where required, and flag administrations should routinely pass information to the International Maritime Organization and parties to the Registry Information Sharing Compact."

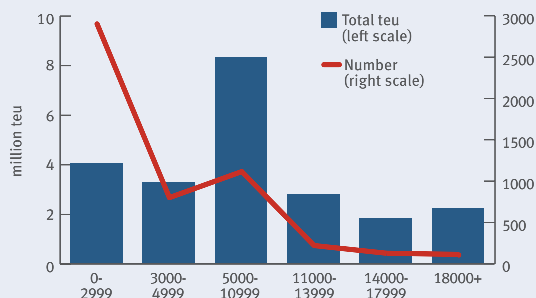
The US has imposed unilateral sanctions on Iran's oil and shipping sector since November 2018, while there are also United Nations sanctions on Syria and North Korea. The guidance did not mention Venezuela, which has also been subject to US sanctions on its oil and shipping sector since early 2019.

MARKETS CONTAINERS

Boxship delivery maintained its slow trickle through April, with just five units hitting the water.

One, though, was significant. With a nominal capacity of 23,964 teu, HMM Algeciras took the crown from Mediterranean Shipping Co's 23,756 teu MSC Gülsün to become the world's largest containership. The remainder of fresh tonnage was comprised of ships at 2,500 teu or below to bring the global fleet up to 22,653,117 teu, according to data from Lloyd's List Intelligence.

No new containership orders were recorded during April.



World boxship fleet update: hubris and nemesis visit a shipyard

As the latest supersized containership takes to the water, new orders wither on the vine, writes **James Baker**

In April, HMM took delivery of and held a lavish naming ceremony for what is — for now — the largest and likely most unneeded containership in the world.

At a nominal 23,964 teu, *HMM Algeciras* steals the lead held for several months by Mediterranean Shipping Co's 23,756 teu *MSC Gülsün*, which entered into service last August.

Despite having virtually identical scantlings and the same 24-row layout, HMM has managed a bit of design trickery to add another 208 teu to the ship's loading plan to take the title.

Yet given the current state of the container shipping market, it is something of a hollow victory. With demand set to slump by 10% this year at even the most conservative estimates, where HMM will find the 24,000 teu of cargo needed to fill the ship remains to be seen.

And it is not just this ship. *HMM Algeciras* is just the first of 12 ultra large containerships the South Korean carrier has on order.

At a time when record numbers of sailings are cancelled and ships are being put into lay-up, the timing of HMM's delivery could not have been worse.

It appears that HMM is well aware of that. The company has pushed back the delivery dates of the remainder of the order, which was due to have been completed by October. Now only six are due to be in service by the end of the third quarter.

Alphaliner expects the remaining six newbuildings to be delivered before the end of the year, but their eventual deployment will depend on how quickly cargo demand on the Asia-Europe route recovers, as this is the only trade on which vessels this large can be deployed.

HMM Algeciras was one of just five ships, comprising 32,448 teu, delivered in April, according to figures from Lloyd's List Intelligence. The remaining vessels were all of 2,500 teu or smaller, and took the world containership fleet up to 22,653,117 teu, as of the end of that month.

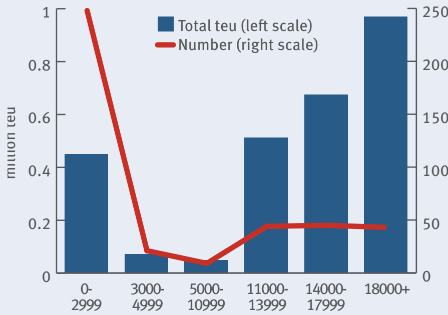
Given the circumstances, new orders were non-existent. Carriers are mothballing existing ships and non-operating owners are facing chartered tonnage being returned early. With the ongoing uncertainty over the final duration and economic impact of the coronavirus pandemic, it would take an exceptional optimist to order tonnage for delivery in two years' time right now.

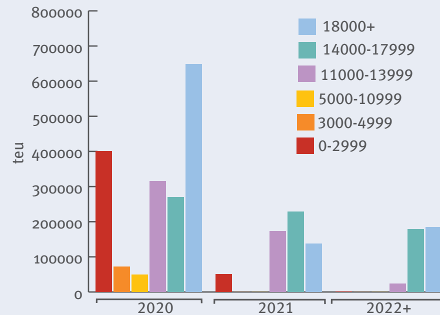
German carrier Hapag-Lloyd has decided to hold off on a series of 23,000 teu vessels, according

World containership fleet April 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	2,902	4,090,583	211	400,264	36	49,421	1	1,091	248	450,775	11.0%
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	2,808,564	27	315,320	15	173,500	2	23,700	44	512,520	18.3%
14,000-17,999	127	1,865,171	18	269,256	15	227,784	12	178,256	45	675,296	36.2%
18,000+	113	2,243,012	29	648,530	6	137,000	8	184,400	43	969,930	43.2%

**Excluding newbuilding postponements and cancellations under negotiation* *Source: Lloyd's List Intelligence*





Data from:

Lloyd's List Intelligence
Maritime intelligence | informa

lloydslistintelligence.com

to one broker report. While the deal is expected to go ahead, final decisions are likely to be delayed for the foreseeable future.

Hapag-Lloyd had indicated it would return to the yards this year, after a two-year hiatus on newbuildings between 2017-2019.

However, this suggestion was made based on the premise that the supply and demand equation was coming into balance. That equilibrium has now been shattered.

According to analysts at Maritime Strategies International, the one possible exception is Cosco, which could sign orders at the recently merged state-owned yards, but this remained speculation.

"A final likely consequence of the pandemic will be an increase in orderbook cancellations," MSI said.

"We expect the feeder orderbook in particular will emerge from the crisis smaller than previously estimated."

Meanwhile, the near-term supply outlook remained largely unchanged, it added.

"CMA CGM is still scheduled to receive its first ULC newbuilding in June, although this date has been pushed back on previous occasions."

MSI expects 180,000 teu of deliveries in the three months to June, and 245,000 teu in the three months to September, with risks weighted to the downside.

While there were no new orders in April, Lloyd's List Intelligence also recorded no new scrapping, as yards in South Asia largely remained closed due to pandemic mitigation measures.

> *With the ongoing uncertainty over the final duration and economic impact of the coronavirus pandemic, it would take an exceptional optimist to order tonnage for delivery in two years' time right now*

However, owners with unwanted tonnage will have taken some hope from the announcement that ship recycling has been allowed to resume in India. A backlog of vessels has built up outside all of the Indian subcontinent's scrapping locations, with contracts and cancelling dates being frustrated by the crisis.

The monsoon season and the start of the Muslim holy month of Ramadan will further dampen demolition activity, however.

"Scrapping will be very limited in the near term, although the data will likely record a spike once breakers reopen in earnest and the backlog of vessels at anchor outside major demolition locations is cleared," MSI said.

With no ships taken out of the fleet, idle capacity is continuing to grow. Lloyd's List Intelligence put the figure at 920,039 teu, more than 4% of the total fleet.

Yet with blankings set to continue into May and June, this figure is set to rise substantially. The number of blank sailings is expected to increase and Labour Day holidays in May could trigger a new round of capacity cuts.

Recorded blanked sailings as a result of the coronavirus pandemic now stand at 456, of which 342 were on main deepsea trade lanes.

Shipping consultancy Sea-Intelligence said: "For the Asia-Europe and transpacific trades alone, the amount of removed weekly carrying capacity increased from 3.1m teu to 3.4m teu. Compared with the typical downturn during Chinese New Year, this implies a potential global loss of volume of 7.4m teu in 2020."

Container service blankings hit a peak

Carriers' steps to remove capacity have helped maintain and even increase rates, but more may be necessary in the third quarter of 2020

https://lloydslist.maritimeintelligence.informa.com/LL1132386

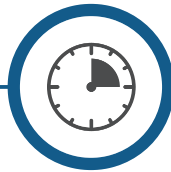
READ MORE ONLINE
www.lloydslist.com

Container Tracker

Save time. Stay compliant.

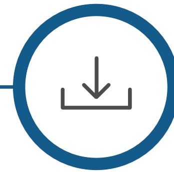
Track containers, not just ships

Simplify transhipment tracking with end-to-end downloadable data trails on containers – by container number or Bill of Lading.



Complete checks in minutes, not hours

Save time, with all the data you need in one interface, supported by tracking intelligence from over 600 Lloyd's agents worldwide.



Download the evidence

Downloadable reports ensure you have the necessary documentation to prove compliance, including specific end-to-end transhipment reports and more.

Request a demo:
America Tel: +1 212-520-2747
EMEA Tel: +44 20 7017 5392
APAC Tel: +65 6505 2084
lloydslistintelligence.com/containertracker

Lloyd's List Intelligence
Maritime intelligence | informa

Banks can do more to mitigate exposure to oil cycles

Recent insolvencies marring Singapore's oil sector may stoke a fresh debate about credit risk mitigation

The recent financial insolvencies of two oil traders in Singapore have highlighted the issues of trust and security in the industry as a credit crunch looms in Asia's oil trading hub.

Both top dog Hin Leong and relatively smaller and newer trading firm ZenRock have reportedly been caught out by the collapse in oil prices on the back of broad-based coronavirus-led economic disruptions, which also allegedly exposed malfeasance in their business practices.

The entire oil sector is now reeling from the fallout of these most recent insolvencies as bank lenders — in time-tested, knee-jerk reactions — are seen pulling back credit.

The situation facing banks active in the energy and commodity sector, however, is hardly new; lenders were previously badly hit by the demise of OW Bunker and the Enron scandal, to name just a few.

However, what has resurfaced is the age-old debate about how credit risks can be better mitigated in a highly cyclical industry — especially in light of the emergence of new technologies such as blockchain and other forms of hyperledgers, which were not previously available.

One blockchain proponent suggested that such shared hyperledger technology allows for smart contracts with "if and when conditions" to be created, facilitating validation before any contracts can be completed.

Others in the global supply chain have started adopting these systems to streamline processes in their respective segments.

In container shipping, Singapore-based boxship player Pacific International Lines has run trials of electronic bills of lading, while key industry mover Maersk has come forward to promote the use of blockchain in the sector.

By contrast, the uptake of this promising technology has been slow in the oil trading sector, due to a lack of scale and backing from major players, along with entrenched business practices.

PR Resources

Singapore's oil sector has been rocked by two fraud-tainted insolvencies.

One trader highlighted a lack of apparent interest among heavylifters, such as the oil supermajors, as stifling blockchain adoption.

Independent consultant Simon Neo considered a prevalent "old-fashioned mindset" as a factor holding back the sector from embracing such technologies.

Mr Neo gave the anecdotal example of a recent blockchain presentation held in China, which drew a lot of questions but ended up attracting "zero reception".

He also cited concerns about the perceived high fees linked to blockchain membership as hindering adoption of this hyperledger technology.

Cost is apparently one of several hurdles. However, perhaps the bigger impediment is that banks, as key enablers of international oil trade, may be among those most resistant to change.

The use of blockchain is also not seen as completely eradicating the risks linked to financing the oil trade. Deals can fall apart when counter-parties choose not to honour their obligations, especially when the market turns against them.

Zenrock, for instance, was embroiled in at least one legal tussle during the months leading up to bank lender HSBC's court filing to put the oil trader under judicial management.

One Chinese client is said to have chosen to default on a trade in which Zenrock served as a middle-man between the supplier and the end-buyer.

Traders such as Zenrock rely heavily on back-to-back credit lines to deliver their part of the bargain in any such deals, which are subject to such persistent counter-party risks.

Business tycoon Warren Buffett once famously pointed out that it is when the tide goes out that observers really discover who has been swimming naked.

Expending resources on the necessary due diligence and investment in supporting technology would arguably help banks — and investors alike — better manage their risk exposure to oil and other cyclical industries, even before the tide does recede.

Now, if everyone could just agree that this is a good idea.

The Last Word with Richard Clayton

This is why shipping degree students should stay positive

Malcom McLean's containerisation was more disruptive to global supply chains than the coronavirus outbreak but it has become integral to the way we work

It might seem completely absurd to suggest that the coming decade could be the most exciting for shipping since the advent of containerisation.

Locked down by coronavirus, stymied from following through on all the projects that were active at the start of the year, certain parts of the industry face oblivion.

Why did I take valuable time in the recent Lloyd's List Ask the Analysts webinar to offer a cheerful perspective? No-one else did.

Here is why. My view was sparked by a question sent in by a university lecturer, who asked whether our panel could provide hope to despondent shipping degree students.

For those studying to gain qualifications in maritime commerce and professional services — and for cadets beginning their ascent through the ranks to command — the headlines are bleak.

The new normal is likely to look very different from the old normal. The indications are that employment in the maritime sector will not immediately require newcomers; it will have enough trouble finding work for those already in jobs.

Yet shipping is resilient. Only 10 years ago, the industry was suffering from the impact of the global financial crisis; the business of shipping had to adapt. And 20 years ago, as China joined the World Trade Organisation and launched an economic journey that few could have forecast, shipping was immediately unsettled, then invested in the opportunities the new order presented.

Some 30 years ago, with the fall of the Berlin Wall and the reordering of eastern Europe, the certainties of the post-war world broke apart.

Meanwhile, 64 years ago, American transport entrepreneur Malcom McLean loaded 58 purpose-built containers onto a converted tanker and — without knowing it — sparked a revolution in globalisation. Shipping was severely shaken, then learned to adapt.

As I have been reminded, containerisation led to the demise of many hundreds of general cargo lines whose directors had dismissed the invention until long after it was too late.

Shipping has always feared the worst but carries within its DNA the ability to survive and, given time, grow. Before the viral outbreak, the industry was focusing on digital solutions, zero-carbon vessels, autonomy, virtual reality surveying, cyber security, data analysis driving smart supply chains, additive manufacturing, and differently skilled seafarers.

Yupa Watchanakit/Shutterstock.com

Navigating their way around the new landscape may not be as students had foreseen, but it can be done.

Why has this thinking suddenly ended because of coronavirus? How can students be despondent when the maritime environment is buzzing with new ideas? It has not — and they should not be.

No doubt any global pandemic is disruptive. Such disruption is painful and causes uncertainty. However, it might be the best way to bring in much-needed change.

We are told that leading scientific institutions and pharmaceutical heavyweights are collaborating to find a vaccine to defeat coronavirus.

Until such a vaccine is made available to the world, shipping will be unable to attempt a return to what we used to consider as normal. It will not be the old normal; that has gone. It must be a new industry, ready and able to accept the lessons learned during lockdown, such as remote working.

It is too early to say whether the world has lost its love affair with fossil fuels or is just suffering a break in consumption; or whether we will buy fewer consumer goods from the other side of the planet, rather than make them in the same city or region.

Even so, we can say with confidence that shipping's resilience will show through yet again. With so much to achieve and so much positive energy to achieve it with, there is no reason at all for shipping degree students to be despondent.

Lloyd's List

Editor
Linton Nightingale

Lloyd's List Managing Editor
Richard Meade

Contributors
Anastassios Adamopoulos, James Baker, Nidaa Bakhsh, Declan Bush, Richard Clayton, Nigel Lowry, David Osler, Divya Shah, Adam Sharpe, Cichen Shen, Hwee Hwee Tan, Inderpreet Walia, Eric Watkins, Vincent Wee, Michelle Wiese Bockmann, Fred Williams

Sales Director, Marketing Services
Natasha Dwyer:
natasha.dwyer@informa.com

To advertise please email:
marketingservices@informa.com

Asia Pacific
Arundhati Saha

Americas
Stacey Teicher

EMEA
Janet Wood (Greece and Cyprus), David Wurie, Deborah Fish, Luke Perry, Adrian Skidmore

Classified
Maxwell Harvey

Advertising Production Manager
Mark Leech

Production Editor
Felicity Monckton

Printing
Paragon Customer Communications

Editorial
Lloyd's List,
240 Blackfriars Road,
London SE1 8BF

Tel: +44 (0)20 7017 5000
Email: **editorial@lloydslist.com**

Published by Informa UK Ltd.

© Informa UK Ltd 2020. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means electronic, mechanical, photographic, recorded or otherwise without the written permission of the publisher of Lloyd's List.

Lloyd's List is available online in every country in the world by placing a subscription with the publishers in London, Informa UK Ltd. Please place your order with the Lloyd's List marketing team at Informa. This special supplement is issued free to subscribers.
For further information please email:
subscription.enquiry@lloydslist.com
or telephone: +44 (0)20 3377 3792

Lloyd's is the registered trademark of the society incorporated by the Lloyd's Act 1871 by the name of Lloyd's.

Global Liner Shipping
NEW DATES: 2 - 4 November 2020
Hamburg, Germany
ALIGNING PRIORITIES FOR BUSINESS AND SUSTAINABILITY IN LINER SHIPPING. BUILDING A NETWORK OF SHARED RISKS AND BENEFITS.
Join this conference as we cover everything that's relevant to you and connect you with the people you need.
BOOK TODAY
20% DISCOUNT
CODE: FKT3644II

2022

The International Shipping Exhibition

Posidonia 2022

6 - 10 June 2022

Metropolitan Expo, Athens Greece

The International Shipping Exhibition

Organisers: **Posidonia Exhibitions SA,** e-mail: posidonia@posidonia-events.com

www.posidonia-events.com