

China



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China

The fortunes of economic powerhouse China have a significant bearing on global shipping markets. The nation has weathered the coronavirus storm better than most and is the leading force behind the recovery of world trade. The immediate focus now turns to defending its position as the rising superpower, a course that will shape trade dynamics in the coming months and years ahead.



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04

Why the China-US tariff war still matters for shipping

08

Infographic: China focus

10

Cosco: developing third-country markets is top priority

12

Will new five-year plan squash dry bulker demand?

16

Weaving through the changed coal market puzzle

18

China looks to Iran for secure oil supply

20

Crude imports escalate as US fails on Iran sanctions

24

Gas drive fuels LNG innovations

26

Should a green ship be produced by a green yard?

28

Data utility aspiration for liner shipping

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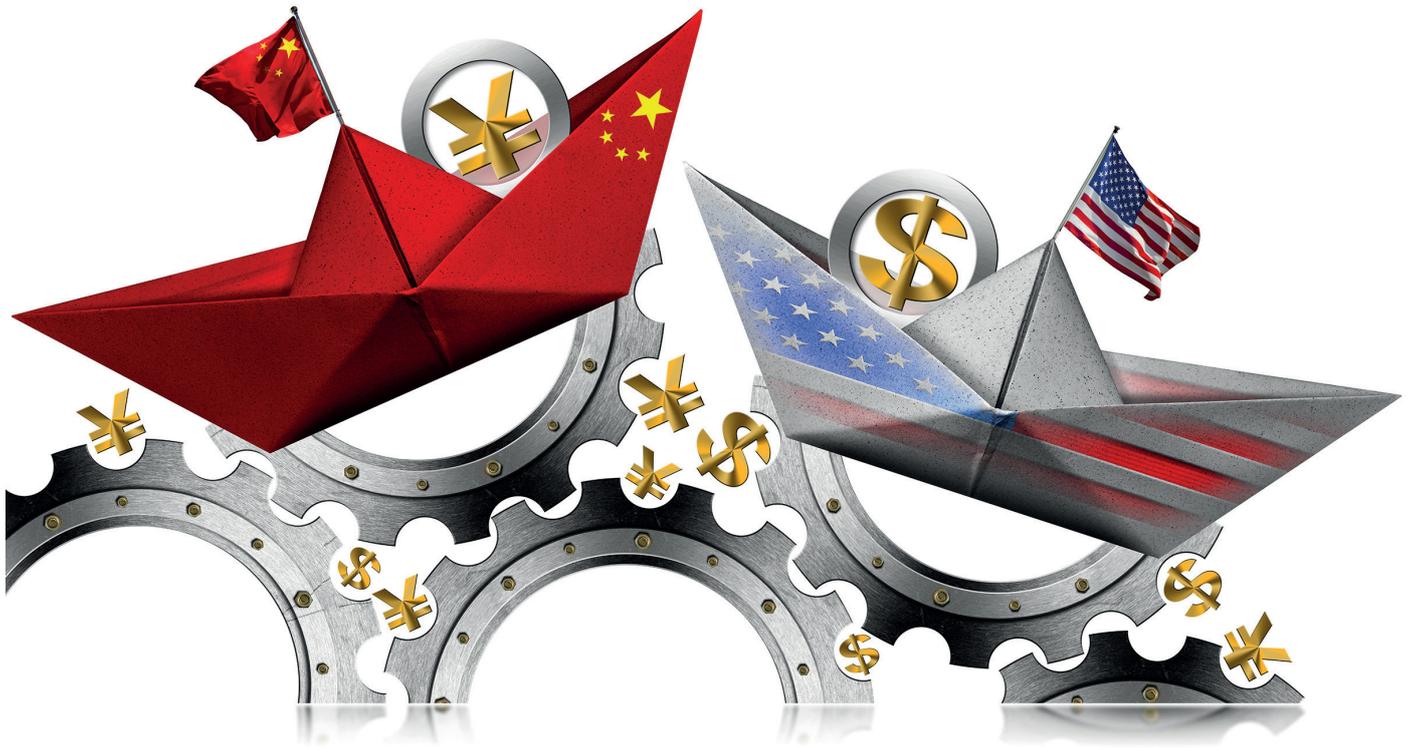
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Removing the tariffs will have little impact on the already surging box freight rates.

Why the China-US tariff war still matters for shipping

Rather than creating room for repairing the bilateral relationships, the withdrawal of the US tariffs on China could be a portent of even worse clashes between the two superpowers, such as sanctions to be imposed on each other, **Cichen Shen reports**

When will President Biden annul the US tariffs on about \$370bn of Chinese goods that he inherited from his predecessor?

The question seems much less relevant for shipping now.

The centerpieces that have been shaping the markets — whether it’s the container shipping boom or the tanker trade slump — are largely products of the coronavirus pandemic.

Removing the tariffs will have little impact on the already surging box freight rates; retaining them can hardly strike yet another blow to the already badly hit segment.

Yet what if this is wrong?

No quick removal

Despite repeated requests from Beijing and trade groups, President Biden has stated he is in no rush to withdraw the US duties on Chinese products.

His administration is undertaking a comprehensive review of the US trade

policy towards China, as part of the development of an “overall China strategy”.

The recently sworn-in US Trade Representative Katherine Tai also said that tariffs are a “legitimate tool” to counter China’s state-driven economic model.

One area where she suggested the leverage could be used is to make China deliver on its commitments in the Phase One trade deal signed between the two countries.

To end the trade spat, China has pledged to buy \$200m more manufactured, agriculture and energy goods from the US between 2020 and 2021 compared to a 2017 baseline.

However, the latest figures from Peterson Institute show that as of the end of March, China’s purchase of all covered products had only reached 75% of the year- to-date target in terms of Chinese imports — and 61% in terms of US exports.

The collapse of the oil price last year was seen as one of the main reasons behind the shortfall.

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Concerns have already been raised over China's capability to fulfill the agreement.

"I doubt China can complete the promised procurement plan, especially when it comes to the energy products unless the pump price suddenly shoots up, which is unlikely with the Covid situation," said a Chinese analyst from a global trading house.

"They may need to renegotiate the terms with the US. And you won't see the tariffs go away until that issue is settled at the earliest."

In addition, Washington should also need that revenue to support its extravagant stimulus package, he added.

Tariffs no longer a concern

However, shipping seems to have already become accustomed to what was once regarded as a critical threat to the industry. Even with the tariffs, the market keeps motoring on in many segments.

The Sino-US tariff war did not reduce the container trade volume but just altered the direction of cargo flows, according to Drewry managing director Tim Power.

"What happened was that about 5% of China's container exports to the US shifted. They didn't disappear but moved to Southeast Asia, so you saw this colossal increase in Vietnam, for example," he said.

The viral pandemic has, to some extent, reversed that course.

As the first major economy to have emerged from lockdown measures, China's quick reinstatement of its massive manufacturing capacity has attracted a significant amount of foreign orders back to the country.

And the tariff-induced extra costs appear negligible for the US importers basking in a domestic shopping spree spurred by government handouts and a change of consumption habits.

As a result, container freight rates have shot through the roof.

Maersk, the world's largest carrier, recently brightened its earnings outlook for the full year to be in the range of \$13bn-\$15bn, up from its early estimate of \$8.5bn-\$10.5bn.

It also estimated the global demand growth for 2021 will accelerate to 5%-7% from 3%-5%, "primarily driven by the export volumes out of China to the US".

As new Covid infections in India and the Philippines resurge, fears are stalking the international community that the more developing countries with looser control measures will suffer. In turn, more orders will be flowing to China.

Su Chang, chief economist of Horizon Insights, a Shanghai-based financial

“
[The Biden] administration
is undertaking a
comprehensive review
of the US trade policy
towards China
”

research institute, said Chinese exports will remain strong so long as the US continues to subsidise its consumers, even though part of the spending is expected to swing back to services from goods with the relaxation of travel restrictions.

"Last year, the Americans bought lots of durable goods, like cars, furniture and household appliances when stuck at home. This year, they'll need shoes and clothes, for example, when going out. So the demand for goods will last for a while."

In the long run, Mr Power sees the confrontation between the two superpowers as "the great hegemonic struggle for the next 30 years", with more trade frictions to come along the way.

Therefore the migration of US-bound container exports from China to Southeast Asia will continue.

However, as a senior analyst for shipping, he then hit the nail on the head. The main driver of the total market is not where the origin is; it is the demand from the US, he said.

"If the US economy recovers briskly, the volume will be there and just coming from different places. So fundamentally, [the trade frictions] won't have that huge impact on the overall global market."

War of ideas versus economic interest

What has been overlooked, perhaps, is how intensely that "hegemonic struggle" can evolve.

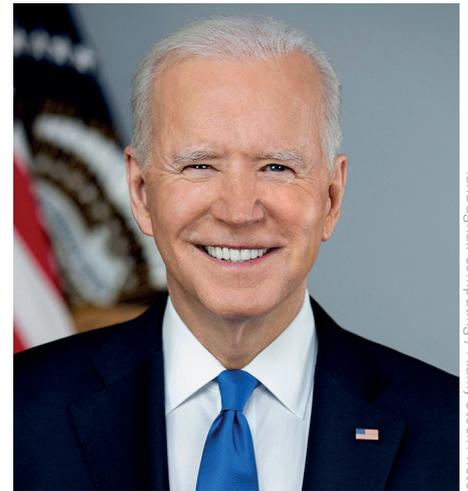
The scope of the taxed Chinese products is a reflection of the extent to which they can be sourced elsewhere by the US.

That progress will only speed up if Mr Power is right about the migrating factories and logistics chains.

The escalating competition between the world's largest two economies is bound to go beyond just a trade strife. The rising military tensions in the Taiwan Straits is becoming clearly evident.

The US will be more confident to make harsher moves as it finds itself breaking away from the reliance on Chinese supplies.

In a recent article posted by the



IanDagnall Computing / Albany Stock Photo

Heritage Foundation, a Washington-based think tank, its Asian Studies Center director Walter Lohman called on the White House to scrap tariffs on China, as well as the purchasing commitments the Chinese made in the Phase One agreement.

Yet the main reason behind his advice is that the US should talk "value" instead of "money" with China, as he warned of Beijing's increasingly aggressive ways of interacting with the outside world, including its crackdown on Hong Kong's autonomy and its alleged "genocide on Uighur Muslims in Xinjiang".

Mr Lohman's final suggestion: "The Biden administration must say no to any new trade deals with China."

In that sense, rather than creating room for repairing the bilateral relationships, the withdrawal of the tariffs could be a portent of even worse clashes between the two superpowers, such as sanctions to be imposed on each other.

The latter would mark the day when a war of ideas has taken precedence over the common ground of economic interest, leading to a disaster for shipping.

There is, nevertheless, optimism. The odds for a complete decoupling of the two nations are tiny, said the Chinese analyst from the trading house.

He said China's core competences as a manufacturing centre — a vast land, large population, developed infrastructure, strong government and the efficiency accumulated from decades of experience — means the country largely will retain its position for the foreseeable future, despite all the relocation hype.

However, more importantly, he argued that both presidents and their parties want to stay in power while the capital from both countries needs each other's market.

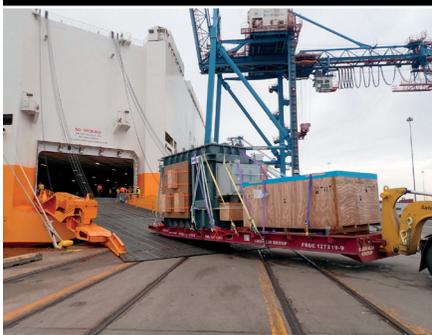
"A decoupling will benefit neither side," the Chinese analyst concluded.



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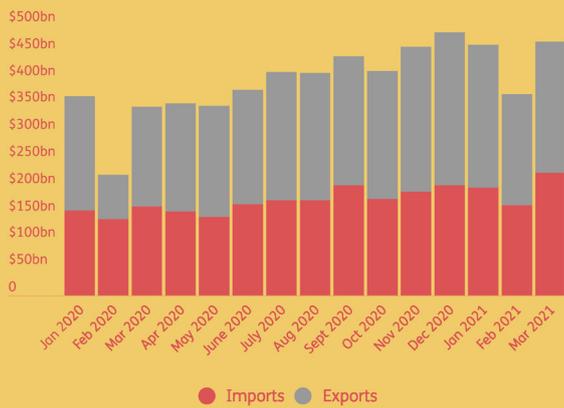

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China focus

Leading the Covid recovery, China's import and export trade growth has accelerated rapidly since the middle of last year

Imports & exports (US\$)

Jan 2020 - March 2021



Source: GACC

Import & export growth (US\$)

Jan 2020 - March 2021



Source: General Administration of Customs People's Republic of China (GACC)



8.4%
GDP growth forecast

China's ability to tackle the Covid crisis has led to robust GDP growth, rebounding faster than any of the other major world economies



Real GDP growth

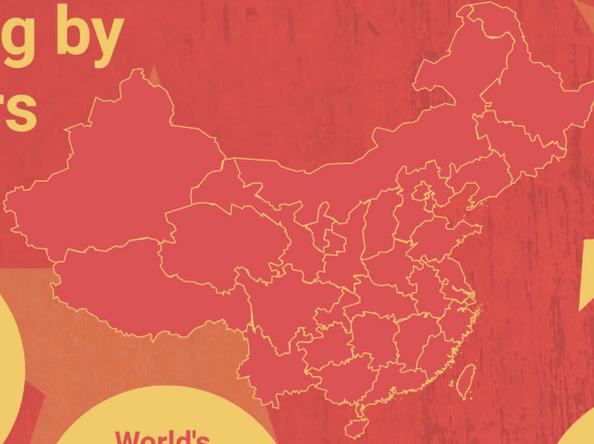
Annual percentage change



Source: World Economic Forum

*Indonesia, Malaysia, the Philippines, Singapore, and Thailand

Shipping by numbers



China is the largest shipowning nation, with 11,007 ships, representing 441m dwt*

Source: Lloyd's List Intelligence

*Beneficial ownership, including Hong Kong, Macau and Taiwan

World's largest crude importer

10.9m bpd in 2020
22% global share

Source: Lloyd's List Intelligence

World's largest coal importer

203m metric tonnes in 2020
18.5% global share

Source: Simpson Spence & Young

World's largest iron ore importer

1.2bn metric tonnes in 2020
75.7% global share

Source: GACC

World's largest LNG importer

136m metric tonnes in 2020
17.7% global share

Source: Lloyd's List Intelligence

World's largest shipping conglomerate

State-owned Cosco has a fleet size comprising 1,371 vessels of 109.3m dwt



Tankers

214 ships, 27.2m dwt



Dry bulk

214 ships, 27.2m dwt



Containerships

537 ships, 3.2m teu

Cosco is the world's largest tanker and dry bulk owner, as well as the third-largest containership owner

Source: Cosco, September 31, 2020

Largest shipbuilder

75.5m cgt orderbook

Source: China Association of the National Shipbuilding Industry (CANSI), March 31, 2021

36.3% global market share

Source: Clarksons

Containers

7

of the top 10 container ports, including the largest, Shanghai, are comprised of Chinese facilities



Source: Lloyd's List One Hundred Ports

+60%

of throughput handled by the world's top 100 box ports is represented by Chinese ports



Source: Lloyd's List One Hundred Ports

35%

share of the world's deepsea container exports, shifting more than 58m teu in 2020



Source: Container Trades Statistics



The expansion strategy in third-country markets was set out during the merger between Cosco Group and China Shipping Group in 2016.

Cosco: developing third-country markets is top priority

These markets, where cargo does not involve China as the origin or destination, are a key indicator about how globalised the Chinese giant’s container shipping business has become — and its potential for future earnings, **Cichen Shen** reports

Other than the eye-popping \$2.4bn net profits posted by Cosco Shipping Holdings for the first quarter, another aspect that deserves the attention of investors and competitors is perhaps the company’s development of the so-called “third-country markets”.

These markets, where cargo does not involve China as the origin or destination, is a key indicator about how globalised the Chinese giant has become — and its potential for future earnings.

Shanghai and Hong Kong-listed CSH is the container shipping and port arm of state-owned China Cosco Shipping Corp.

“*The plan has become increasingly important, with manufacturing capacity and supply chains gradually moving out from the world factory*”

Under its wing are the two liner shipping brands, Cosco Shipping Lines and Orient Overseas Container Line, which collectively control the world’s third-largest boxship fleet.

The expansion strategy in third-country markets has long been set out, back when the parent conglomerate was created by the merger between Cosco Group and China Shipping Group in 2016, in order to gain economies of scale and match the clout of its western rivals.

Now the plan has become increasingly important, with manufacturing capacity and supply chains gradually moving out from the world factory.

“Developing the third-country markets is at the top of our agenda,” CSH vice-president Chen Shuai told investors.

“China has been the world factory for a very long time,” he said.

“Before the pandemic, we’ve already seen manufacturing migrating to other areas like Southeast Asia.”

The coronavirus outbreak has disrupted the course, with many export orders returning to the Middle Kingdom, the first economy that has recovered from the lockdown measures.

Yet that will not alter its direction.

China International Capital Corp, a leading Chinese investment bank, reminded investors to take notice of several long-term impacts from the public health crisis.

One is that buyers will be more inclined to diversify their sourcing countries in future.

In the supply chain sector, discussions have already been taking place about the China Plus One (or Two) strategy as a way to reduce supply and trade risks.

More than 30% of the volume lifted by CSH’s fleet was contributed by third-country markets during the first three months of 2021, Mr Chen disclosed.

The proportion was underestimated by the pandemic-led surge in Chinese exports, so there is sustainable room for growth, he added.

Measures have already been taken to expand the carrying capacities in those markets, despite the current tight supply of vessels.

Cosco Shipping Holdings Q1 2021: key figures



\$10.2bn

Total revenue, up 79.6% on year



\$9.8bn

Revenue from container shipping business, up 82.3% on year



\$2.4bn

Net profit, up from \$45m in the first quarter of 2020



6.8m teu

Group container volumes, up 21% on year from 5.6m teu

Source: Cosco Shipping Holdings



Helped by its carrier partners, CSH is “upgrading” the services on routes such as India-Europe and intra-Europe



Helped by its carrier partners, CSH is “upgrading” the services on routes such as India-Europe and intra-Europe.

“Although there is an upsurge of new infections in India right now, we still have good expectations on that [export] market in the long run,” said Mr Chen.

In intra-Europe, CSH has deployed two 8,500 teu ships, the largest in this market.

“The scale and efficiency of our service in these markets are increasing,” Mr Chen added.



Under CSH’s wing, Cosco Shipping Lines and Orient Overseas Container Line collectively control the world’s third-largest boxship fleet.



Imaginechina Limited/Alamy Stock Photo

The iron ore market will be challenging, as more steel is produced from electric arc furnaces, which use scrap metal.

Will China's new five-year plan squash bulker demand?

The dry bulk market has witnessed a resurgence in rates not seen since 2010, as China's insatiable appetite for imports of iron ore, coal, grains and minor bulks continues — but how long will the bull run last? **Nidaa Bakhsh reports**

Can China continue to drive the dry bulk market as it has done for almost two decades? With a new policy in place aimed at the environment, retail spending and “smarter” infrastructure, the worry for owners is that demand for bulkers — especially the larger sizes — may wane just as freight rates are surging to the highest levels in more than a decade. The best years were had when China was starting to emerge as a powerhouse, needing copious amounts of iron ore and coking coal to make steel to build roads and other infrastructure to support new cities.

Back in 2006-2008, capesize rates rocketed to more than \$200,000 per day. Current levels are in the region of \$33,000 per day.

The Baltic Dry Index, a measure of

global economic activity, has reached the highest level in more than 10 years on strong demand from China, a recovery elsewhere following pandemic lockdowns, and low fleet growth amid inefficiencies that have kept vessels employed for longer.

“It’s all about the China magic,” said BIMCO’s chief shipping analyst Peter Sand.

“Since the mid-2000s, the dry bulk market has been all about Chinese commodity imports, but the strongest part of China’s stimulus boost is behind us, and there may be softness in the weeks and months ahead,” he said.

Mr Sand added that Beijing’s long-term goals include “a greater focus on agriculture, and moving more people into the middle-classes, so the transition from a heavy-industrial model to retail will hurt dry bulk demand”.

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According to Shanghai Metals Market managing director Ian Roper, the dry bulk market faces “many long-term challenges” due to China’s move to produce “green” steel as part of its environmental pledge.

Although cuts in production will be limited, as new capacity replaces old, the iron ore market will be challenging, as more steel is produced from electric arc furnaces, which use scrap metal, he said.

Tangshan, for example, has cut run rates on its blast furnaces already, while increasing EAF production.

In addition, the push for efficiency and minimising emissions encourages more scrap usage in blast furnaces, so iron ore and coking coal consumption will take a hit over time.

“In the long term, I don’t see iron ore imports keeping up in China, as scrap generation picks up to 350m tonnes by the end of the decade from 220m tonnes in 2020,” said Mr Roper, who is based in Singapore for the research group, on a recent Baltic Exchange webinar.

He expects to start seeing weaker data points on demand from the second half of 2021 as there is Yuan1trn (\$154.2bn) less to spend on infrastructure projects.

While Beijing’s new five-year plan, which runs to 2026, will be good for copper and aluminium for new electricity grids, and for renewable energy, it will not be so supportive for steel.

However, a focus on building subways should offset a drop by half to 10,000 km of planned high-speed rail, he pointed out.

Arrow Shipbroking Group’s head of research Burak Cetinok shared similar views.



“Since the mid-2000s, the dry bulk market has been all about Chinese commodity imports, but the strongest part of China’s stimulus boost is behind us, and there may be softness in the weeks and months ahead

Peter Sand
Chief shipping analyst
BIMCO

While China’s plan was light on detail, self-sufficiency was a key area, which entails a stronger manufacturing sector.

Policymakers are also looking to boost productivity and increase the value-added content of factory output, not just in research and development, but also in building hi-tech facilities, which bodes well for the country’s commodities demand in the medium term, he said.

Traditional drivers

Slower investments will be made in the traditional growth drivers of construction and infrastructure, which should come “as no surprise, as China’s infrastructure is now very

large and well developed and does not require investing at such a rapid pace as in the past”, he added.

The same can be said for the property sector.

China, which has a large and modern housing stock, does not need to build as many units as it did in the previous five years, which is reflected in the government’s tighter supply of construction land and a cutback on the redevelopment of old housing, said Mr Cetinok, who is based in London.

That being said, China will continue to build new roads, railways and apartment blocks in the coming years, though at a slower pace, which will support raw material demand.

“All in all, I believe Chinese investment growth will remain strong, but it looks set to switch engines, from infrastructure and property, to manufacturing,” said Mr Cetinok.

“This switch may manifest as a little less steel-related but more minor bulk-intensive growth in the dry bulk market in the coming years.”

China will also continue to import grains due to depleting reserves, competitive international pricing, and concerns about the quality and quantity of domestic supplies, the analyst said.

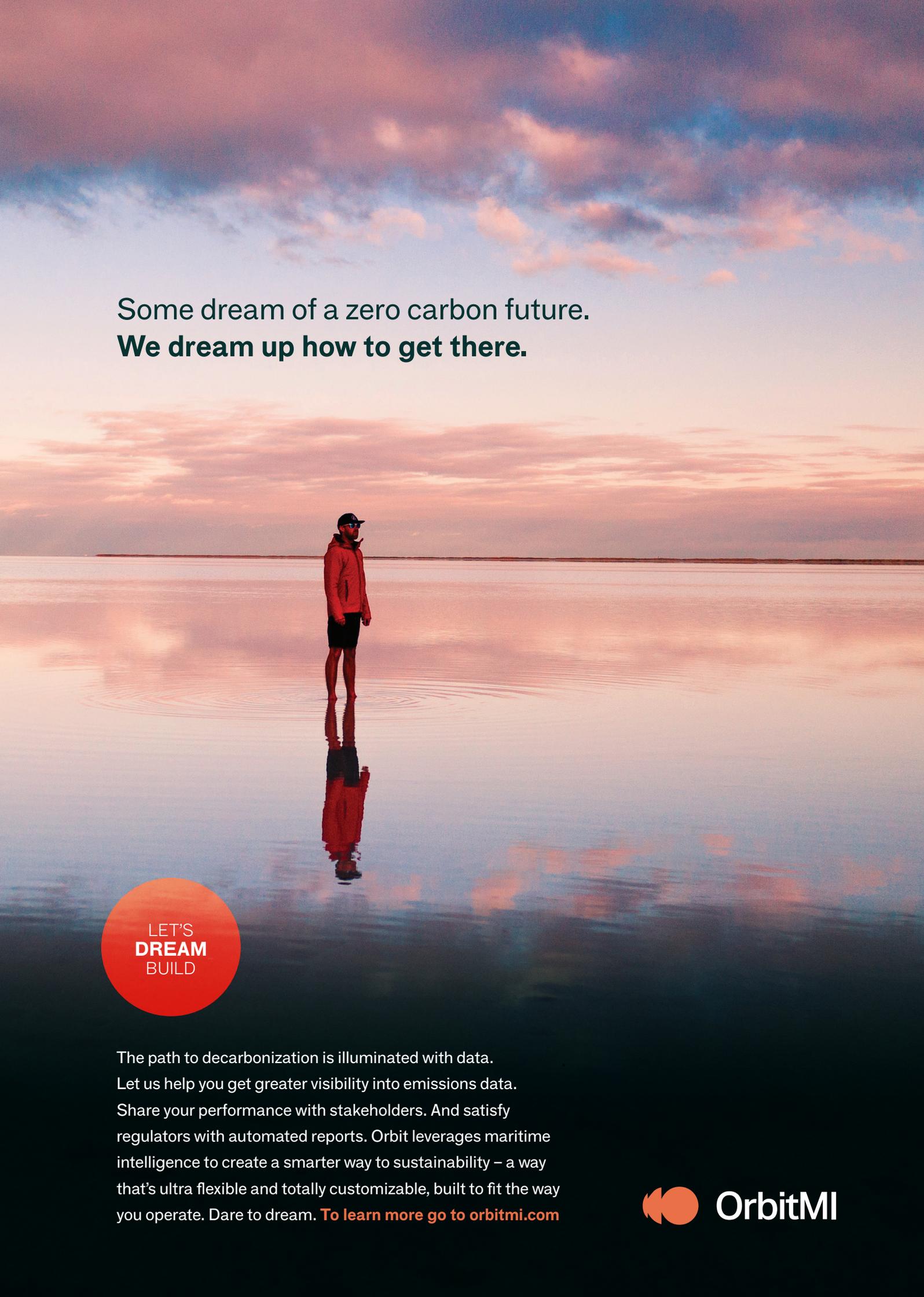
China’s grain imports have surged so far this year and volumes are expected to remain high during the rest of 2021 and in 2022, he added.

The higher volumes are supportive of the dry bulk market, as tonne-miles are boosted as supplies have been coming from the US and Brazil.

“All in all, I believe Chinese investment growth will remain strong, but it looks set to switch engines, from infrastructure and property, to manufacturing. This may manifest as a little less steel-related but more minor bulk-intensive growth

Burak Cetinok
Head of research
Arrow Shipbroking Group





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Yuan Fu Star was among the laden bulk carriers that have been stranded in Chinese anchorages, waiting to offload Australian coal.

China weaves through the changed coal market puzzle

The change in Chinese coal trade patterns, as replacements for the Australian imports, have been a mixed blessing for dry bulk shipping as the Asian giant navigates through the political row to scout for alternative sources, **Inderpreet Walia** reports

China's unwavering ban on Australian coal is becoming a jigsaw puzzle, with the country scouting the globe for alternative suppliers.

Meanwhile, vessels with cargoes from Australia are still waiting to discharge in China because of the political stand-off between the two countries.

More than 20 laden bulk carriers have been stranded in Chinese anchorages, with 18 of them waiting for more than five months to offload Australian coal, according to Lloyd's List Intelligence vessel-tracking data.

However, the numbers have fallen from 61 since Lloyd's List last reported on the situation at the beginning of the year.

Of those waiting to offload cargoes,

there are six panamaxs and 14 capesizes, Lloyd's List Intelligence data shows.

On April 26, *Yuan Fu Star* was discharging in Nantong port and was expected to head to Dampier in Australia, while *Great Animation* had offloaded its cargo in Caofeidian and was sailing to Japan.

Trade and political relations between Beijing and Canberra have deteriorated over the past year. The situation was exacerbated following calls by the Australian government for an international investigation into the origins of Covid-19.

China responded by banning certain products from its trading partner, such as seafood, wine, barley, beef, timber and coal.

The restrictions on coal imports from Australia came into effect in the second half of 2020, resulting in China's imports dropping to virtually zero in the first two months of 2021, from a high of 9.46m tonnes in June last year, according to customs statistics.

However, at the time of writing, the 2011-built, 95,377 dwt *Hebei Qinhuangdao* had been seen heading to China after loading coal in Weipa in Australia, Lloyd's List Intelligence data shows.

The vessel was sitting in Chinese anchorages from October 2020 until March this year, following which it headed to Vietnam, probably for a crew change. At the time of writing, the post-panamax ship was destined for Qingdao and was expected to arrive on May 3.

“China is a master of using trade as a tool in the foreign policy toolbox,” said BIMCO chief shipping analyst Peter Sand.

“We have seen that to an increasing extent over the past five years, with the US trade war [with China] and now with Australia, just to name a few.”

He argued that the economy’s political drive also includes the climate change agenda going forward.

In the case that China wants to drive towards a decarbonised economy that fights carbon emissions, bringing down imports of the black stuff would naturally be seen. “It’s the optics,” he said.

Going forward, Mr Sand predicts Chinese imports will slowly decline, but only in terms of thermal coal.

Meanwhile, in the short term, Chinese imports may see an increase, as coal stockpiles in Qinhuangdao – the main transshipment port – are currently 10% below the summer target of 5m tonnes set by the main economic planning agency.

Trade patterns

Despite speculation that the restrictions would be relaxed, it seems the situation will largely remain unchanged during the second quarter.

Earlier in February, a few ships loaded with Australian coal were allowed to discharge in North China ports, as an act of goodwill by the country.

Yet the economy suffered from power cuts due to a lack of thermal coal and negative steel margins following a sharp rally in coking coal prices alongside iron ore.

Domestic coal prices in China are surging well ahead of imported coal costs and, with the summer peak demand season fast approaching, it could be rather interesting to see how the Asian giant quenches its thirst for coal.

For China, the economic cost of the import ban remains high as international coal is still trading at a significant discount to Chinese domestic coal, according to Arrow Shipbroking Group.

Australian coking coal is around \$120 per million tonnes cheaper than the Chinese domestic prices.

Yet in the grand scheme of things, the change in trade patterns, as replacements for the Australian imports, have been a mixed blessing for dry bulk shipping.

Land-based coal shipments from Mongolia, or shorter sea voyages from Indonesia to China, has led to a reduction in tonne-mile demand, while trading with South Africa, US, Colombia and other distant shores has added to it.



TAO Images Limited/Alamy Stock Photo

Domestic coal prices in China are surging well ahead of imported coal costs.

Similarly, the Australian supplies, normally reserved for China, are being offered to more faraway markets in Europe and South America.

The ban on Australian coal has also led to more US coal cargoes finding their way to China, with shipments increasing five-fold in the first two months of the year.

Breakwave Advisors agreed that the embargo on many Australian products has conveniently given China a greater chance to live up to some of the ambitious commitments made under the Phase One trade deal.

Mr Sand feels that shipowners have been fast to react to the changes in the coal trade, as importers and exporters have scrambled to find new buyers and new sources.

“This situation has been easier to manage than the last time when there was a major shake-up in dry bulk trades, after China imposed tariffs on imports of US soya beans, when seasonality and ship positioning complicated matters,” he said.

Meanwhile, coal imported from

neighbouring Mongolia has also faced restrictions after the Chinese authorities imposed more stringent pandemic controls due to rising Covid-19 cases.

Arrow Research noted that coal truck arrivals from Mongolia to the Ganqimaodu border crossing had all but halted in April.

Additionally, the power generation mix in the first quarter of the year has pivoted from renewables to thermal output as total combined hydro, wind and solar output was down 3.1% over the year, while thermal output was up 25.7% compared to the previous year.

It is expected that there will be significant hydro-to-coal switching this year compared to 2020, as the heavy rains seen last year are unlikely to be repeated, potentially adding tens of millions of tonnes to the coal burn this summer.

“With the peak power demand season approaching and land-based supply of coal hindered, seaborne coal demand looks set to rise and could be the dark horse of the dry cargo market in 2021,” Arrow Research conceded.

China is set to invest up to \$400bn in the Iranian economy over the next quarter of a century, to be repaid by the sale of crude at a sharp discount, **David Osler** reports

US sanctions on Iran are designed to make exports of crude from that country all but impossible. However, these days, Beijing is not paying very much attention to what Washington wants.

At the time of writing, China was projected to import between 1.1m and 1.3m barrels of Iranian-origin crude per day during April.

Around 750,000 bpd of Iranian crude was tracked to China during February and March, according to vessel-tracking information compiled by Lloyd's List, using data from Lloyd's List Intelligence.

That is more than the levels seen throughout 2020, when estimates placed shipments at somewhere between 400,000 bpd and 600,000 bpd.

It is just a fraction of oil-thirsty China's 14m bpd demand, which makes it the world's biggest consumer.

Yet for Iran, the sales are a veritable lifeline, at a time when the economy is feeling the impact of Washington's animosity.

As Lloyd's List recently reported, well over 100 vessels owned by companies in various jurisdictions have found ways to exploit regulatory loopholes in order to continue the trade.

Satellite tracking systems are frequently switched off, with ship-to-ship transfers in the Gulf and in Southeast Asia increasingly commonplace.

However, providing adequate marine insurance cover can be organised, and transactions financed by banks willing to forgo trading in dollars, subterfuge could soon no longer be necessary.

Ever-closer ties with China would make both things possible.

Already significant links have now been cemented following a 25-year deal signed off by the two countries' foreign ministers in Tehran in late March.

This is not special treatment; China signed similar co-operation deals with Iraq in 2015, Saudi Arabia in 2016 and the United Arab Emirates in 2018.

'Comprehensive' is probably not the



levgen Chabanov/Alamy Stock Photo

China will invest up to \$400bn in the Iranian economy over the next quarter of a century.

China looks to Iran for secure oil supply

“*The basic principle is that China will invest up to \$400bn in the Iranian economy over the next quarter of a century, to be repaid by a guaranteed supply of crude at a sharp discount*”

right word in this context; see it more as a statement of intent.

The published text, running to a scant 20 articles, is available in English online. It is likely that many details are not in the public domain.

Yet the basic principle is that China will invest up to \$400bn in the Iranian economy over the next quarter of a century, to be repaid by a guaranteed supply of crude at a sharp discount.

If that comes off, it marks a clear step change. According to the American Enterprise Institute's China Global Investment Tracker website, China's investment in Iran for the entire period between 2010 and 2020 was worth a modest \$18.2bn, compared to around \$30bn invested in Iran's Gulf region rival, Saudi Arabia.



Lurii Kisanov / Alamy Stock Photo

For Iran, China is a key market if it is able to increase oil exports significantly, according to one independent oil analyst.

Trade has reportedly been in the order of \$20bn annually in recent years, down from more than \$50bn in 2014, although some of the decline is due to the drop in oil prices, the website added.

Boosting those levels could make sense for both governments: China will welcome the security of supply, while Iran will seize the opportunity to mitigate the hurt that US sanctions are clearly causing.

Its economy shrank by 5.4% in 2018 and 7.6% in 2019, and the exchange rate of the rial against the dollar plummeted sharply, which has made imported goods correspondingly more expensive.

“For Iran, China is a key market, if it is able to increase oil exports significantly,” said independent oil analyst Neil Atkinson.

“We have seen a big increase in exports in recent months as Iran has used various methods of subterfuge to disguise shipments.”

Another point worth mentioning, he added, is the new 1m bpd Iranian export terminal outside the Strait of Hormuz at Jask.

“This will reduce the risk of disruption at the pinch points and add to Iran’s reliability as a supplier.”

US restrictions may even be ameliorated before too long, thanks to the Biden administration’s stated

“*Whatever happens on that diplomatic front, the agreement with China represents an important fillip for Tehran*”

desire to reinstate the Iran nuclear deal negotiated by president Obama in 2015, but subsequently abrogated by president Trump just two years later.

Important fillip

Yet whatever happens on that diplomatic front, the agreement with China represents an important fillip for Tehran.

According to media reports, some \$280bn of the money will be spent on developing oil, gas and petrochemicals, with the remainder mainly devoted to transport and manufacturing infrastructure.

The efforts will come under the rubric of China’s ambitious Belt and Road Initiative global infrastructure development plans, which forms the

centrepiece of Xi Jinping’s foreign policy thinking.

The quid pro quo will be China’s right to buy Iranian oil, gas and petrochemical products at a minimum guaranteed discount of 12% to the six-month rolling mean price, with a further 6%-8% discount by way of risk-adjusted compensation.

There have also been reports that China will get to lease Iranian islands — including Kish, home to a free trade zone — and deploy security forces in Iran.

These claims have been formally denied by Iranian foreign minister Mohammad Javad Zarif.

Yet the issue has excited the nationalist passions of the hardliner faction in Iranian politics, who have a strong chance of ousting the reformers that make up the current administration of president Hassan Rouhani at the next elections in June.

For them, the extent of Chinese influence in the country is a sensitive issue, and there will be fears for loss of sovereignty.

In short, then, this is still far from a done deal.

However, if it does come off, it will mark a decent boost to tonne-mile demand for those tanker operators in a political position to accept the stems — even if these operators are few in number.

China crude imports escalate as US fails to enforce Iran sanctions

China is projected to import more than 1m barrels per day of Iranian crude in April, the highest monthly volume since sanctions were fully re-imposed in mid-2019, **Michelle Wiese Bockmann** reports

The US has failed to deliver on its promise made in the middle of March to enforce sanctions against Iran as crude shipments to China from the Islamic republic were estimated to surpass 1.3m barrels per day in April.

This is the highest monthly figure of Iran-China shipments tracked since US sanctions announced in 2018 were fully re-imposed in mid-2019.

On March 17, unnamed officials from the new Biden administration told UK newspaper the Financial Times that the US would continue to enforce the sanctions, and there was no tacit green light to rising Iran-China oil imports.

The comments were made just before a crucial meeting with national security advisers from the US and China, and ahead of European-led negotiations on the Iran nuclear deal in Vienna in April.

Those talks aimed to restore a 2015 nuclear pact with Iran in return for the lifting of US international sanctions on the oil and shipping sector.

Against this backdrop, China continues to import, without penalty, escalating volumes of cheap Iranian crude, using a subterfuge fleet of largely unregulated, elderly tankers purchased by anonymous buyers over the past 12 months.

Some 750,000 bpd of Iranian crude was tracked on these tankers imported to China over February and March, according to vessel-tracking information compiled by Lloyd's List using data from Lloyd's List Intelligence.



Oleksandr Kharchenko/Alamy Stock Photo

The US Office of Foreign Assets Control has not updated its Specially Designated Nationals list relating to Iran since comments in March suggesting tighter enforcement.

“China continues to import, without penalty, escalating volumes of cheap Iranian crude, using a subterfuge fleet of largely unregulated, elderly tankers purchased by anonymous buyers over the past 12 months”

That figure has risen sharply for April, with preliminary data showing imports are likely to reach between 1.1m bpd and 1.3m bpd.

Some 21.8m barrels in total were forecast to arrive on 19 tankers laden with Iranian crude.

During February and March, volumes tracked to Iran averaged 750,000 bpd on 36 tankers, according to information compiled by Lloyd's List.

The US State Department has declined to comment on reports that a subterfuge fleet of some 130 or more tankers is being used to ship Iranian crude to major buyers in China and Syria.



The Biden administration has talked tough on sanctions relating to Iran, but failed to impose itself.

Asked about rising imports of Iranian crude to China and provided with information about tonnage involved, a US State Department official told Lloyd’s List: “I’m afraid we don’t have anything for you on that question.”

The US Office of Foreign Assets Control has not updated its Specially Designated Nationals list relating to

Iran since those March 17 comments suggesting tighter enforcement.

Lloyd’s List has identified and monitored the tanker fleet involved in shipping sanctioned crude from Iran and Venezuela over the past year, excluding ships from national oil fleets.

All engage in deceptive shipping practices, including multiple reflagging

in smaller registries, unauthorised ship-to-ship transfers and turning off vessel-tracking equipment to disguise the origin and destination of cargo.

Tankers do not largely ship direct from Iran but vessel tracking shows they load via ship-to-ship transfers from anchorages at Malaysia, Indonesia and the United Arab Emirates before sailing to China.

False bills of lading, which show the oil’s origin as being Malaysian, Iraqi or Emirati, are also used.

Official Chinese customs data does not show Iranian imports.

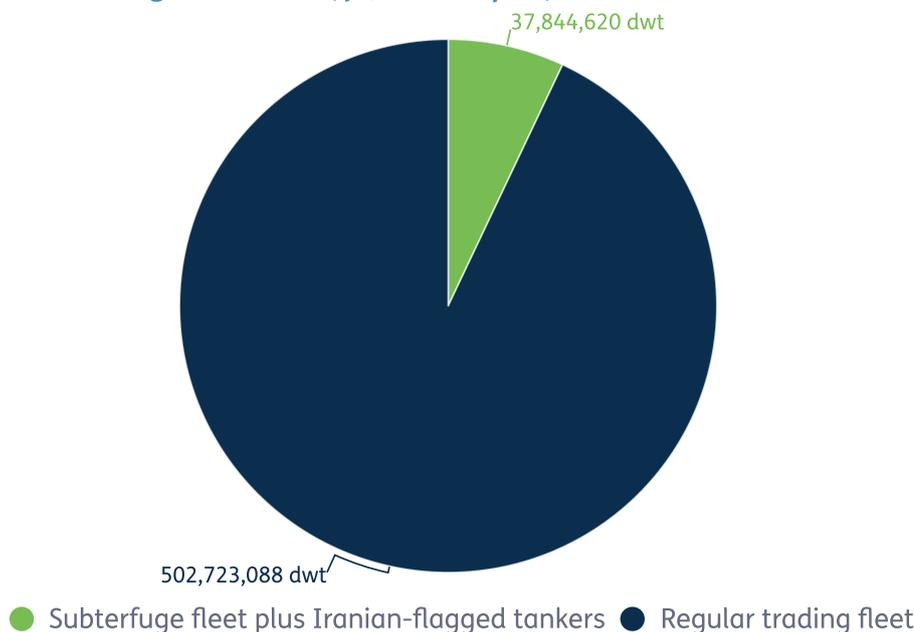
The US has imposed sanctions on several Chinese refiners and oil traders, as well as briefly designating the tanker subsidiary of China’s state-owned shipowner, Cosco, in September 2019.

China is the world’s biggest importer of crude, regularly importing more than 10m bpd each month.

Rising volumes may reflect additions to the subterfuge fleet. More than a dozen tankers above 120,000 dwt that were built in 2002 or earlier have been sold since September 2020 and immediately used for shipping Iranian crude.

The new owner is often unknown or related to a single-entity company registered in known shipping jurisdictions for which full information does not have to be disclosed.

Total trading tanker fleet (40,000 dwt-plus)



Source: Lloyd’s List Intelligence



During February and March, volumes tracked to Iran averaged 750,000 bpd on 36 tankers, according to information compiled by Lloyd's List.

Mixed messages

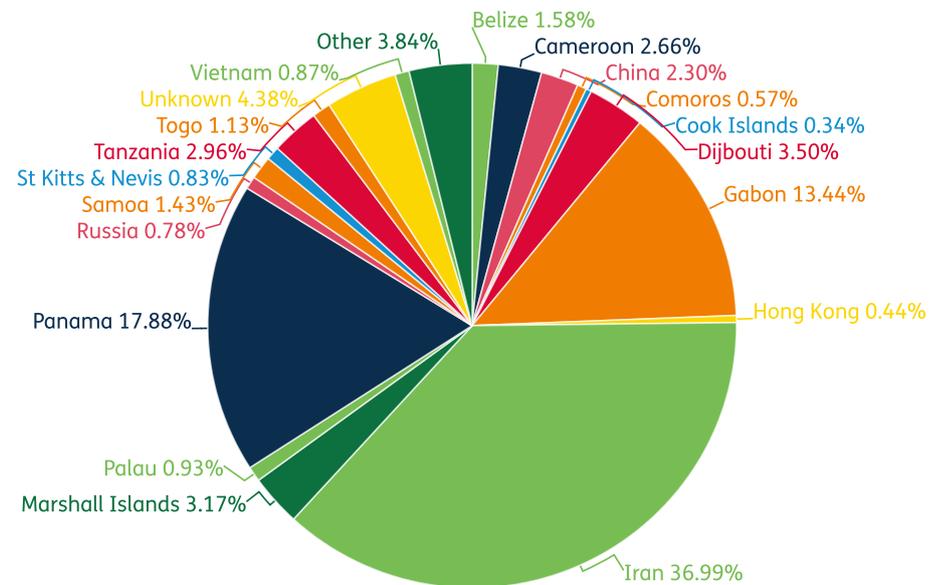
The mixed messages have left tanker owners unable to get a read on what the new Biden administration will do about the Trump-era sanctions on Iran and Venezuela.

There has been a new appointment within the US State Department in the role that typically liaises with the international maritime sector over sanctions and counterterrorism.

The international maritime industry managed to thwart unworkable sanction implementation proposals widely lobbied for by David Peyman, who was replaced in April 2020 as the deputy assistant secretary of state for counter threat finance and sanctions.

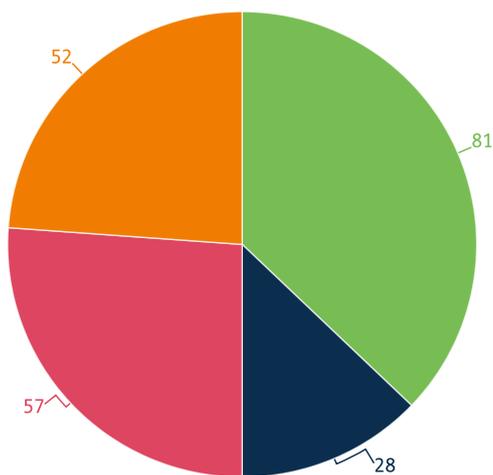
His replacement, Andrew Weinschenk, was ousted in January after the Biden inauguration and Erik Woodhouse took over.

Tankers involved in Iranian crude and products trades* by flag

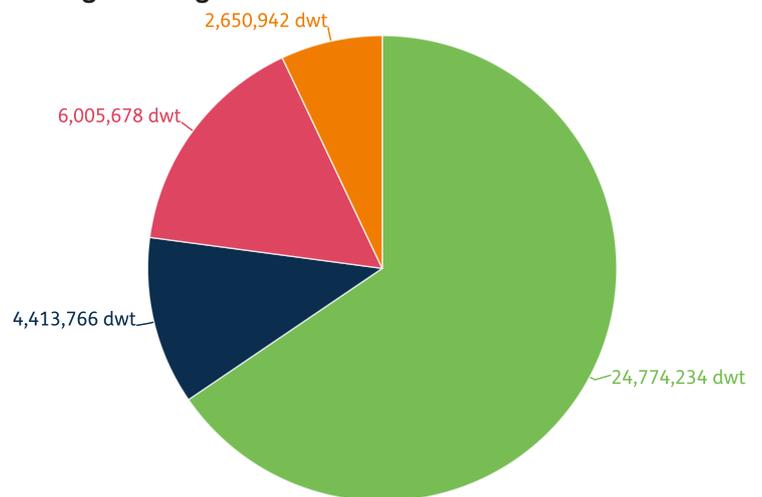


Tankers involved in Iranian crude and products trades* by vessel type

Number of ships



Deadweight tonnage



● VLCC ● Suezmax ● Aframax ● Panamax and MRs

* Includes National Iranian Tanker Co/Iranian-flagged and subterfuge fleet

Source: Lloyd's List Intelligence



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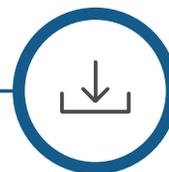
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Saga LNG Shipping

Saga Dawn has spent its first years of operation shipping cargoes mostly from Singapore and Malaysia to China.

China's gas drive fuels LNG innovations

The race is now on to develop the most cost-effective means of shipping and storing LNG in smaller volumes, **Hwee Hwee Tan** reports

China welcomed the arrival of the first large containerised liquefied natural gas imports from Peninsular and East Malaysia in April, signalling another possible breakthrough towards embracing a new import and shipping infrastructure to feed the country's fast-growing appetite for the commodity.

In a landmark shipment, Tiger Gas, led by former Seaspan chief executive Gerry Wang, has delivered 200 International Organisation for Standardisation tanks holding cargoes from Malaysia's Bintulu terminal to Longkou in northeastern China.

This delivery, timed after the off-peak season for LNG trade, marked yet another bid to unlock the greater potential of China's now more liberalised marketplace by tapping into new means of transporting seaborne LNG.

Rystad Energy's vice-president for gas and power markets, Xi Nan, viewed LNG as one anchor of China's "clean energy ambitions".

The world's most populated country has pressed on with an aggressive switch from coal to

gas-fired power generation, even amid the coronavirus pandemic.

Aided by a cold snap boosting gas heating requirements during the winter of 2020-2021, China's LNG demand rose 10% on year to 67m tonnes in 2020.

The first three months of this year saw China LNG imports jump 30%, Rystad's data showed, as the world's second-largest economy put to rest earlier fears of a pandemic-triggered contraction.

Ms Xi also pointed to an increase in smaller LNG shipments sent to China, a possible sign of more LNG being imported through second-tier terminals with ship draught limitations.

China's imports of small to mid-sized LNG cargoes have risen steadily for several years now.

Data from market intelligence firm Vortexa showed cargoes discharged from small to medmax tankers at eight ports in China exceeded 2.8m tonnes last year, quadrupling from almost 750,000 tonnes in 2016.

While still modest in volume, this could still be the tip of the iceberg of a major trend taking shape for LNG transport and shipping.

Private players and city gas distributors have started building and operating import terminals, which were previously accessible only to Chinese national oil companies.

The founder of start-up Saga LNG Shipping, David Wu, looked upon such market liberalisation as creating demand for LNG tankers of up to 90,000 cu m.

These tankers are better placed to deliver cargoes to the second-tier ports with ship draught limitations.

Mr Wu flagged Dongguan and Haikou and others along Guangdong province and the east coast of China as among those ramping up direct imports.

City gas distributors Jiaxing Gas and Hangzhou Gas are backing another new terminal under construction at Jiaxing in Zhejiang province.

The project partners have signed on the 2019-built *Saga Dawn*, which will begin this latest time charter it secured during the second half of this year, sources said.

Saga Dawn has spent months now mostly ferrying cargoes from Singapore and Bintulu to Jovo's Dongguan terminal. More recently, the tanker completed its first ship-to-ship transfer off the Philippines.

National oil companies are also pursuing new import projects at second-tier ports. Longkou, which took in a Tiger Gas shipment from Malaysia, looks set to add a new terminal being developed by Sinopec.

Tiger Gas has already placed orders for 10 carriers with Yangzijiang Shipbuilding for its budding business.

Saga LNG, on the other hand, is eyeing investments in tankers that can directly ship imports to upcoming demand centres sited along China's key waterway, the Yangtze River.

Nascent market

However, small-scale LNG expert Eduardo Perez Orue suggested the market for such tonnage — estimated to range between 30,000 cu m and 60,000 cu m — is still very nascent.

Most investors could be more inclined to put their money behind break-bulk trades latching on the use of small tankers and pontoons — a tried and tested solution in the Yangtze River, Mr Orue remarked.

He argued, however, that China is well placed to lead the charge globally on small-scale LNG developments, given the political will it has mustered to switch from cheap but dirty coal.

Sunny Xu of C-LNG Solutions suggested that in light of a nationwide gas drive, the conditions are ripe for seagoing ISO tank



Tiger Gas has delivered 200 ISO tanks holding LNG cargoes from Malaysia to China.

“*Containerised tanks may have been commonly used in land transport of LNG within China. However, the commercial viability of seagoing ISO tank trades are subject to question*”

trades to gain traction, unlike the situation about three to five years ago.

Back then, China's attempts to import LNG using containerised tanks from Australia, Canada and South Korea drew widespread scepticism.

Containerised tanks may have been commonly used in land transport of LNG within China.

However, the commercial viability of seagoing ISO tank trades — especially those falling outside the winter peak — are subject to question.

Meanwhile, Mr Xu, who facilitated Tiger Gas's first shipments, counter-argued that the feasibility of such trades can improve for shipments involving shorter voyages of no more than 2,000 nautical miles.

One other estimate however, pegged the cost of seagoing ISO tank trades at Yuan1,690 (\$260.63) per tonne.

Tiger Gas is not the only intrepid spirit seeking to crack the code with such trades.

China National Offshore Oil Corp also exported its first such shipment to Cambodia last year.

Observers viewed this move as a bid by the Chinese NOC to widen the options for the massive volumes of LNG it has committed to purchase with competition for market share intensifying at home.

LNG Easy co-founder He Yi Yong offered a different take.

CNOOC stands to re-import LNG sent to Southeast Asia during the winter season up north, when commodity tends to come off in the neighbouring region.

Floating storage units

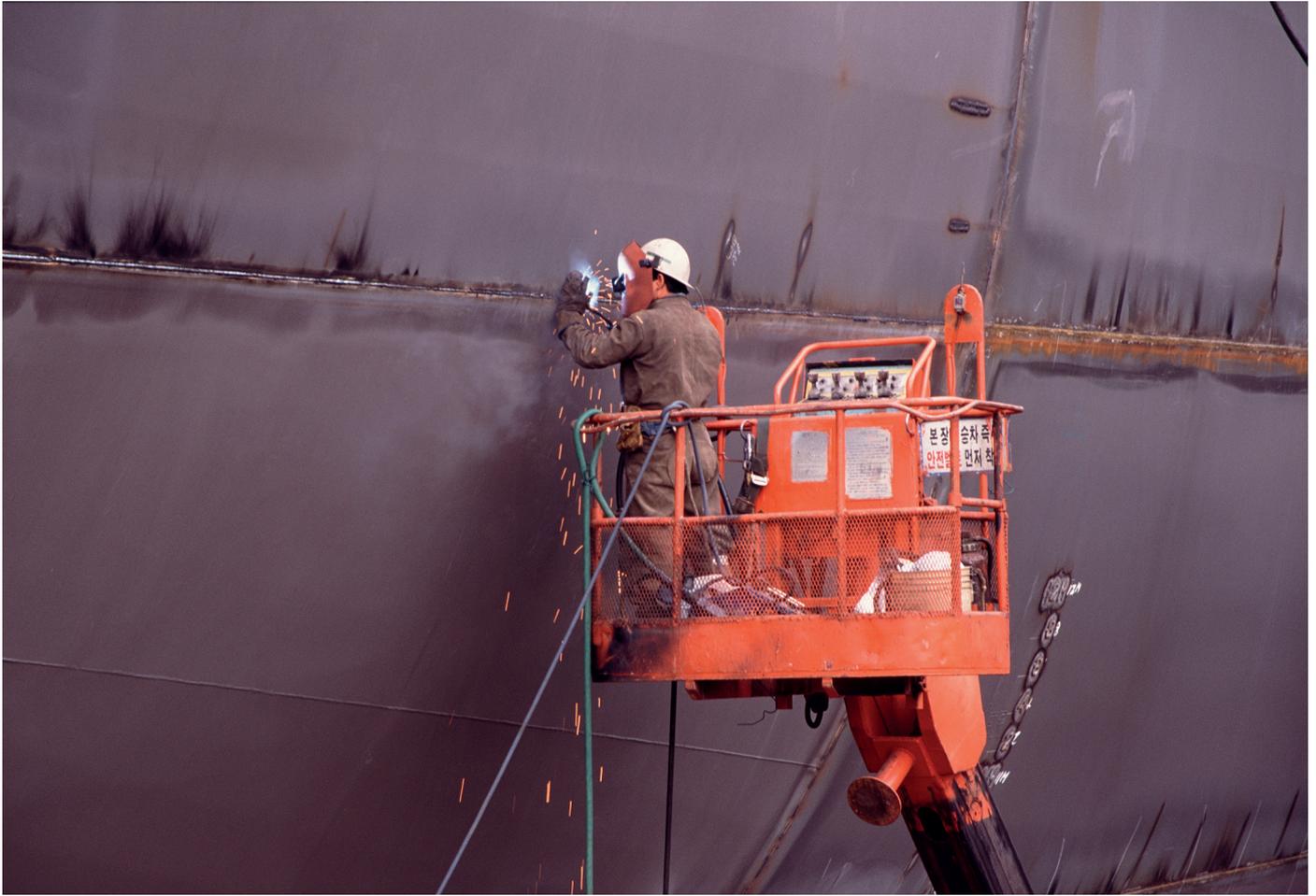
Mr He is championing the use of floating storage units — instead of ISO tank containers — to fast-track first imports into Southeast Asia.

He argued that China can benefit from the flexibility of exporting and re-importing cargoes stored at such FSUs.

Each FSU would cost just a fraction of the billions of US dollars spent on average to construct an onshore storage tank in China, Mr He said.

He estimated China has, on average, LNG held on storage to meet four to five days of its gas consumption, comparing unfavourably with 21 days for Japan and 35 days for Europe.

LNG Easy was roped in by Hong Kong-listed CNTIC VPower to supply a mobile filling platform that facilitated the first LNG imports into Myanmar last year.



Keapix/Alamy Stock Photo

Most shipyard greenhouse gas emissions come from the consumption of electrical power.

Should a green ship be produced by a green yard?

Chinese yards are expected to be burdened with extra technical requirements and financial costs driven by China's decarbonisation strategy as they face challenges from South Korean competitors, which have pledged to reach carbon neutrality by 2050, **Cichen Shen reports**

If the emissions of a clean fuel need to be assessed on a well-to-wheel basis, perhaps it is also important to tell whether a carbon-free vessel is built by a grey, blue or green shipyard.

Wearing a more environmentally friendly colour may well become one of the core competences for builders, while some players seem to have already seen that trend coming.

South Korean majors Hyundai Heavy Industries and Samsung Heavy Industries, alongside four smaller domestic rivals, recently joined a committee that aims to reach carbon neutrality by 2050.

They said plans included the use of more renewable fuels and tailor-made energy monitoring systems to reduce shipbuilding emissions.

There are greenhouse gases released directly from yard operations.

Steel cutting, for example, involves the use of natural gas and propane, among other combustible gases. Testing ship engines and certain equipment would also consume fossil fuels at the berth.

These might be a drop in the bucket compared with what power plants or steel mills emit.

However, it is a different story when the consumption of electricity is taken into the equation.

The South Korean yards said the country's shipbuilding sector discharged about 2.1m tonnes of greenhouse gases into the atmosphere in 2017, of which 60% was contributed by the consumption of electrical power.

Their carbon-neutral pledge is likely to pose an inevitable challenge to Chinese builders, their biggest competitors.

After all, China is home to the world's largest coal-fired power plants.

Last year, nearly 57% of the energy consumed by the country came from burning coal, according to government statistics.

A major domestic shipyard needs about 200m KWh of electricity to operate every year, estimated by an industry expert. That is equivalent to more than 100 large shopping malls.

Indirect emissions

Such type of "indirect emissions" needs to be factored in when measuring factories' environmental impact should China want to hit its target to peak greenhouse gas emissions by 2030 and reach carbon neutral by 2060, transport ministry researcher Peng Chuansheng told local media.

That means Chinese manufacturing, including the shipyards, will be burdened with higher technical requirements and financial costs.

“
A major domestic shipyard needs about 200m KWh of electricity to operate every year, estimated by an industry expert. That is equivalent to more than 100 large shopping malls
”

However, they will have no choice in a bid to stay competitive during a future of green shipping.

Some of them — including Jiangnan Shipyard and Cosco Heavy Industries — have already been included on a list of companies subject to carbon emission quotas issued by the Shanghai municipal government. Those exceeding the limits should pay.

Carbon trading scheme

The system is designed to serve the city's carbon exchange and pave the way for a nationwide carbon trading scheme to be established this year.

A survey by China Carbon Forum, a Beijing-based non-governmental organisation, estimated that carbon price per tonne in the country will rise from Yuan49 (\$7.6) last year to Yuan71 in 2025 and to Yuan93 in 2030.

It will ramp up to Yuan167 in 2050.

The hope is that the Chinese shipyards will not have to foot such expensive bills in the coming decades.

It would be best if they could even earn some rewards from that market.



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Data utility aspiration for liner shipping

The Global Shipping Business Network has a grand vision of becoming a sustainable ‘data utility platform’, Cichen Shen reports

Over the past few years, advocates of digitalisation have been repeating the same message: data is the new oil.

Yet while this key resource — expected to drive the world into the next era — is being increasingly explored and collected, another message has come out: data needs to be shared to reach the scale required to realise its true value.

“Data sharing is one of the most important steps in a successful digital transformation programme,” said Bertrand Chen, chief executive of the Global Shipping Business Network.

A data scientist who has spent most of his 18-year career in the financial sector, Mr Chen has now been entrusted to lead one of the most aspirational digital platforms in liner shipping using blockchain technologies.

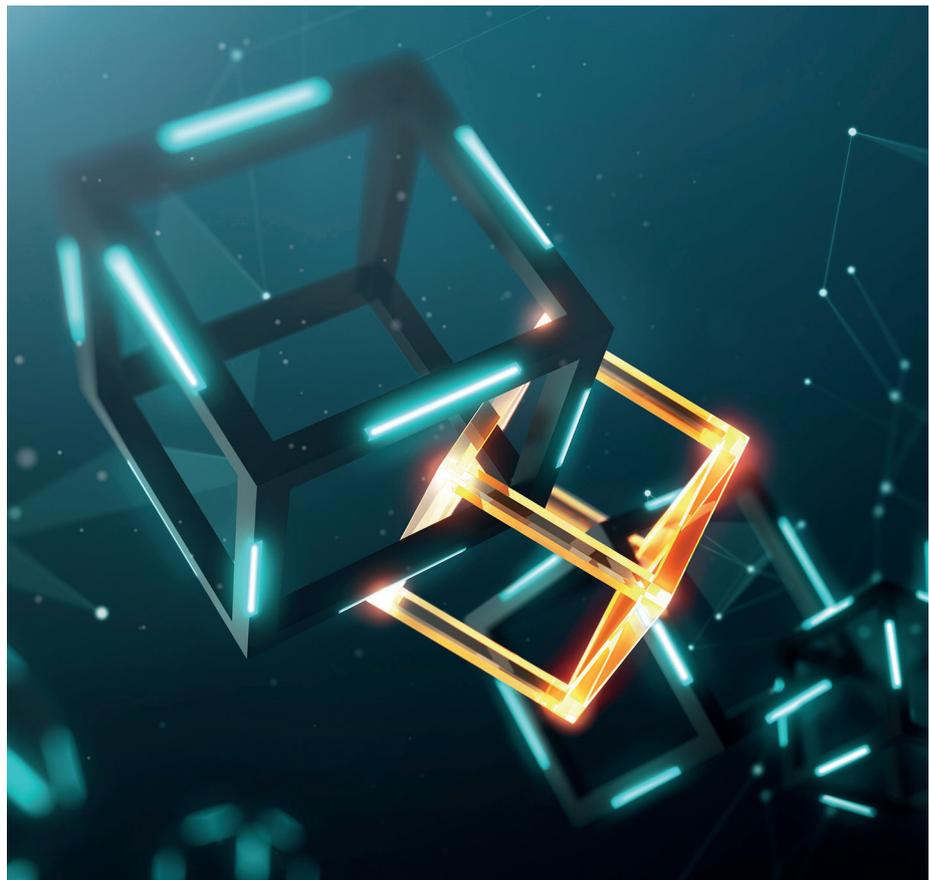
Its shareholders consist of a group of leading carriers and terminal operators, including Cosco Shipping, Hapag-Lloyd, Hutchison Ports, Qingdao Port Group, PSA International and Shanghai International Port Group.

The platform also brought Bank of China (Hong Kong) on board recently as its first banking partner.

Container logistics is, of course, no stranger to blockchain.

Some believe the distributed ledger and the cryptographic attribute can serve as a game-changer that will bring efficiency to complex and poor communications systems among various participants in the logistics chain.

Others expect it will still take years — if not forever — for the technologies to get real commercial traction, with many challenges, such as the standards dilemma, remaining unsolved.



PhiveT/Alamy Stock Photo

Some believe blockchain can serve as a game-changer that will bring efficiency to complex and poor communications systems.

“When you think about blockchain, on a technical level, it generates the trust that previously only banks had”

Dirk Reiss
Enterprise architecture senior director
Hapag-Lloyd

GSBN, nevertheless, represents the efforts and willingness of the industry to take the first step.

“In the past, communication has mostly happened bilaterally but we have so many players in the supply chain that information is not being shared efficiently,” said Hapag-Lloyd enterprise architecture senior director Dirk Reiss, who is also involved in developing the platform.

However, consolidating and exchanging the information among multiple stakeholders had not been possible in the past due to the value of data and the risk of it being monetised by other parties.

“That is why everyone is clinging to their data and only interchanging it with those people that they want to do business with. The issue comes down to trusting what is done to the data,” said Mr Reiss.



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“When you think about blockchain, on a technical level, it generates the trust that previously only banks had.”

In another world, data can now be securely taken from the root source.

Data put on GSBN is governed by a strict access policy enforced by blockchain and encryption, according to Mr Chen.

“GSBN has two fundamental principles that are followed scrupulously: no competitor will ever see your data; and you can only see data from a transaction you are involved in,” he said.

Based on that level of data security, the new technology then enables more efficient exchange of information and execution of a transaction compared to the previous generation of platforms, such as INTTRA and GTN.

“The new platforms are primarily based on real time [Application Programming Interface]. This is a fundamental difference,” said Hapag-Lloyd enterprise architecture director Uwe Rieksmeier.

In plain English, API is a set of programming codes that enables data transmission between one application and another.

Yet being efficient is not sufficient for a successful data platform. A sustainable eco-system needs to be developed to create enough incentives for the user.

Among the myriad of enterprise blockchain projects over the past decade, the ones that have managed to go into production “share several common traits”, according to Mr Chen.

They have a very narrow focus on a simple use case to start with. And they are backed by a small but representative group of like-minded shareholders, who are willing to collaborate.

Prove their faith

It will take time for Cosco, Hapag-Lloyd and other founding members to prove their faith in the genuineness of collaboration. However, the group has already shown initial moves in developing products to digitalise the cargo release process and to empower trade finance by using shipping data.

Nevertheless, the real product of GSBN as a platform is not the applications, which are developed by the users themselves. What the platform aims to produce is an infrastructure, whereby data can be exchanged in a secured, efficient and standardised way.

“GSBN is more a sharing model. You build a data harbour with the possibility to have a framework to access the data and build applications in your own environment,” said Mr Rieksmeier.



Founding member Hapag-Lloyd is also involved in developing the platform.

“GSBN has two fundamental principles that are followed scrupulously: no competitor will ever see your data; and you can only see data from a transaction you are involved in



Bertrand Chen
Chief executive

Global Shipping Business Network

“What we are doing with GSBN is to have these apps in connection with a port, or we put something on our website where we can offer our customers in a specific port greater visibility, so they can see where their container is and when a truck is due to arrive. We can then offer that to our customers,” he added.

Despite some early hesitancy, Hapag-Lloyd was also a convert to TradeLens, but Mr Rieksmeier said there was a significant difference between GSBN and the Maersk/IBM-developed platform.

On TradeLens, it was only possible to provide the data, which the platform then sells to the customers, he said.

“TradeLens is a profit-oriented model to earn money. All the products are developed by TradeLens. IBM and Maersk run it, with others being contributors of data,” Mr Rieksmeier added.

On the other hand, GSBN says it has been set up on a not-for-profit basis.

While it will still charge users for its services to cover the operation costs, any surplus will be redeployed for research and development purposes.

Its shareholders also do not expect to receive any dividends or to profit from a future liquidity event, such as an initial public offering, according to Mr Chen.

The grand vision for GSBN is to be developed into a sustainable “data utility platform”, he said.

It cannot own the data, but it encourages market participants to contribute data and allows them to be rewarded for their contribution.

Additional reporting by James Baker



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