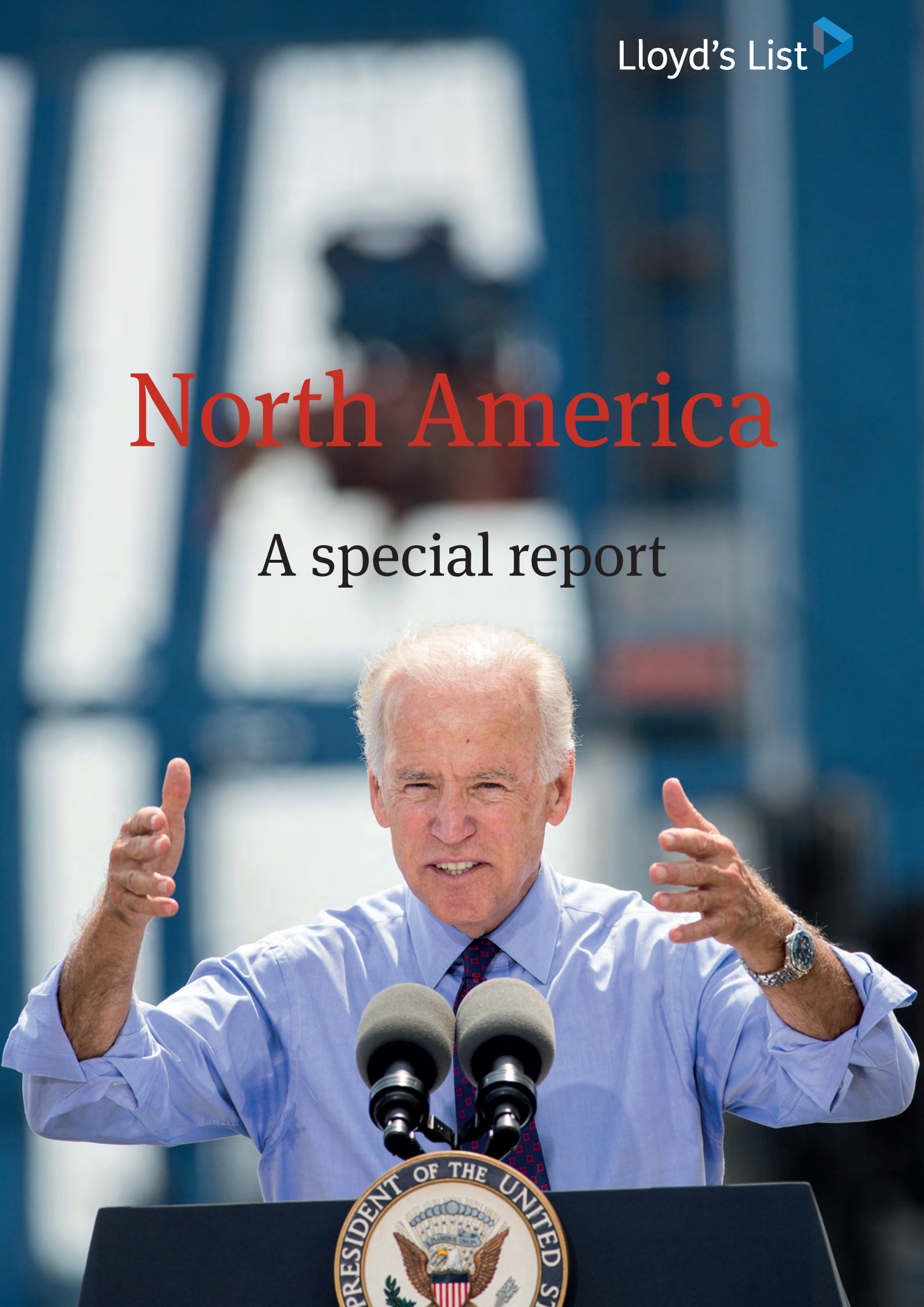
Lloyd's List

North America

A special report



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North America

Approaching nine months into Joe Biden's tenure as US president, Lloyd's List assesses the impact of his arrival on the shipping sector. This special report takes the temperature of the key markets that shape and steer North American shipping, from the oil and gas centres in the US Gulf, to Wall Street finance; and from the Californian container complex of Los Angeles and Long Beach, to Washington's legislatures.

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Published by Informa UK Ltd.

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On the button: President Joe Biden's campaign continues to seek votes.

Biden's political landscape carries a sense of déjà vu

In the run-up to the 2022 elections for Congress, many of President Biden's policies are — and will be — geared to the needs and interests of workers, as well as the domestic maritime industry, **Eric Watkins** reports

International shipping lines and marine terminal operators have come under heavy pressure since President Joe Biden took office last January — and they can expect even more in the coming months. The explanation for this is simple: the coming mid-term elections in 2022.

Mr Biden's ability to pass legislation favourable to his administration depends on the fact that his party, the Democrats, command the slimmest of majorities in the two chambers of the US Congress: the Senate and the House of Representatives.

That means Mr Biden's legislative victories will be won by the slimmest of margins — even assuming that every member of his party in each chamber votes with him.

According to political consultant Scot Faulkner, the majority could also shift in a "heartbeat" — or, more plainly, a fatal heart attack suffered by even one or two members that would change the balance of power.

Apart from the health of his party members, Mr Biden has to pay special attention to the country's mid-term elections scheduled for 2022 in the hope of boosting his party's electoral majority.

In the run-up to those elections for members of Congress, Mr Biden will have to curry the favour of many sectors of the electorate, not least working people who traditionally support the Democrats but who have been wooed by the Republicans.

As a result, many of Mr Biden's policies are geared to the needs and interests of the domestic agenda — and especially the country's own maritime industry.

In January, Mr Biden signed an executive order underlining his administration's staunch support for the Jones Act as part of a broader effort to support the revitalisation of the country's manufacturing base and its workers.

Vitalij Sova/Alamy Stock Photo

During lockdown, stay-at-home consumers bought goods off the internet — so more and more containerised cargo arrived at US ports.

"The president will continue to be a strong advocate for the Jones Act and its mandate that only US-flag vessels carry cargo between US ports, which supports American production and America's workers," a White House statement said.

It said the Jones Act has also been affirmed as an "opportunity to invest in America's workers as we build offshore renewable energy, in line with the president's goals to build our clean energy future here in America".

The announcement drew widespread praise from leaders in the US maritime industry including Tom Crowley, chief executive of Crowley Maritime Corporation.

"We applaud President Biden and his administration for moving aggressively to grow the US maritime industry," Mr Crowley said.

"Working together, we will put America on a road to recovery and prosperity."

To underline his support of the domestic industry, Mr Biden has also nominated Max Vekich, a former longshore worker, to the Federal Maritime Commission.

While that first executive order prioritises the US domestic maritime industry, a later one concerning competition clearly targets international carriers and marine terminal operators.

> *President Biden's orders regarding the FMC and the DoJ are in response to a groundswell of dissatisfaction among US importers and exporters alike concerning congestion at the country's ports and the lack of equipment, along with possible collusion and profiteering among the carriers and terminals*

That executive order specifically enjoins the FMC to "vigorously enforce the prohibition of unjust and unreasonable practices in the context of detention and demurrage".

Yet it also requests the agency to work with the Department of Justice to begin a closer scrutiny of the ocean carrier alliances as possibly being in violation of the country's anti-trust laws.

President Biden's orders regarding the FMC and the DoJ are in response to a groundswell of dissatisfaction among US importers and exporters alike concerning congestion at the country's ports and the lack of equipment, along with possible collusion and profiteering among the carriers and terminals.

That groundswell of dissatisfaction has also made itself heard in Congress, where various committees and sub-committees have taken note and added their own pressure on Mr Biden "to do" something on behalf of their constituents.

Ironically enough, the very congestion that the Biden administration is investigating — along with Congress — may well be attributed to the economic stimulus policies that have been adopted to keep the US economy moving, even as the coronavirus pandemic began to shut down the country.

That shutdown meant lockdown orders were issued, keeping consumers at home and out of harm's way in an effort to hold infection rates down.

These stay-at-home consumers then turned to the internet to buy goods — with the result that from March 2020 or so, more and more containerised cargo began to arrive at US ports.

Provided with money from the US government in the form of $1,600 stimulus checks, extra unemployment benefits and family allowances, US consumers had the cash to spend — and they spent it on goods, boosting overseas factory output, as well as the swelling numbers of containerships leaving Asia with US-bound imports.

While US ports had seen a steep decline in throughput during the first half of 2020, they begin to experience a sharp uptick in the second half of the year due to the increased spending.

Indeed, most ports soon began to experience an overload as, in effect, a whole year's worth of cargo was suddenly coming through the ports in just six months.

"The result has been a buzzing, blooming confusion," one industry spectator told Lloyd's List.

And it's a mess that seems to have all official fingers of blame pointing directly at the international shipping lines and maritime terminal operators.

While many in the maritime industry had hoped for changes in the US posture towards China, Iran and even Venezuela, little change has actually transpired regarding those countries.

Tariffs on China, first imposed by the Trump administration, remain in place — much to the chagrin of the US retail industry.

Indeed, US retailers — including the National Retail Federation, the Retail Litigation Center, the American Apparel and Footwear Association, the Consumer Technology Association, the Footwear Distributors and Retailers of America, the Juvenile Products Manufacturers' Association and the Toy Association — recently filed a "friend of the court" amicus brief in the US Court of International Trade.

The trade groups submitted the brief in support of businesses and their workers that have been "negatively impacted" by a series of escalating tariffs covering virtually all Chinese imports to the US imposed by the United States Trade Representative under former president Donald Trump.

"The Biden administration has kept these tariffs in place when American businesses are doing their best to safely serve customers — and keep workers on their payrolls — during the pandemic," the National Retail Federation said.

JJ Gouin/Alamy Stock Photo

Tariffs on China, first imposed by the Trump administration, remain in place.

Even as the transpacific tariff war continues with China, the Biden administration has yet to make any noticeable change in relations with Iran, which has just voted in a new hardline administration of its own.

That means the US and Iran are unlikely to resolve the issues of sanctions on the Islamic Republic's oil and shipping industries any time soon, keeping the international tanker community on tenterhooks as the application of sanctions appears, at times, to be highly selective.

Foreign affairs are rarely vote-getters in the US, but they can be vote-losers, as former US presidents have learnt to their cost.

With the balance of power in Congress resting on the outcome of next year's elections, Mr Biden is keen to promote many policies that favour the interests of his political constituents.

He is likewise keen to avoid any policies that antagonise the voters he will need to win the elections.

International carriers and marine terminals doubtlessly do carry weight in his thinking, since — among other things — they support the imports and exports so necessary for the country's economy. Yet foreign companies don't vote.

On the approach to the 2020 elections, the international ocean carriers and marine terminals can expect that the Biden administration will keep them under close scrutiny and will make a point of keeping that scrutiny of so-called 'foreign flags' highly visible to the eyes of domestic voters.

It's about political optics.

Two-and-a-half years after the US imposed sanctions on Iran and Venezuela's oil and shipping sectors, implementation remains both haphazard and ineffectual, **Michelle Wiese Bockmann** reports

Alexander Sánchez/Alamy Stock Photo

There are no signals of immediate removal of sanctions — notwithstanding any nuclear agreement with Iran, or political change in Venezuela.

Sanctions under Biden: still inconsistent, still ambiguous, still in place

The Trump administration was broadly condemned by the international maritime service providers for its inconsistent, ambiguous and mercurial application of unilateral sanctions on Iran and Venezuela's shipping and oil sectors.

Many in the maritime sector now criticise the Biden administration for the same approach.

Despite the imposition of these sanctions in early 2019, more than 170 tankers are now tracked on sanctioned trades — up 20% over the past year.

At least one European Union flag administration, Cyprus, said in July it will not enforce US sanctions on Venezuela — citing EU blocking legislation — attracting fresh registrations of tanker tonnage dedicated to this trade as a result.

Post-Trump, Iran crude exports are rising and exceeded 843,000 bpd in July, with more than 40% shipped to China, figures from United Against Nuclear Iran show.

The New York-based non-governmental organisation has done more than the US State Department and Office of Foreign Assets Control to identify sanctions-busting activities so far this year, including publishing a list of the 130 or so ships involved.

While crude has flowed into China and Syria via complex but visible maritime logistics networks, the Biden administration's sanctions have targeted Mexican drug lords, Pakistani human traffickers and regimes in China, Burma, Syria, Belarus, Yemen and Nicaragua.

There have been few direct measures taken against subterfuge oil trades and the fleet of tankers supporting them.

In August, the US State Department blacklisted the very large crude carrier *Omani Pride* and sanctioned an Omani oil trader owner for shipping Iran crude.

The timing was peculiar: four weeks earlier, a seafarers' union had resolved an abandoned vessel case involving the vessel and it was no longer trading.

Back in February, OFAC sanctioned an oil trader, six tankers and a Ukrainian shipmanagement company serving Venezuelan trades.

The low volumes of exports this year reflect the parlous state of Venezuela's poorly maintained oil production infrastructure, rather than sanctions.

Nevertheless, the Biden approach to maritime sanctions still has the hallmarks of Trump foreign policy modus operandi: singling out certain ships and companies with (usually) short-term blacklistings to promote broader compliance.

All the while, these measures ignore the elephant in the room: massive volumes of energy commodities shipped via 170-plus tankers to China and Syria, the biggest customers for the heavily discounted oil.

Making an example of prominent shipowners worked effectively in June 2020, when four Greek owners with a total of six tankers faced the wrath of the US State department over breaching Venezuelan sanctions.

Until then, Greek shipowners carried 80% of Venezuelan crude, avoiding US currency transactions to continue trading.

Since those designations last year, Greek owners have either found workarounds via Cyprus, or have changed tankers' ownership structures.

Legal redress — by seizing Iranian or Venezuelan-origin shipments — have had mixed success and not continued under Biden... so far.

Gasoline destined for Venezuela and seized in June 2020 was sold at a Texas auction.

However, a legal quagmire surrounds $99m in proceeds from the sale of alleged Iranian crude taken off another tanker, which sailed from Fujairah, based on a US forfeiture order.

The action's timing straddled the incoming Biden and outgoing Trump administrations.

The cargo owner, a government-owned oil trader in the emirates, claims the oil was from Iraq. Coronavirus court delays continue to leave the case — and money — in limbo.

The most recent action — against *Omani Pride* — is perceived as leverage for nuclear talks.

> *Is there a better chance for Iran and the US to reach an agreement under the Biden administration, than the Trump administration? Yes. The Trump administration went out of its way to sanction and show a lack of trust*

The US has so far failed in attempts to get Iran's newly elected government to return to the negotiating table for a seventh round with European leaders in Vienna to restore a 2015 nuclear pact and remove sanctions.

"Sanctions are bargaining tools," one US-based lawyer specialising in sanctions told Lloyd's List. "They are ways to get folks to change behaviour.

"Is there a better chance for Iran and the US to reach an agreement under the Biden administration, than the Trump administration? Yes. The Trump administration went out of its way to sanction and show a lack of trust."

Compliance procedures

Still, US guidance on illicit and sanctions-evading practices, issued back in May 2020, remains central to compliance procedures for maritime service providers and shipowners around the world.

Whether or not the Biden administration is disinterested, unwilling and or unable to fully enforce sanctions against Iran or Venezuela, there are no signals of immediate removal of sanctions — notwithstanding any nuclear agreement with Iran, or political change in Venezuela.

Marinakis Group

A legal quagmire surrounds $99m in proceeds from the sale of alleged Iranian crude taken off a tanker, based on a US forfeiture order.

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Protest at The White House: during the Trump presidency, the US surrendered its leadership on climate — including in shipping.

US emissions policy remains unclear

A series of IMO sessions this autumn and the COP26 in November will give greater clarity as to what the US wants to see happen on the international stage, **Anastassios Adamopoulos** reports

The US wants international shipping to become a zero-emissions industry by 2050. It is still unclear, however, how exactly the country sees the best way forward for this to happen.

It has been more than four months since US special presidential envoy for the climate John Kerry declared the country wants to see the International Maritime Organization elevate its 2050 ambitions to make international shipping absolute zero emissions.

It is the most ambitious target a country has set for the IMO so far.

Yet since Mr Kerry's announcement in April, the US has been relatively quiet, while others have been more active and outspoken.

The IMO's last Marine Environment Protection Committee meeting in June — the first since the change of the US administration in January — saw an unmistakable shift in the US stance towards emissions policy; the country's delegation was among the most vocal critics of the ultimately approved short-term emissions measure and led a failed attempt to strengthen it.

However, it was also less receptive to a proposed $100 tax on shipping emissions, describing the idea as ambitious and deserving of further consideration, but also saying it had some concerns with it, which it did not clarify.

Daniel Hubbell, shipping emissions manager for US-based non-profit Ocean Conservancy, said it is time for the US government to walk the walk on climate action.

He said US environmental climate ambitions have so far this year been channelled through a landmark $550bn infrastructure bill.

The US Senate approved the bill in early August, including $17bn in funding for port investments and another $2.5bn for electric and zero-emissions ferries. The bill still needs to be approved by the US House of Representatives.

"But we have not taken that next step to try to regulate or try to take more regional and national action ourselves," Mr Hubbell explained.

He expects that over the next few IMO sessions — the first of which takes place virtually this September — the US delegation will be more explicit on what it wants in order to get to zero emissions by 2050.

"What I would like to see is either some sort of commentary or support for a high ambition interim proposal, or their own," Mr Hubbell said.

The US delegation to the IMO declined to respond to questions about its plans for the next IMO sessions and how it views market-based measures for shipping.

US head of delegation to the IMO Jeffrey Lantz said the country is finalising proposals and expects to be in a better position to comment in the coming weeks and months.

During the Trump presidency, the US surrendered its leadership on climate — including in shipping — missing a major opportunity to spearhead what quickly became one of the largest global political priorities.

Having already made several proclamations on the international stage such as Mr Kerry's, the US has a chance to demonstrate leadership at the UN's Climate Change Conference of the Parties (COP26), which takes place in Glasgow in November.

Countries will present renewed commitments to reducing their emissions and will attempt to agree on some kind of framework for a global decarbonisation measure.

The conference could also generate direct pressure on the IMO to accelerate its own decarbonisation timeline.

Yet much of what the US can do on the international stage — for shipping included — depends on what happens at home.

COP26 coalition

The US has a chance to demonstrate leadership at the UN's COP26, which takes place in Glasgow in November.

The European Union is well ahead of the US in terms of action and leadership at this point in time.

The European Commission's proposals to add shipping to the EU carbon market and introduce the first fuel standards for ships will have widespread repercussions for the industry, extending well beyond the bloc's borders as it targets international voyages.

Like the EU, any climate ambitions the US has will have to overcome internal political infighting and negotiations before they can become reality and turn into action.

The previous administration's abrupt and unilateral exodus from the Paris Agreement and climate diplomacy is not just a blemish on US credibility, but also concrete evidence of why legislation is necessary to back targets.

The US does not have a national carbon market like the EU does. Leading US Democrats want to incorporate a carbon border tax in a $3.5trn relief package on which Congress will vote later this year. This would impose a tax on certain imports that are considered more emissions-intensive.

However, the US administration currently appears to be reluctant to lend its support to this carbon tax for fear of what it would mean for prices.

Last year, House Democrats also first tabled the Ocean-Based Climate Solutions Act, an extensive piece of legislation that covers everything from ships reporting their greenhouse gas emissions to new targets for offshore wind energy capacity.

Following last year's election, the bill was re-tabled in June and will be discussed in Congress later this year.

If the legislation goes through in its current form, the shipping industry will have to comply with yet another regional emissions data collection system, aside from the international one administered by the IMO.

Looking further ahead, if the US embraces a carbon tax for the rest of its economy and the EU maintains its own lucrative tax on shipping emissions, the prospect of the US rolling out its own such system is not outrageous — especially if the IMO cannot deliver a sufficient measure in the meantime.

Mr Hubbell acknowledged the benefit of having a singular global approach to emissions policies, but argued there has not been a sharp step in that direction from the IMO yet —and the sector is not on course to meet the current 2050 target.

"I do not think that the concerns of fragmentation in the industry are as valid in the face of something like a climate crisis," he added.

> *We [the US] have not taken that next step to try to regulate or try to take more regional and national action ourselves*

Daniel Hubbell
Shipping emissions manager
Ocean Conservancy

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Container lines are under scrutiny in the US as the supply chain slows to a crawl.

US seeks to regulate its way out of the container crisis

US exporters are furious at being unable to ship their goods by container. However, a reform of shipping regulations will not fix chronic congestion and infrastructure shortfalls, **James Baker** reports

Container shipping has become contentious in the US since the pandemic brought with it a swathe of problems surrounding the supply chain.

Not only have there been rising costs for importers, who have seen freight rates at the extreme end of the market rise 10-fold in the past year, but a whole host of other issues have affected the smooth flow of containers throughout the supply chain.

Port congestion, chassis shortages, a lack of equipment, poor schedule reliability and higher detention and demurrage charges have all become familiar issues for anyone trying to get goods into or out of the US.

The high cost of poor service has frayed the already fractious relationship between carriers and their customers.

It is easy to understand why.

In 2019, it was a reasonable expectation that a container of goods could be shipped from Asia to the US for around $2,000 and that it would arrive roughly when promised.

That is no longer the case.

The reasons for this are complex and inter-related, but the facts are that smooth, low-cost operation of container shipping globally has disappeared.

Shippers, faced with escalating costs and unpredictable supply lines, are furious. And in the world's most litigious society, they have looked to the law to solve the problem.

The move is being driven by the powerful agricultural export lobby, which says high costs are seeing its goods priced out of international markets.

This is something the US takes very seriously. The Shipping Act of 1984 had, as one of its express goals, to "promote the growth and development of US exports through competitive and efficient ocean transportation".

Speaking in March, former Federal Maritime Commissioner William Doyle warned that carriers faced additional regulatory burdens in the US if the supply chain issues surrounding containerised agricultural exports were not resolved.

"If you want to work with any administration, whether it is Republican or Democrat, our number one priority in the US is our export products," said Mr Doyle, who is now executive director of the port of Baltimore.

"The agricultural industry and the farmers hold a lot of sway and they need to get their products into the world market."

Agricultural producers have become increasingly frustrated at the lack of available containers for exports. They have claimed that carriers are prioritising the return of empties that can be restuffed for lucrative headhaul services over lower-value backhaul export cargoes.

Propelled by unhappy voters, US legislators called on the FMC to investigate the blocking of US export cargoes by carriers.

In a letter to the then chairman Michael Khouri, 111 members of Congress expressed their concerns over what they saw as carriers undermining US exports.

The FMC has made efforts to address what it can, but its powers have been somewhat limited.

"It is particularly frustrating being at the FMC right now and wanting to help," said chairman Daniel Maffei, who took over the role from Mr Khouri in March.

"We have a pretty limited set of tools we can use. I am in touch with these exporters and [know] how frustrating it is right now. The cost of a container has gone right up, [but] the ability to get equipment has gone way down."

The FMC had already launched an enforcement investigation into detention and demurrage practices, but Mr Maffei said it still needed to do more for exporters.

By this summer, however, the situation had continued to deteriorate enough to get presidential attention, with President Biden issuing an executive order calling on government agencies to work together regarding shipping costs.

This empowered the FMC to "crack down on unjust and unreasonable fees and work with the Justice Department to investigate and punish anti-competitive conduct".

Lines argue, with some merit, that there is no anti-competitive behaviour in container shipping, and that they are willing to co-operate, as they have done with numerous investigations that have failed to find any evidence of collusion.

The FMC has since begun an audit of carriers' performance and will analyse the leading carriers for compliance with the FMC interpretive rule on the Shipping Act as it applies to detention and demurrage practices.

Ken Howard/Alamy Stock Photo

Propelled by unhappy voters, US legislators called on the FMC to investigate the blocking of US export cargoes by carriers.

> *It is particularly frustrating being at the FMC right now and wanting to help. We have a pretty limited set of tools we can use*

Daniel Maffei
Chairman
Federal Maritime Commission

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Agricultural exporters have claimed a victory in getting the bill into Congress, where there is strong bipartisan support for it.

In July, it also asked carriers to provide evidence that congestion charges applied to shippers were being carried out in compliance with the law.

"I want to know the carriers' justifications for additional fees," Mr Maffei said

Those efforts were not, however, enough to satisfy the export lobby and its representatives in Congress.

In August, the Ocean Shipping Reform Act 2021 was introduced to Congress in an effort to shift the responsibility of compliance onto carriers.

According to California Democrat congressman John Garamendi, who co-sponsored the bill alongside South Dakota Republican Dusty Johnson, the reforms will establish reciprocal trade to promote US exports as part of the FMC's mission, and will require carriers to adhere to minimum service standards that meet the public interest.

It would also prohibit ocean carriers from declining opportunities for US exports "unreasonably", giving the FMC the authority and obligation to determine what is "reasonable". Perhaps the biggest onus on carriers, however, would be shifting the burden of proof for detention and demurrage charges to carriers and terminal operators.

The FMC would also have more power to initiate its own investigations of carriers' business practices, rather than waiting for formal complaints, and enforce its findings if appropriate.

Agricultural exporters have claimed a victory in getting the bill into Congress, where there is strong bipartisan support for it. Carriers, represented by the World Shipping Council, are less than enamoured with it.

"The suggestion that ocean carriers are solely responsible for the current supply chain congestion is simply untrue," the WSC said.

It warned that the bill would require carriers to guarantee the performance of other parties over which they had no control by, for example, putting the burden on carriers to ensure chassis, trucks and rail cars were available from third-party providers.

> *I think it is very logical at a time like today that regulators are watching very carefully what is happening*

Rolf Habben Jansen
Co-chairman
World Shipping Council

And even if OSRA21 is passed in its existing form, it is difficult to see what impact it will have on a supply chain that is suffering from far wider issues than delays and rising costs for US exporters.

None of the measures included in OSRA21 will solve port congestion, inland distribution delays, chassis and equipment shortages or schedule unreliability.

The law of unintended consequences is ripe for application too.

Detention and demurrage charges, for example, are designed to motivate the smooth flow of equipment.

If shippers have no incentive to collect or return containers on time, then others will face an even greater shortage of equipment.

If carriers are forced to ship laden containers rather than empties on the backhaul, instead of prioritising more lucrative headhaul volumes, it is reasonable to expect those backhaul export rates to increase.

Nevertheless, Hapag-Lloyd chief executive Rolf Habben Jansen, who co-chairs the WSC, remains phlegmatic about the risk of additional regulatory burdens.

"I think it is very logical at a time like today that regulators are watching very carefully what is happening," he told Lloyd's List.

"It is important to explain what is really going on and what the difficulties are that we are battling with."

The risk of bad legislation made in the time of a crisis was always there, he said, but in the past 30 years, most regulation had actually made sense.

"These things tend to develop and there is normally some kind of dialogue. My experience is that despite a lot of concern early on, it typically lands in quite a sensible spot," Mr Habben Jansen said.


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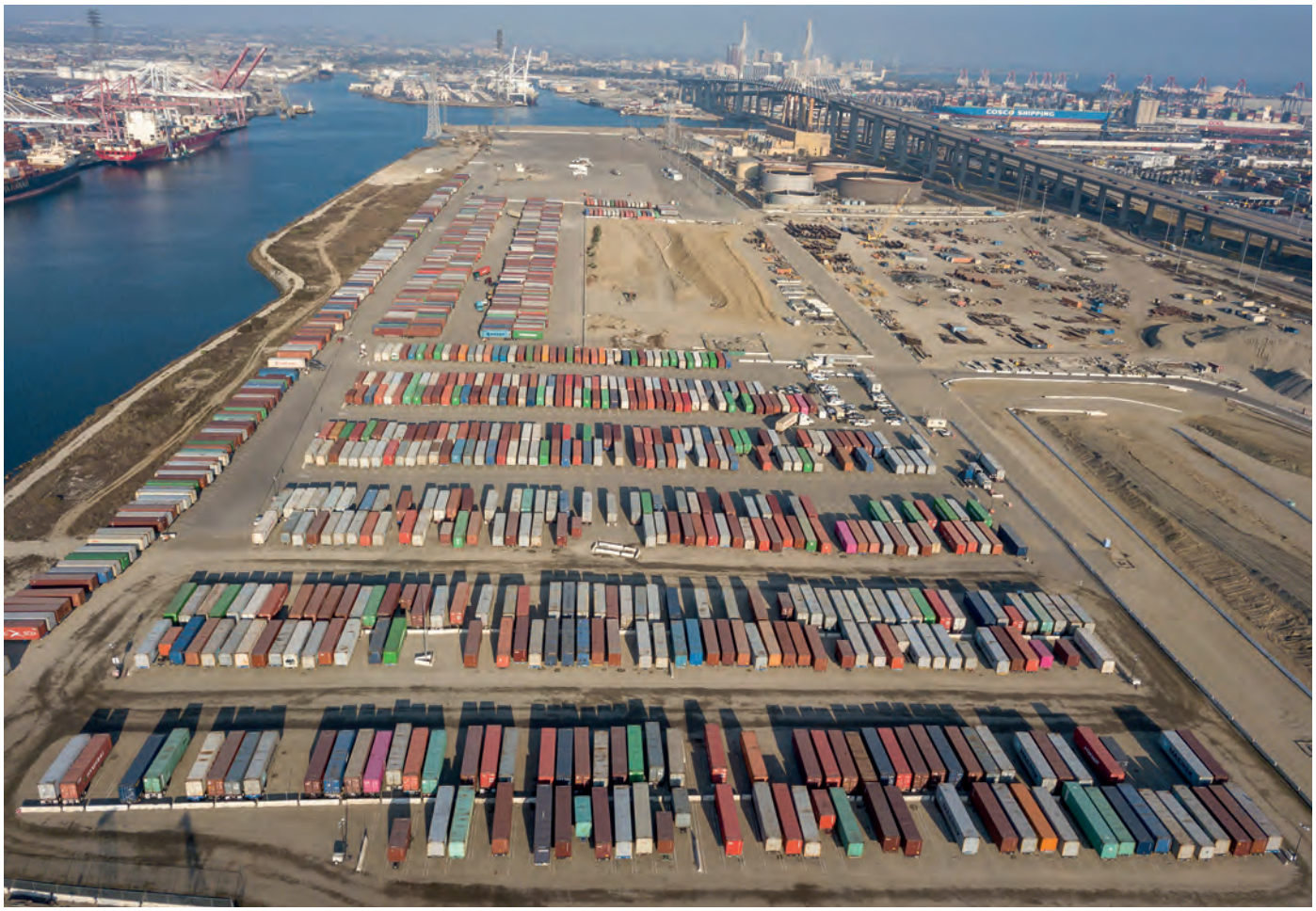

Port of Long Beach

In Long Beach, the STOR yard is an emergency space to handle overflows.

Space and communication ease congestion at US ports

According to Lars Jensen, president of Vespucci Maritime, it is not really a matter of 'blaming' the ports; the problem is on the landside, where shortages of trucks, chassis and rail have made it difficult to get containers to and from the ports, **Eric Watkins** reports

Coronavirus continues to have adverse impacts on supply chains around the world, complicated by other mishaps such as the recent blockage of the Suez Canal and even forest fires in North America.

"It's been well documented that there is congestion at ports globally," said Bryan Brandes, maritime director at California's Port of Oakland.

"Whether it's Covid impacts, typhoons, or volatile shipping schedules, a challenge at one port will have a domino effect at other ports internationally, based on shipping route connections and fluctuating vessel schedules," he said.

Jon Gold, vice-president of supply chain and customs policy at the National Retail Federation, which represents retail shippers across the country, also sees congestion as affecting the whole supply chain.

He puts the matter down to "that strong consumer demand that's just outpaced the supply of everything — not just goods, but available labour, available equipment and available space, throughout the system".

Lars Jensen, president of Vespucci Maritime, agrees: "There is a continuing boom in US imports, which means there is limited additional capacity to eliminate the bottlenecks created in late 2020 and early 2021.

"It is not really a matter of 'blaming' the ports; the problem is on the landside, where shortages of trucks, chassis and rail have made it difficult to get containers to and from the ports," he said.

Port of Long Beach

Within two weeks of opening, more than 1,300 40 ft containers were moving through the short-term storage area at Long Beach.

Dwell times are the real problem, according to John Nardi, president of the New York Shipping Association.

"The root cause of the congestion at the marine terminals is not the number of ships showing up and how much labour we can put on them; it's the dwell times that the containers are experiencing at the terminals before they're picked up.

"The dwell times have actually almost doubled in some cases. And, when you double the dwell time inside and outside the terminal, then all of a sudden, your resources for handling the freight are really cut in half."

Across the country, the Pacific Merchant Shipping Association also sees high dwell times as causing problems of congestion at ports.

"The high cargo volumes continue, warehouses remain at capacity, and cargo owners are not picking up containers in a reasonable time," said Jessica Alvarenga, PMSA manager of government affairs.

"The shippers, the shippers, the shippers — and this is what drives me crazy — the shippers are ultimately causing the problem," said one exasperated port official, "and we're left to find the solution."

Space comes in at the top of the list when it comes to solutions — space that allows marine terminals to remove boxes from their yards quickly, enabling them to work ships faster, and freeing berths for more ships.

> *"We went from a significant drop to record highs almost overnight. We moved swiftly to launch STOR to meet the immediate logistics needs of our customers and supply chain partners"*
>
> **Mario Cordero**
> Port executive director
> Port of Long Beach

While some analysts see billions of dollars in infrastructure spending as the long-term solution to the problem of supply chain congestion, two US ports have come up with short-term solutions that are as inexpensive as they are innovative.

Early on, the Port of Long Beach set up its Short-Term Overflow Resource yard to streamline movement of cargo during a peak season that officials said "collided with an unprecedented surge" in container volume.

"We went from a significant drop to record highs almost overnight," said port executive director Mario Cordero.

"We moved swiftly to launch STOR to meet the immediate logistics needs of our customers and supply chain partners."

STOR opened for business on October 8 on a 17-acre site. Within two weeks, more than 1,300 40 ft containers were moving through the short-term storage area. By December, STOR had expanded to nearly 40 acres and now handles some 5,000 containers daily.

In developing STOR, communication was essential, as port staff talked to more than 200 beneficial cargo owners and US exporters as part of the process in developing the overflow facility.

"In a matter of weeks, we consulted with our industry partners, developed the concept and executed the month-to-month lease," said Noel Hacegaba, the port's deputy executive director of administration and operations.

Similar communications took place across the country among stakeholders in the Port of New York and New Jersey, when space at the site started to become an issue in March 2020.

"There's a billion square feet of warehouses within 50 miles of port Newark and Elizabeth, and those warehouses and distribution centres couldn't receive and process at the rate that they were doing pre-Covid," said Bethann Rooney, deputy director of the port department of the Port Authority of New York and New Jersey.

Recognising the emerging problem of space in the region, the port's Council on Port Performance was convened. Founded in 2014, CPP brings together experts in transportation and logistics, including trucking and rail, to ensure productive cargo movement for all port customers.

"We anticipated that our warehouse community was going to get backed up because the cargo was coming into the warehouses, but it wasn't going to go back out the other end because nobody was buying: all the retail stores were closed," Ms Rooney told Lloyd's List.

"So, we anticipated that cargo was going to back up and [we would] have cargo backed up in the port. Then we would have ships backing up.

> *Every square inch of space was sucked up by somebody. So we made the marriage between those who had space and those who needed it on an emergency basis*
>
> **Bethann Rooney**
> Deputy director, port department
> Port Authority of New York and New Jersey

"What should we do about it? We went out through the CPP and we polled the entire region — New York, New Jersey, lower Connecticut and Eastern Pennsylvania— for available warehouse space or available land.

"We put together a list of about 90 entities that had available space, and we made that available to a Walmart, a Big Lots, a Dollar General, a Nike and whoever needed it because they had run out of space in their warehouse.

"Between April or May, when that list went public, and the August to September timeframe, every square inch of space was sucked up by somebody. So we made the marriage between those who had space and those who needed it on an emergency basis," Ms Rooney said.

Solutions like those found in the ports of Long Beach and New York-New Jersey are decidedly ad hoc and short-term.

Yet they point up basic needs in the country's maritime infrastructure: more space and better communications among stakeholders.

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Long Beach Container Terminal: fully automated facilities require fewer workers, unions fear.

Full automation 'no panacea' for solving congestion

Automation always springs to mind when ports begin to experience congestion; yet issues with labour, cost and space militate against the idea of adding fully automated facilities everywhere possible, **Eric Watkins** reports

Automation always springs to mind when ports begin to experience congestion: when containers pile up in yards, beneficial cargo owners cannot get their boxes and ships back up into anchorages awaiting berths.

That was certainly the sense at the unveiling of the recently completed Long Beach Container Terminal in the port of Long Beach, the nation's number two port facility and number 19 in the Lloyd's List Top 100 Ports.

"We are introducing to the world the state-of-the-art terminal, one of the wonders of the maritime industry," said port executive director Mario Cordero.

He said the terminal would process up to 3.5m teu a year — about 43% of the port's 2019 throughput total.

If LBCT were a port, its 3.5m teu would rank it number six in the nation — and around number 50 in the Lloyd's List Top 100 Ports.

That is a remarkable addition to any port's throughput capacity and it invites the tempting prospect of adding fully automated facilities everywhere possible.

However, issues with labour, cost and space militate against that idea.

The International Longshoremen's Association, which represents dockworkers on the US east and Gulf coasts, has a contract with the employer's bargaining unit, the United States Maritime Alliance, which forbids automation.

"There shall be no fully automated terminals developed and no fully automated equipment used during the term of this master contract. The term 'fully automated' is defined as machinery/equipment devoid of human interaction," according to the contract, which ends in 2024.

The agreement also restricts the implementation of semi-automated facilities: "There shall be no implementation of semi-automated equipment or technology/automation until both parties agree to workforce protections and staffing levels."

On the US west coast, there is little appetite for fully automated terminals at the moment, with the state of Washington even banning the use of public money to automate terminals in the state's ports.

Under the state's recently signed law: "Moneys available to a port district or a port development authority shall not be used to purchase fully automated marine container cargo handling equipment."

While that state law may prevent the use of public money to buy fully automated equipment, it does not preclude the use of private money to do so. Still, even private investors have little desire to fully automate terminals in the region.

They are not leaning that way in Oakland or Seattle/Tacoma either, according to Ed DeNike, president of SSA Marine's domestic container operations and chief operating officer for SSA Terminals, which operates in the four major west coast container ports.

"I certainly don't want to knock automation; it's just that automation would only be good for certain terminals in certain ports," said Mr DeNike.

"The issue is this: if you've got a steamship company that can guarantee a terminal the volume it needs to pay for the equipment, then, you know, it may be worth it," he said.

"If you take the west coast, we do 100% of the business in Seattle and we do 70% of the business in Oakland and I just can't see automating in Oakland or Seattle or any port that doesn't do the kind of volume that LA-Long Beach does."

Yet even Los Angeles and Long Beach look to be unlikely candidates for much more development toward automation, according to Jim McKenna, president of the Pacific Maritime Association, which negotiates labour contracts on behalf of steamship lines and marine terminals.

"The union is certainly very, very concerned about automation. And in this day and age, they see it as a threat to their existence," Mr McKenna said, referring to the International Longshore and Warehouse Union.

However, he downplayed the threat, saying automation is "only viable, in my opinion, in places where you have a tremendous amount of volume".

On the west coast, that really comes down to southern California because of the high amount of volume that is handled there. Yet even so, he says, the costs are prohibitive.

"A fully automated terminal in this day and age will cost you somewhere between $4bn and $5bn, with a lead time of 15 years from start to finish — and during that 15-year time period, you will have anywhere between 10% and 25% of your yard unusable, because that's where you're building your automation.

Port of Oakland

Private investors appear to have little desire to fully automate terminals on the US west coast such as Oakland.

> *[Automation is] not for everyone down in southern California. But for those that see a need to expand their ability to handle more volume, it's where they're leaning, at this given juncture*
>
> **Jim McKenna**
> President
> Pacific Maritime Association

"You only have a footprint and you have to stay in the parameters of that footprint. There's no additional space to expand in southern California. It's an urban area. The footprint is the footprint is the footprint," Mr McKenna said.

"So, it's not the panacea. It's not for everyone. It's not for everyone down in southern California. But for those that see a need to expand their ability to handle more volume, it's where they're leaning, at this given juncture," he said.

In Long Beach, TTI is leaning in that direction, recently unveiling plans to automate its facility in the port. TTI has not disclosed its plans in detail, and did not respond to a Lloyd's List request for comment.

However, members of the ILWU have already expressed their concern over the project.

"While foreign-owned corporations like TTI continue to push to fully automate their terminal operations at our publicly owned US ports, they need to remember that the ports exist for the benefit of the US and local economies, not the destruction of jobs and maximum extraction of foreign profit," said Ramon Ponce de Leon, president of ILWU Local 13.

With regard to the current issues of congestion, Frank Ponce De Leon, ILWU coast committeeman, told Lloyd's List that "traditional terminals did not cause this congestion, and automated terminals won't fix it".

"The national supply chain issues at the railroads, highways and distribution centres will continue to cause congestion and leave vessels waiting at anchor, regardless of whether the terminals are traditional or automated," he said.

Contract negotiations between the ILWU and the PMA will take place in the coming year, as the two sides face a July 1, 2022 deadline. While fully automated terminals may represent an unlikely possibility in the eyes of some observers, ILWU international president William Adams is leaving nothing to chance.

"The 2022 longshore contract negotiations are on our doorstep. Let's save our money and be prepared. Automation will affect every division of this union and our communities," he said.

Signs of hope for US ship finance amid dry bulk boom

Distressed lenders are getting out of resurgent shipping companies, while stocks are looking up for bulkers. Yet credit is still tight and shipping companies are not tech giants, so stocks will only do so well, **Declan Bush** reports

Image Professionals GmbH/Alamy Stock Photo

Investors may come round to shipping stocks when worries about the Covid-hit economy subside.

Rising asset prices and booming dry bulk and container markets are fuelling optimism in US ship finance.

The Jefferies Shipping Index was up 46.2% in the year to August 23 — and up 31.2% compared with a year ago.

Prices of many dry bulk stocks tripled from November to June, as the sector enjoyed the best balance sheets seen in a decade, no near-term debt maturities, and few new ships on order.

Bulker operator Diana Shipping and gas carrier Flex LNG have bought back shares, while Genco and Star Bulk paid out almost all their free cashflow in dividends in the second quarter.

"I think there's more positive sentiment than there has been in a long time," says AMA Capital managing director Peter Shaerf.

Shipping has long been a tough sell on America's stock markets. Volatile trading, low market capitalisations, lack of trading volume and vulnerability to economic shocks tend to put off those investors willing to look beyond stocks' dismal past performance.

However, with the container and dry bulk markets booming, and tankers considered so low that their only way is up, the sector has renewed confidence.

Rising asset values have also given private equity firms a chance to exit bets made in the bad years when companies were forced into restructuring.

> *I think there's more positive sentiment than there has been in a long time. There is an exit avenue that there wasn't before, just because there's more liquidity in the sale-and-purchase market*
>
> **Peter Shaerf**
> Managing director
> AMA Capital

Centerbridge Partners has reduced its stake in Genco Shipping & Trading from 25% in January to 10.8%.

Oaktree Capital Management, another distressed debt and turnaround investor, has trimmed its stake in Greece's Star Bulk Carriers.

Private equity firms tend to have five- to 10-year investment horizons. Mr Shaerf says those that got into shipping from 2013-2015 have probably got returns far smaller than they hoped, but at least they now have a way out.

"There is an exit avenue that there wasn't before, just because there's more liquidity in the sale-and-purchase market, especially in dry bulk and containers," Mr Shaerf says.

When Genco secured a new $450m credit facility, it was with the help of Denmark's Nordea, Sweden's SEB and Norway's DNB Markets.

Cleaves Securities head of research Joakim Hannisdahl adds: "I think they should have waited a bit longer but understand their eagerness to liquidate what have been challenging investments, to say the least."

Mr Hannisdahl has seen more generalist funds move into bulk in the past year, as the turnover of shares mirrors the last expansionary cycle in around 2014.

Fidelity, a big asset manager, has reportedly built a 10% stake in Star Bulk for $207m, having earlier bought 12% of Genco. It also has shares in Golden Ocean Group, Eagle Bulk Shipping, Safe Bulkers and Diana Shipping.

Even billionaire financier George Soros and 'The Big Short' investor Michael Burry have taken stakes in shipping companies in recent months.

Jefferies equity research vice-president Randy Giveans says the private equity sell-off is one reason shipping stocks have levelled off since June. (Tankers, containers and dry bulk shares fell from June 25, despite big differences in their respective markets.)

Another reason is worries about Covid-19 in the wider economy, making investors more wary of stocks linked to global trade.

"Lastly, it's a lot easier for a portfolio manager to sell while on vacation than to buy," Mr Giveans adds.

However, Mr Giveans is optimistic that investors' "myopic" focus on Covid-19 and slowing economic stimulus will give way to looking at shipping companies' earnings, rather than "transitory headlines", in the next three to six months.

> *"I think they should have waited a bit longer but understand their eagerness to liquidate what have been challenging investments, to say the least"*
>
> **Joakim Hannisdahl**
> Head of research
> Cleaves Securities

Mr Hannisdahl predicts a continued rise in dry bulk share prices in the coming years and feels the cycle will not mature until at least 2024.

He also believes there will be an "imminent" surge in oil tanker share prices, given the limited fleet growth and boost in demand for post-pandemic oil production.

On the finance side, companies still struggle. European banks continue to shed exposure to shipping, with little interest across the Atlantic either.

Banks are lending less — an owner might get a 50% loan-to-value ratio, rather than 70%, and over five years, not 10 — and are being more selective to whom they lend.

Mr Shaerf says lack of finance available for new entrants is one of the reasons the market is so tight.

A non-top-tier owner might get 50%-60% LTV (loan-to-value) at 5%-8% interest: "You're not getting overly aggressive lending — and it's not cheap."

The main banks lending to US shipping companies are still Nordic, rather than American.

CIT Bank, based in California, is one exception — though in an increasingly globalised industry, the location of a bank's head office does not matter as much.

When Genco, the largest US-headquartered dry bulk shipowner, secured a new $450m credit facility, it was with the help of Denmark's Nordea, Sweden's SEB and Norway's DNB Markets.

Where American lenders are interested, it is in cruiseships or domestic shipping. Several funds have spent the year vying for the assets of Bouchard Transportation, a barge operator that filed for Chapter 11 bankruptcy protection in Texas in September 2020.

International shipping companies have long looked to cheaper money in Asia, where sale-and-leasebacks can provide 85% leverage. Owners like the higher loan-to-value ratios on offer, while financiers like the higher rates.

The concentration in Asia of money, buyers, lenders and shipbuilders means this is unlikely to change in coming years, with Asian financiers replacing private equity in the lending mix, Mr Giveans says.

ABN Amro, a Dutch bank, agreed in July to withdraw from financing US transportation companies, selling its $700m portfolio to Credit Agricole, adding it was "strongly committed as a financier for the European shipping sector".

The London initial public offering of bulker owner Taylor Maritime, which raised $253.7m in May, and Western Bulk's plan to list in Oslo stoked optimism, but there is little appetite for more shipping IPOs.

Sustainability-linked or ESG — environmental, social and governance — finance is often talked about as the next big topic.

However, Mr Shaerf says shipping companies are too small — and have enough trouble getting finance anyway — for more stringent green lending conditions to make much difference.

"There's always going to be some — but by and large, I don't see that as impacting investment in the maritime sector," he says, adding: "I don't think green is a colour for shipping unless it's money green."

> *"Not many people were around or remember 2002-2009 when rates, equities and asset values were up 10% a week for seven years straight. I'm not saying we're going back to that first decade, the supercycle — but I'm very adamantly saying this decade will be a lot better than the past decade"*
>
> **Randy Giveans**
> Equity research vice-president
> Jefferies

Mr Giveans says the easiest way for companies to cut emissions is to slow their speeds and scrap older ships, which they are doing anyway.

ESG criteria are "incredibly subjective" and hard to rate and compare between different companies, let alone industries.

It will also be hard to judge whether an ammonia-fuelled ship carrying coal, or an LNG-fuelled tanker carrying crude oil, can really be considered 'green', he adds.

Yet Mr Giveans is optimistic. He says the industry struggles with recency bias after a decade of oversupply, low rates and poor stock performance.

"Not many people were around or remember 2002-2009 when rates, equities and asset values were up 10% a week for seven years straight," he says.

"I'm not saying we're going back to that first decade, the supercycle — but I'm very adamantly saying this decade will be a lot better than the past decade."

US Gulf seaborne crude and product flows: down, but not out

Gulf refineries are shipping less to Latin America as Covid-19 outbreaks stall demand; India is now the largest importer of US seaborne crude, while Russia is the biggest supplier, **Michelle Wiese Bockmann** reports

The global pandemic arrested the breakneck speed of accelerating oil exports from the US Gulf, but shipments are almost back to levels last seen in 2019.

Total US exports averaged 3.4m bpd in July and 2.8m bpd in the first three weeks of August, preliminary figures from the Energy Information Administration show.

In the January-May period, crude exports from the exporting hub of the US Gulf averaged 2.7m bpd, 10.4% below the prior-year period, EIA data shows.

A rebound in the price of oil led to consolidation among indebted Permian shale producers that many forecast would be shuttered by events of 2020.

Permian shale producers supply the majority of crude via pipeline to the US Gulf coast for export.

With the weakest producers picked off, crude exports have rebounded, but future volumes are unlikely to reach pre-pandemic growth forecasts that once exceeded 4m bpd.

That said, nuanced changes in seaborne trade flows to and from the US powerhouse of energy commodities is impacting tonne-miles and tanker sizes.

Some 894 crude tankers (more than 55,000 dwt) were tracked exporting oil from the US Gulf during the first seven months of 2021, according to data from Lloyd's List Intelligence.

That data showed that tonne-mile demand — which measures volumes shipped over distance carried — fell 6%, to 573.6bn tonnes, on the prior-year period.

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Permian shale producers supply the majority of crude via pipeline to the US Gulf coast for export.

> *With the weakest producers picked off, crude exports have rebounded, but future volumes are unlikely to reach pre-pandemic growth forecasts that once exceeded 4m bpd*

The reduction in tonne-miles is lower compared with other trade routes, such as the Middle East Gulf and West Africa.

Price arbitrages and oil production cuts in the Middle East extended Asian refiners' interest in the light, sweet crude produced from the Permian, which is mostly shipped via very large crude carriers on voyages lasting between four and six weeks.

(The US is not a member of the Organization of the Petroleum Exporting Countries, which agreed production cuts in mid-2020 to arrest freefalling oil prices, thereby slashing shipments from Saudi Arabia, Iraq and Kuwait.)

India has overtaken China this year as the world's biggest importer of US Gulf crude, importing 400,000 bpd in the first five months of 2021, EIA figures show.

Korea is the second-largest buyer, although imports remain unchanged from 2020 levels. China, once the largest buyer, has pulled back, with imports at 275,000 bpd — half the pace of last year.

The UK and Netherlands combined imported 247,000 bpd, with France, Germany and Italy also taking cargoes.

This supported the aframax tanker segment, with smaller-sized shipments to destinations in the Mediterranean and northwest Europe.

VLCCs comprise about 35% of US crude export shipments, measured since 2016, according to Lloyd's List Intelligence data, followed by aframax tankers at 31%, and suezmax tankers at 19%.

Crude exports from the US Gulf have held up better than US imports to the area. Tonne-mile imports measured to the US Gulf — where most of the country's major refineries are based — are down 11% year on year for the January- July period.

When compared to the pre-pandemic months of January-July 2019, tonne-mile demand at 466.9bn tonnes is even lower, down 29%.

Latest EIA data shows a drop in US crude imports of 18%, averaging 5.7m bpd in the first five months of 2021.

The larger drop in tonne-miles reflects fewer cargoes arriving from the Middle East Gulf, and increased volumes from nearer countries, such as Russia.

For the first time, seaborne exports from Russia surpassed those from Saudi Arabia.

Lower imports also reflect refinery crude oil input, which is yet to fully recover, even though US demand for diesel, gasoline and jet fuel is nearly back to normal as Covid vaccination numbers rise.

July volumes of US petroleum products supplied — a proxy for demand — are within 350,000 bpd of 2019 levels, at 20.6m bpd.

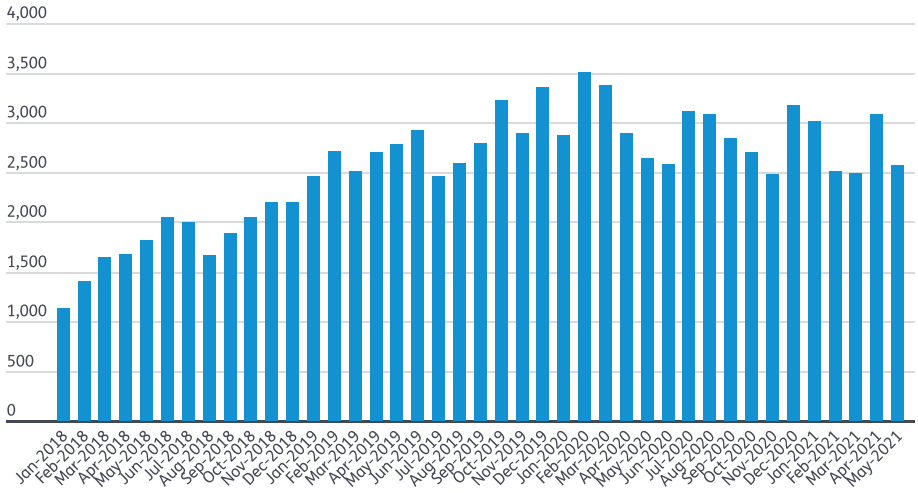
US Gulf refineries' net crude input in that same month is 9m bpd, some 420,000 bpd below July 2019.

The US Gulf is the biggest regional hub for refined product exports.

So, while demand has recovered, importers from the largest markets in Latin America are still grappling with third and fourth waves of Covid outbreaks.

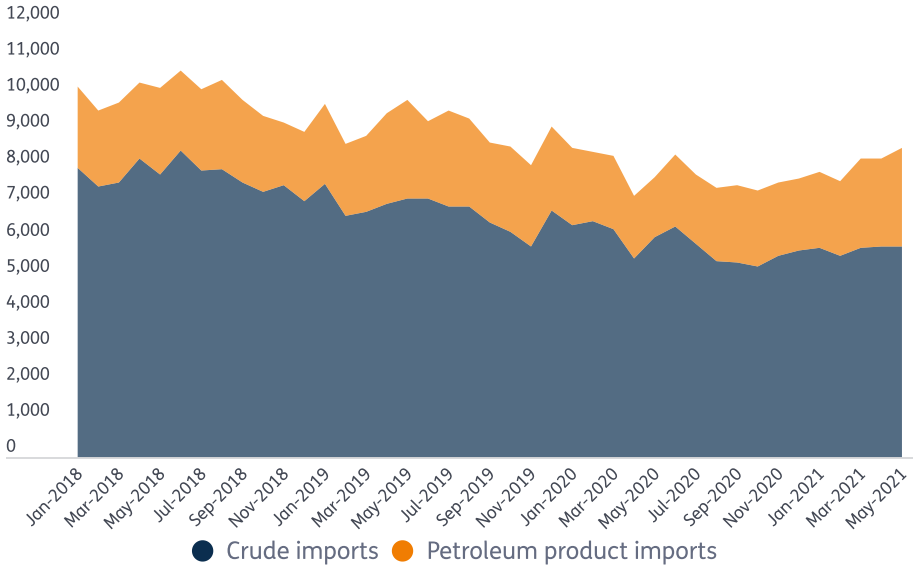
Exports are averaging 2.3m bpd but are nowhere near the 2.7m bpd to 2.8m bpd seen in 2019.

US Gulf Coast (PADD 3) crude exports ('000 bpd)



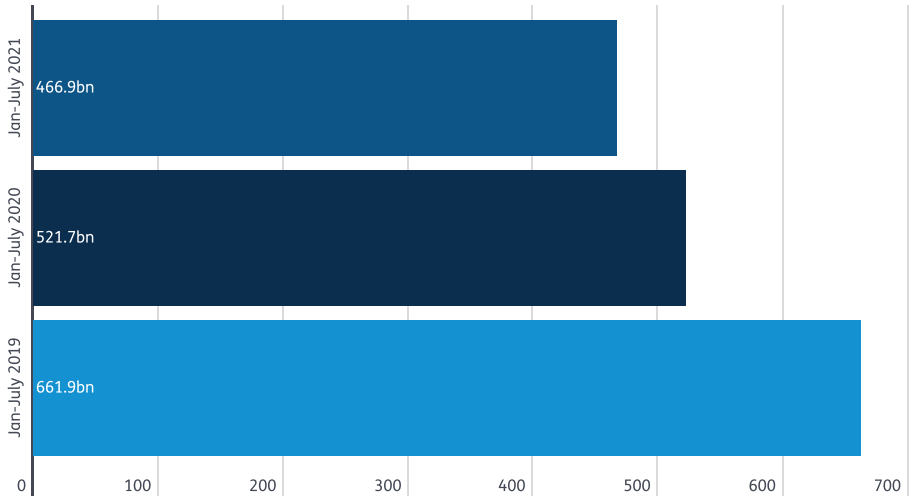
Source: EIA

US imports of crude and petroleum products ('000 bpd)



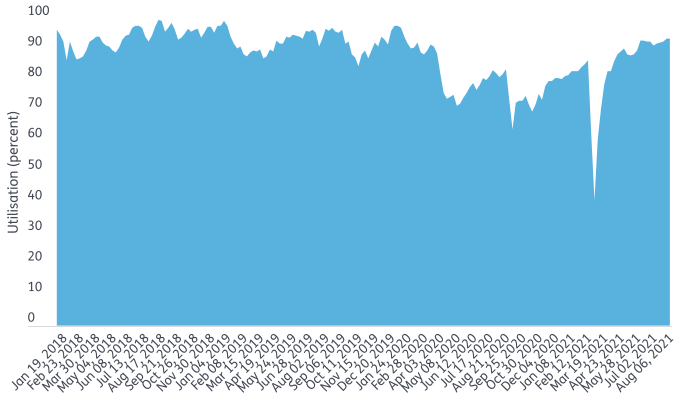
Source: EIA

US Gulf seaborne imports (tonne-miles)



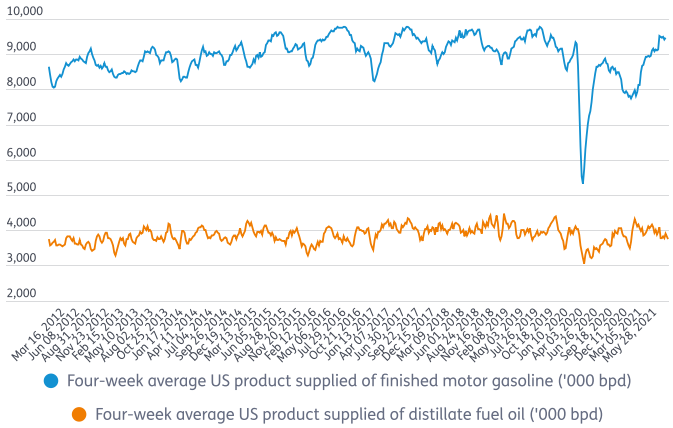
Source: Lloyd's List Intelligence

Weekly US Gulf Coast (PADD 3) utilisation of operable refinery capacity



Source: EIA

Four-week average gasoline/diesel demand ('000 bpd)



Source: EIA

Corpus Christi goes blue, not green

US Gulf set to compete with Middle East Gulf producers to export hydrogen as an alternative energy

The crude oil-exporting hub of Corpus Christi is seeking to reposition itself as a centre for so-called 'blue hydrogen' after signing a memorandum of understanding in July with Howard Energy Partners to convert its Javelina plant for carbon-neutral production, *writes Michelle Wiese Bockmann*.

Blue hydrogen is produced from fossil fuels, unlike more expensive, greener alternatives that rely on renewable sources to split hydrogen atoms from oxygen using electrolysis.

Howard Energy purchased Javelina in February 2020. The treating and fractionation plant extracts olefins, hydrogen and natural gas liquids from gas streams. It supplies hydrogen for sulphur removal processes via pipeline connections to six refineries in the area.

Javelina also produces ethylene, ethane, propylene, propane and butane for petrochemical markets.

Blue hydrogen involves capturing the carbon dioxide byproduct. Hydrogen can also be converted to ammonia for shipment.

Despite criticism that it is fossil-fuel-produced hydrogen, which does not reduce carbon emissions, blue hydrogen projects are planned around the world and seen as a transition to cleaner, greener energy.

The Javelina memorandum of understanding is non-binding, while production, timeline, scale and cost have not been disclosed.

jkntexascc/Alamy Stock Photo

Corpus Christi is seeking to reposition itself as a centre for so-called 'blue hydrogen' .

The Port of Corpus Christi Authority said the plant could produce around 60m cu ft per day of hydrogen through the carbon-capture 'blue' process. That equates to about 142.3 tonnes daily of hydrogen gas.

To put this in perspective, global hydrogen demand in 2019 was 215m tonnes of oil equivalent, according to the International Energy Agency, mostly produced using fossil fuels and without carbon capture and storage.

The port of Corpus Christi bills the facility as the region's first future carbon-neutral hydrogen production plant. The plan is to scale production for exports, with captured carbon directed to industries that require it, such as steel.

"The Port of Corpus Christi has committed to developing much-needed infrastructure to collect and pressurise CO_2 for injection in permanent geological storage formations offshore in the Gulf of Mexico," a statement said.

The United Arab Emirates has already sold three 'blue' ammonia shipments to Japan made from hydrogen and Saudi Arabia is also investing in blue hydrogen projects.

The kingdom's national oil company shipped a test cargo of blue ammonia to Japan in September 2020.

Outside the Box

Moving containers is big business, but the Port of Long Beach thinks outside the box, too. Innovation, sustainability and long-term vision make Long Beach the Port of Choice.

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