Lloyd's List

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Floating storage — the bonanza that never happened

The forward curve suggests that tanker storage is no longer profitable, but has the contango been postponed or evaporated completely?

Brent crude oil is currently trading in a narrow range around $60 a barrel. The contango structure is unlikely to change very much.

SINCE mid-February the price of Brent crude oil has moved in a narrow range either side of $60 a barrel. This period of relative calm after the dramatic fall seen in the second half of 2014 and into 2015 has led some analysts to declare victory: the price slide is over, apparently, *writes Neil Atkinson*.

However there are still significant risks to the downside for oil prices and the main factor is an ongoing surplus of oil production over demand of about 1.5m barrels per day, representing 1.6% of global demand.

For the time being this surplus is being absorbed: oil storage capacity remains plentiful for the next few months — data from the US Department of Energy states that tank capacity at Cushing, Oklahoma, the delivery point for the NYMEX crude oil contract, is 62% full and the Amsterdam-Rotterdam-Antwerp hub is only about 50% full — but with stocks, particularly in the US, building rapidly on land, capacity constraints might come in to play.

This suggests that oil prices will come under renewed pressure. Indeed, in the US they have already done so with the discount for the US marker West Texas Intermediate versus global marker Brent widening to more than $12 a barrel, a level not seen since mid-January 2014.

Another factor that might add to downward pressure on oil prices is a resolution to the talks between the P5+1 countries (the UK, US, Russia, China, France and Germany) and Iran about the latter's nuclear ambitions. We might see an agreement as early as the end of this month that eases sanctions either wholly or in part and allows Iran to increase its exports of crude oil.

While it is difficult to be precise about volumes and timings, there is a wide consensus that Iran could place at least 500,000 barrels per day in the market within a few weeks. This would of course add more barrels to the already significant global oil surplus and push prices down again.

For now though, we are still trying to understand the meaning of the dramatic change in oil prices that saw Brent crude fall from a June 2014 high of $115.06 a barrel to a six-year low of $46.88 a barrel on January 13.

Pricing structure

One of the key fall-outs has been the change in the pricing structure of crude oil. Normally, the current price of crude oil is higher than the prices for succeeding months. This is known as backwardation and it indicates a balanced or tight market. When the market is oversupplied the reverse structure applies and the current price of oil is

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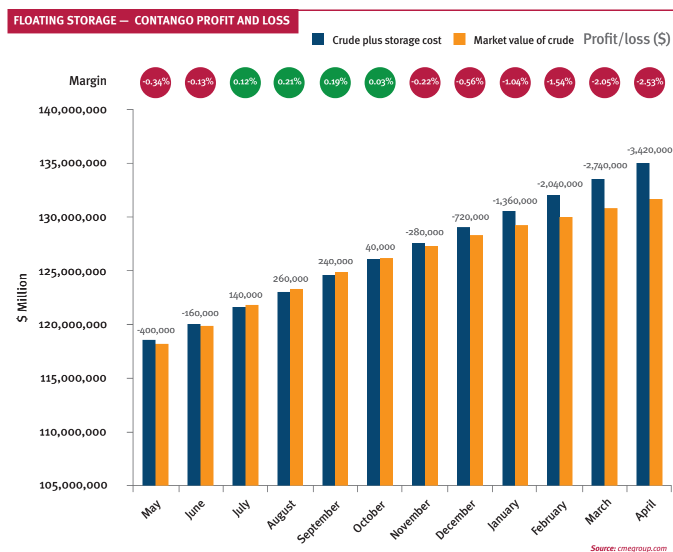

lower than that for succeeding months. This is known as contango and it is the structure seen today, when the global oil market is faced with a structural surplus of supply over demand of approximately 1.5m bpd.

In a contango market traders are incentivised to buy oil cheaply today in the expectation that they can sell it in the future at a higher price. Traders buy the oil but need somewhere to store it. The cheapest and normally most convenient option is to store oil on land and in the US the cost can be as little as $0.30 a barrel per month, although $0.50 is a working average.

In the first few weeks following the decision on November 27 by the Organisation of the Petroleum Exporting Countries to maintain its collective oil production at 30m bpd for 2015, prompt oil prices fell sharply and the differentials between prompt and future prices widened.

The prompt price for Brent crude was just below $80 a barrel ahead of the OPEC meeting and the prompt price was only a few cents below the first month which was in turn a few cents below the second month.

However, by mid-January Brent oil prices had fallen to a six-year low of $46.88 a barrel and the differentials had widened to about $0.80 a barrel for the prompt price versus the first month and for the first month versus the second month the differential had widened to more than $1 a barrel.

Looking out one year, the prompt price was more than $10 a barrel lower. It was widely expected that this contango market would create a bonanza for floating storage resembling that seen in 2008-2009, the last occasion when crude oil prices slumped dramatically.

Deals expected

Tanker owners were encouraged by a contango that many experts expected to strengthen. Frontline chartered out its 1998-built, 299,998 dwt very large crude carrier Front Century for 15 months to an oil trader. Many other deals were expected to be made but no sooner had the crude oil market bottomed out than Frontline was revising its stance, saying that only around 15-20 VLCCs of the roughly 40 hired on time charters so far in 2015 this year will actually be used to store crude.

This is because no sooner had the oil price slumped to a six-year low than it began to rise again and with it the differentials between the prompt price and the price for future months narrowed.

This made the use of tanker storage unattractive and, indeed, loss-making. To illustrate the change in market sentiment Lloyd's List Intelligence compiled a table using an average cargo size of 2m barrels on a VLCC. For the total cost of chartering the ship we have used an average number of $1.5m a month and for the 2m barrels of oil stored this produces a monthly storage cost of $0.75 per barrel.

Using Brent crude oil prices supplied by CME Group (as of March 10) our table shows that the price differential between the forward months for Brent crude is less than the monthly cost of storing a barrel of oil at sea. A cargo of 2m barrels of crude oil bought for $117m would, after a one-year charter expired, have cost $135m including storage fees, but the crude oil itself would be worth only $132m.

Even for shorter storage fixtures, three- and six-month deals are barely profitable. Of course the costs of individual charters can vary enormously but even if we reduce the cost of the charter to $1.2m per month, a storage deal for any period of time is still very unattractive, yielding only a modest profit.

Lloyd's List Intelligence's numbers support the view among analysts that the initial excitement over floating storage has now evaporated. As Concordia Maritime chief executive Kim Ullman recently put it to Lloyd's List — this is a market development that has been "exaggerated".

For the time being Brent crude oil is trading in a narrow range around $60 a barrel and the current contango structure is unlikely to change very much. However, if the storage capacity issues already mentioned become a reality and Iran's barrels return to the market there is a very strong possibility that oil prices will fall, but also fall disproportionately for prompt months.

That would widen the contango sufficiently to make floating storage a viable proposition. Perhaps the expected bonanza has merely been postponed.

Neil Atkinson is Head of Analysis at Lloyd's List Intelligence

HOW FLOATING STORAGE CAN BE LOSS MAKING

Based on 2m barrels at $58.53 per barrel stored at $0.75 per barrel per month for 1 year*

VLCC per month*	Barrels	Monthly storage
$1,500,000	2,000,000	$0.75
	Price	Cost
	$58.53	$117,060,000

	Value of crude	Contango	Crude cost	Storage cost ($)	Total cost ($)	Value of Cargo ($)	Profit/loss ($)	Margin
May	59.08	0.55	117,060,000	1,500,000	118,560,000	118,160,000	-400,000	-0.34%
June	59.95	0.87		3,000,000	120,060,000	199,900,000	-160,000	-0.13%
July	60.85	0.90		4,500,000	121,560,000	121,700,000	140,000	0.12%
August	61.66	0.81		6,000,000	123,060,000	123,320,000	260,000	0.21%
September	62.40	0.74		7,500,000	124,560,000	124,800,000	240,000	0.19%
October	63.05	0.65		9,000,000	126,060,000	126,100,000	40,000	0.03%
November	63.64	0.59		10,500,000	127,560,000	127,280,000	-280,000	-0.22%
December	64.17	0.53		12,000,000	129,060,000	128,340,000	-720,000	-0.56%
January	64.60	0.43		13,500,000	130,560,000	129,200,000	1,360,000	-1.04%
February	65.01	0.41		15,000,000	132,060,000	130,020,000	2,040,000	-1.54%
March	65.41	0.40		16,500,000	133,560,000	130,820,000	2,740,000	-2.05%
April	65.82	0.41		18,000,000	135,060,000	131,640,000	3,420,000	-2.53%

** Est. published by Reuters of VLCC cost of $1.5m per month*

Source: cmegroup.com

Tanker market has a soft underbelly

Charterers happy to take their chances on the tanker spot market, implying they see falls in spot rates on the horizon

THE stark lack of longer-term charters for tankers at the moment reveals a lot about the true state of the tanker market, according to a US-based shipping expert, *writes Hal Brown*.

Charterers worried about rising spot rates normally seek to charter a tanker for two or three years at a fixed rate, to avoid paying climbing spot rates.

The current lack of such two- or three-year charters across almost all tanker types shows that charterers, as a collective group, are not too concerned about avoiding the spot market, argues Karatzas Marine Advisors managing director Basil Karatzas.

Indeed, by sticking with the spot market, charterers are demonstrating a belief that tanker spot rates will fall.

"The implication is that the market will get softer and drop," Mr Karatzas told Lloyd's List in an exclusive interview, speaking from his One World Financial Center office in the heart of Manhattan's financial district.

"This is a bit concerning," he said.

Very large crude carrier spot rates have been dropping over the past few days.

Spot earnings now stand at around $46,400 per day for Middle East to Asia VLCC voyages, a fall of around $1,600 from the previous day's Baltic Exchange reading.

Average suezmax spot earnings are down $4,700 and average aframax spot earnings are down slightly by a couple of hundred dollars.

The tanker freight market is "strong but not exceptionally strong", said Mr Karatzas.

In this respect, it is difficult to justify a $100m investment in a new VLCC, he argued.

This echoes comments made to Lloyd's List in December 2014 by Mitsui OSK Lines tanker director Tsuneo Watanabe, who said such high investments in VLCCs were hard to justify despite rises in tanker spot market earnings seen at the time.

Mr Watanabe said the tanker spot market is notoriously volatile, and as such it is still risky to invest in new VLCCs.

Data shows the lack of longer-term charters in the tanker market this year.

There have only been 10 suezmaxes taken on time charters this year, most for one year, and 12 aframaxes, according to Clarksons.

Charterers are "prepared to take their chances" on the spot market, said Mr Karatzas.

"They don't seem to be acting with conviction that the [spot] market will get out of hand," he said.

Very large crude carrier spot rates have been dropping over the past few days. *Montenegro/Shutterstock.com*

If they thought the spot market would get higher, they would want to "jump in to lock in rates for two to three years".

New tankers delivered from shipyards are immediately entering spot or short-term work, rather than two- or three-year charters.

New York-listed Scorpio Tankers took delivery of long range two product tanker *STI Rose* in January, and the vessel immediately started a voyage for 14 days, earning around $30,000 per day.

Medium range product tankers *STI Tribeca* and *STI Gramercy* were delivered to Scorpio from SPP Shipbuilding in South Korea in the same month, and each immediately started charters for up to 120 days at around $18,000 per day.

Nevertheless, despite concerns over where the spot market is heading, there are plenty of voices backing robust tanker market spot rates for a while yet.

At a DNB Markets shipping conference last week, polls showed that crude and product tankers are seen as the segments that have benefited the most from lower oil prices.

The crude tanker panel at the conference was said to be "very optimistic indeed", with one participant comparing the current situation with the crude market in 2003, which was followed by five years of average VLCC spot rates above $50,000 per day.

The next couple of quarters in the tanker market will be revealing.

Zoullas and Eagle Bulk agree severance

Cargill veteran Stan Ryan appointed interim chief executive at restructured supramax owner

EAGLE Bulk Shipping has appointed a new interim chief executive and reached a settlement with company founder Sophocles Zoullas, who quit as chief executive last month, *writes Nigel Lowry*.

Under the deal, Mr Zoullas severs all ties with the Nasdaq-listed owner of 45 supramaxes. The two sides have agreed to release each other from various obligations and there is a pact to mutually refrain from disparaging the other side.

Mr Zoullas, who launched Eagle Bulk in 2005, will walk off with a lump sum of all unpaid salary and accrued unused vacation pay, and 270,270 restricted shares in the company stemming from a stock award deal last October.

Other stock options previously awarded, however, are cancelled under the deal.

As part of the separation, Eagle Bulk has waived a non-competition covenant in Mr Zoullas' employment contract which would likely leave him free to engage in a new dry bulk business.

Stepping in as chief executive is board member Stan Ryan, a 53-year-old Cargill veteran who was appointed a director at Eagle Bulk following the company's restructuring completed five months ago.

Mr Ryan joined Cargill in 1989 and served in senior

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positions for the group in the Americas, Europe and Asia, most recently as Corporate Platform Leader at Cargill Inc. based out of Shanghai, until June 2014.

He was a global co-leader of Cargill's Agricultural Supply Chain businesses and also served as a member of the company's global Corporate Centre.

For the duration of his tenure, which is on an interim basis according to the company, he will receive a monthly salary of $50,000.

The company also announced that fellow director Bart Veldhuizen will take Mr Ryan's place on the audit committee while Randee Day has resigned from her position as interim president and has been appointed to the audit and nominating and corporate governance committees of the board.

Last year Eagle Bulk emerged from the US Bankruptcy Court with an approved reorganisation that carved 80% — or about $1bn — off its debt and put almost the entire equity of the company into the hands of its lenders, mainly US hedge funds.

Following the restructuring the largest individual shareholder was Oaktree Capital Management with a stake of about 42%.

Eagle Bulk has waived a non-competition covenant in Mr Zoullas' employment contract which is likely leave him free to engage in a new dry bulk business.

MSC's first of 20 ultra large boxships arrives in Felixstowe

MSC confirms the number of ultra large boxships it has on order as the world's largest boxship arrives in UK for the first time

THE arrival of *MSC Oscar* into Felixstowe yesterday morning marked the world's largest containership's first call in the UK, but it was also the first time Mediterranean Shipping Co has confirmed to Lloyd's List how many vessels of this size it will receive, *writes Damian Brett*.

Speaking at an event to welcome the 19,224 teu ship's first call at Felixstowe, a company spokesperson confirmed that in total MSC would operate 20 vessels of 19,000 teu once it had received all the ships it has on order.

MSC Oscar, named after chief executive Diego Aponte's son, was the first of the 20 it has received.

The second ship, to be named *MSC Oliver* after Mr Aponte's nephew, will enter service in April.

By the time it receives the last of the vessels it has on order, MSC is expected to have become the largest container line in the world with a fleet of around 3.2m teu.

However, Maersk Line, the current leader, is expected to initiate a new round of vessel orders soon and future charter plans for both shipping lines are unknown.

The arrival of the *MSC Oscar* at Felixstowe was welcomed by the port as an opportunity to demonstrate its handling capabilities.

Port of Felixstowe chief executive Clemence Cheng said: "The *MSC Oscar* represents the third weekly service to call at Felixstowe with ships of 18,000 teu or more.

"As the size and number of mega-vessels continues to increase, we are continuing to expand our facilities to meet them. The extension to Berth 9 will be complete later this year.

"Together with three new ultra-large container cranes it will boost our ability to handle these very large ships."

The finger extension of Berth 9 will enable it to handle two ultra-large boxships at the same time.

Felixstowe has also announced plans to develop Berth 10, although there is no current time line for the project.

MSC Oscar arriving at Felixstowe yesterday. It was the world's largest containership's first call in the UK.

MSC Oscar, built by Daewoo Shipbuilding & Marine Engineering, is 395 m long, has a height of 73 m, a breadth of 59 m and a draught of 16 m.

It can handle 11,258 teu on deck, 7,966 teu in its hold and can carry a total of 900 teu of reefer containers.

The ship is classed by DNV GL and was originally specified at 18,000 teu but its capacity was expanded during the building phase by adding an extra tier of containers above deck.

The MAN B&W engine has been optimised so that fuel consumption can be automatically controlled to take into account both speed and weather conditions. The vessel has a broad optimal speed range for enhanced operational flexibility.

In total, it took 11 months to be completed from steel cutting to delivery. DNV GL said *MSC Oscar* is the first of the series of six ultra large containerships of the Olympic Series.

The remaining sisterships of the series are expected to be completed by November 2015.

Good start to the year for transpacific volumes

But east coast ports continued to take market share from their west coast rivals

CONTAINER volumes on the transpacific trade lane picked up in January, despite the port congestion affecting west coast port performance at the time, while east coast ports continued to pick up market share, *writes Damian Brett*.

Figures from Container Trades Statistics show that overall container volumes from Asia to North America increased 1.3% year on year in January to 1.3m teu.

The rise comes despite the west coast port congestion and the negotiations between dock worker and terminal representatives over a new collective agreement for west coast port workers, which were still taking place at the time.

Also, the January figures for 2014 would have received a boost from shippers rushing to export products from Asia ahead of the Chinese New Year factory closures from January 31.

This year, the New Year landed on February 19 meaning the cargo rush would have been experienced slightly later.

Transpacific box volumes picked up in January, despite the port congestion affecting west coast port performance at the time. *Shutterstock.com*

The Pacific coast congestion did have some effect on terminal volumes during the month though as US west coast ports actually recorded a year-on-year decline while east coast facilities saw volumes increase.

Containers heading to the Atlantic seaboard from Asia in January increased 4.6% on the same month last year to 544,755 teu while to the Pacific coast volumes were down 0.1% year on year to 607,737 teu.

East and Gulf coast ports now handle 47.3% of total volumes from Asia to North America compared with 46.1% a year ago. The east coast average for 2013 stood at just 37%.

Questions have been raised as to whether the east coast facilities will be able to maintain the marketshare they have grabbed.

Analyst Hackett Associates founder Ben Hackett said: "Importers and exporters are reviewing their supply chain plans for the future, and not necessarily in favor of the west coast.

"Looking on the practical side, a number of factors favor a return to the west coast."

Mr Hackett said sending ships from Asia to the east coast is more expensive than the west coast, takes longer, and results in higher expenses to move the cargo to Midwest distribution centers by rail.

In addition, importers have significant investments in west coast distribution centers that would not easily be abandoned.

The Global Port Tracker report, which is produced for the US National Retail Federation by Hackett Associates, predicts that US box port volumes will continue to increase this year.

Port volumes in the first half of 2015 are forecast at 8.7m teu, an increase of 4.5% over the same period last year.

Meanwhile, the port congestion pushed transpacific freight rates to their highest level since May 2012.

The CTS transpacific price index, which uses the 2008 average rate as an index of 100, reached 102 in January.

Los Angeles unveils plans to speed up cargo flow

Containers of high-volume shippers to be fast-tracked

THE Port of Los Angeles has introduced a scheme to expedite the cargo of high-volume customers in an effort to clear the huge backlog that built up during the recent labour productivity slowdown, *writes Janet Porter*.

The so-called "peel off" programme is designed to improve the flow of cargo after months of congestion and disruption.

"We have found an efficient way to get containers to their destination that is beginning to pay off," said the port's executive director Gene Seroka in a statement.

"We're acting on our pledge to our customers to harmonise the supply chain and make it work better. Permanently."

News of the initiative comes as both Los Angeles and neighbouring Long Beach struggle to return to normal. Both port directors have said it may be three months before the logjam is cleared. On Monday morning, there were still 34 ships at anchor outside the two ports, including 24 containerships, one more than on Sunday.

Los Angeles said it had teamed with stevedoring company Pasha, harbour trucking firm Total Transportation Services, and several marine container terminal operators and a core group of major retailers to create the programme, which involves "peeling off" containers of high-volume customers to a near-dock

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yard where they are sorted for destination to inland distribution centres.

"The trucks are doing exactly what everyone needs them to do – make more turns every day," said TTSI president and chief executive Vic La Rosa. "This single step eliminates multiple inefficient moves so cargo flows faster and more reliably."

Jeff Burgin, senior vice president of Pasha Stevedoring & Terminals, said the companies involved "have created something that's going to work for years to come".

Under the initiative, import containers loaded with goods belonging to high-volume shippers are stacked together in a block upon arrival at the port. The terminals expedite TTSI trucks through their gates to retrieve the containers and deliver them to the near-dock yard less than a mile away where they are sorted. The same trucks loop back to the terminals for the next inbound container. The trucks keep boxes moving by delivering outbound containers on the return leg.

International Longshore and Warehouse Union workers handle all gate and terminal operations at the "peel off" yard, including on-site chassis inspection, maintenance and repair.

The port said planning for the new initiative preceded the recent congestion problems that surfaced at all US west coast ports, but it is already helping to clear the backlog of cargo in Los Angeles.

"With bigger ships delivering more cargo in a single call, this programme improves the way we all do business," said Mr Seroka.

In an analysis of the longer-term impact of the disruption caused by a number of factors, the National Retail Federation and Hackett Associates say in their latest global port tracker report that US importers and exporters were still reviewing their supply chain plans for the future, and not necessarily in favour of the west coast.

"The implicit message is that they may maintain their recent shift to the east in order to avoid future disruption when the labour contract is up for renewal again in five years. This, of course, ignores the fact that unions on the east coast also have contracts that expire and need to be re-negotiated," the report says.

On the practical side, a number of factors favour a return to the west coast, the report predicts.. Firstly, the all-water route to the east coast is significantly more expensive and the cost to transport cargo to the midwest by rail from the east pushes up the price even more. Secondly, the time to the point of sale via the all-water route is very much longer than via the west coast. Finally, importers are invested in west coast distribution centres, particularly in the LA/Long Beach area, "and those investments would not easily be abandoned".

Seroka: We have found an efficient way to get containers to their destination that is beginning to pay off.

All of this suggests that despite the frustrations felt about the recent turmoil, " we will likely see market shares shift back to the norm of the past few years as terminal operations return to their previous efficiencies and perhaps show an improvement as a result of the negotiations," the report continues.

"We must also hope that the new super-alliances will also find a more efficient way of making use of their terminals."

Aegean fixes four new product tankers to Stena Weco for five years

Greek owner opts to lock up eco quartet ahead of slew of MR2 deliveries

FOUR new eco-type medium-range product tankers have been chartered from Greece-based Aegean Shipping Management in an en bloc deal to Stena Weco, the joint venture between Stena Bulk and Weco, the Dannebrog group affiliate, *writes Nigel Lowry*.

Verifying one of the biggest recent chartering deals in the sector, industry sources said that the daily rate for the charters lies between $16,500 and $17,000 for each vessel.

The four vessels, branded by George Melissanidis-led Aegean as its Green Fleet, are all of about 50,900 dwt and were built by Daesun Shipbuilding & Engineering.

Green Planet, *Green Sea*, *Green Sky* and *Green Hellas* were delivered by the builder between April and end-July last year.

Since then they have been trading on the spot market. They are due to be delivered to the Stena Weco operation "in the next month or so", said one source.

According to the shipmanager, which is linked to the Aegean Oil group, the optimised vessels have a speed of 13.8 knots and a fuel consumption of 23.1tonnes per day.

Shipbrokers contacted by Lloyd's List said that there were few recent long-term chartering deals that offered a precise comparison.

"It's a very decent rate for five years. It looks like a success story for the owner," said Nikos Varvaropoulos, a senior broker at Optima Tankers in Athens.

He said that the owner could be mindful of a significant number of medium range twos scheduled for delivery later this year.

According to RS Platou Markets, there are currently 368 product tankers on order, against an existing fleet of 2,435 vessels.

But orders aggregating 10m dwt in the 40,000 dwt-52,999 dwt range represent a relatively

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high 18.2% of the live fleet in the segment.

Furthermore more than half the capacity under construction in the segment is due for delivery during the remainder of 2015, according to Platou.

Recent multi-year fixtures of MR2s have included a pair of new Navios Acquisition tankers chartered out for three years at a net rate of $16,294 per day each.

Another Navios sister tanker was fixed for two years at a daily net rate of $14,319 recently.

Apart from the four 'Green' tankers, Aegean's fleet includes two other MR2s, built in 2002 and 2004.

It also manages two handysize tankers – the 28,610 dwt Araevo, which made world news when it was the victim of a tragic attack by a Libyan jet while off Derna in January, an incident in which two crewmen were killed, and the the 34,987 dwt *Rizopan*.

The 50,900 dwt *Green Planet*, one of the four tankers that has been chartered to Stena Weco.

Five-year-old aframax values rise to levels last seen four years ago

Higher average earnings helps boost values

FIVE-year-old very aframax crude tanker values have risen to levels last seen in December 2010, underscoring how the improved crude tanker freight market is boosting vessel values, *writes Hal Brown*.

Five-year-old aframaxes are now worth $43.85m, up from $41.87m at the start of the year, according to the latest Baltic Exchange data.

They were worth $26.22m at the end of March 2013, one of the lowest levels in recent years.

This means that between March 2013 and now, values for these secondhand vessels have risen by a remarkable $17.63m, or more than 40%.

Boosting values has been the performance of the freight market and how much aframaxes can earn on the water.

Lower oil prices has helped spur demand for tankers to carry cargoes.

While not the stellar performers among the crude tankers, compared with some of the high earnings seen for very large crude carriers this year, average aframax spot market earnings so far this year come to $41,845 per day, according to Baltic Exchange data.

The average is taken from aframax benchmark routes: North Sea to Europe, Kuwait to Singapore, Caribbean to US Gulf, southeast Asia to east coast Australia, Baltic Sea to northwest Europe, and the cross-Mediterranean route.

Average aframax spot earnings in the same period in 2014 were $32,564 per day, showing that earnings have risen this year.

Alongside the routes mentioned above, crude exports out of Russian port of Kozmino continue to flow, offering cargo-carrying opportunities for aframaxes.

Brokers reported a batch of Kozmino to Asia fixtures this week, including one for the 2005-built, 115,583 dwt *Sophie Schulte* to haul 100,000 tonnes of Russian crude from Kozmino to north China.

China Oil chartered the tanker, paying a lump sum of $670,000, and the vessel will load cargo at Kozmino on March 20-23.

Rule makers need to think more about shipowners' compliance issues, says IMO contender

Denmark's Andreas Nordseth believes regulators must learn lessons from the difficulties with current sulphur regulations

Nordseth: "We should do a lot better in the future."

ANDREAS Nordseth, head of the Danish Maritime Authority and contender to be the next secretary-general of the International Maritime Organization, has opened the annual Greenship Technology summit calling for regulators to develop future environmental rules with a better idea on how they will be enforced, *writes Craig Eason*.

Mr Nordseth offered the opening address of GST in Copenhagen, having been introduced by Andreas Chrystostomou, acting director of the Cyrus Department of Merchant Shipping, and also a contender for the IMO secretary-general post which will be decided on this summer.

Mr Nordseth pointed directly to the ongoing questions over compliance and enforcement in the emission control areas where the sulphur in fuel limit dropped from 1% to 0.1%.

He said the lesson must be learnt that any future regulations need to be agreed with a full knowledge of how port state authorities and flag authorities would be enforcing the regulations.

"We should do a lot better in the future," he said, adding that there had been a lot of uncertainty over how regulators would be enforcing the sulphur emission rules.

"We could have seen this coming when we drafted the regulation," he added. "So when we make environmental regulation in the future, we should look at the enforcement issue at the same time and therefore be able to see any loopholes."

The issue of how port states will enforce and monitor compliance of the sulphur emission regulations has become a critical issue with some shipowners, with a group of over 30 owners forming the Trident Alliance and calling for robust enforcement to deter unscrupulous owners from deliberately using cheaper fuels with higher sulphur content.

However, while saying that regulators missed a chance to create clear emission enforcement rules, Mr Nordseth pointed in general to the shipping industry's own ability to read general signals in society regarding awareness of the environment.

"Industry has read the signals right and acted accordingly, but there are some tough decisions ahead," he said.

While there are known challenges, the industry has developed CO_2 emission regulations, NO_x emission rules and various discharge rules, making it one of the most regulated industries.

With maritime transport likely to increase in the coming years as global trade increases, he pointed to the inevitable growth in shipping's environmental footprint.

"It is not easy being green. It has not been, it is not and it will not be easy. There are no easy solutions ahead," Mr Nordseth told the GST audience.

One part of the solution will be to ensure that there is better co-operation between regulators and technology companies. He also said shipowners who are at the forefront of environmental developments, the first movers who positively invest in new technologies, should not be penalised.

Given that first movers, whether technology companies or shipowners, make the important first step for the development of new solutions, regulation should pave the way better for them, he said.

China's Zhongchang Marine cancels order with JES yard

Beleaguered shipbuilder told to return $11.2m in prepayments for 47,000 dwt bulker

ZHONGCHANG Marine and Minsheng Financing Leasing have together scrapped a deal for one 47,500 dwt bulk carrier with Jiangsu Eastern Heavy Industries — a main subsidiary shipyard of Singapore-listed JES International — that has just filed for restructuring protection, *writes Cichen Shen*.

Shanghai-listed Zhongchang, a Chinese bulker operator specialising in cabotage trade, booked the vessel via Minsheng in 2014 under a finance leasing agreement, according to an exchange filing.

However, the pair have now decided to cancel the deal due to "JEHI's deteriorated operating conditions, inability to fulfil the contract and default on debt obligations," the operator said.

Zhongchang and Minsheng jointly sent a notification to JEHI on Monday to terminate the contract. They have also requested that the shipbuilder and its guarantee bank unconditionally return all prepayments and interest, which total more than Yuan70m ($11.2m).

The cancellation is likely to add insult to injury for JES.

Zhongchang Marine and Minsheng Financing Leasing have scrapped a deal for a 47,500 dwt bulker with Jiangsu Eastern Heavy Industries.

The company posted losses of nearly Yuan68m in the first nine months of 2014, with net current liabilities totalling Yuan416.4m.

It had suspended trading of its shares since last week in wake of the announcement that JEHI has filed for protection to a local court as the initial step to begin group-wide restructuring.

JES said the subsidiary has sustained considerable financial losses thanks to the declining shipbuilding industry and inadequate internal management.

Zhongchang and Minsheng originally ordered two bulk carriers from JEHI in 2010, but slimmed down the contract to one in 2014 due to prolonged unfavourable market conditions, the filing said.

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