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Private equity exits box shipping on a wave of liquidity

08 Oct 2021James Baker

PRIVATE equity investors are going through a rare period of liquidity in the containership sector and many are taking the opportunity to exit the market.

Containership asset values have soared over the past year as box lines have sought to get their hands on any available capacity to meet cargo demand.

Congestion and delays have removed a large amount of capacity from the market, exacerbating the shortage of tonnage.

Vessels that only a year or two ago were trading at little above scrap value are now selling at multiples of their previous valuations.

For non-operating owners that has also meant skyrocketing charter rates on top of rising asset values, which itself has driven more carriers to look to buy instead.

With the high freight rates a ship can secure in the current climate, paying over the odds for tonnage can be more profitable than chartering the same vessel.

But for private equity, the feeding frenzy marks another sort of opportunity: An exit door.

"These are not the most liquid of assets," AMA Capital Partners managing director Peter Shaerf told Lloyd's List. "The enhanced activity in this sector has given private equity the liquidity to get out."

In a normally illiquid market, the carrier buying activity was an opportunity not to be missed.

"When the window is open, you've got to look at getting out," Mr Shaerf said.

Despite the rapid increase in prices over the past 12 months, many investors would be exiting with only marginal gains, he added.

"If you entered in 2015-2016 and are coming to the end of the five- to seven-year holding period, your returns will be not as dramatic as the price move from last year to this year, because you had so many down years of low earnings," he said, adding the internal rate of return on many investments would be "in the low single digits."

For those with an investment timeline beyond the current crisis, there are also fears of what will happen when the container shipping sector reverts to the mean.

"Shipping has traditionally been cyclical and we've had this endogenous shock that has upset the apple cart in a positive way," said JP Morgan Asset Management global transportation group chief executive Andrian Dacy.

Speaking in a recent webinar, Mr Dacy said that while container shipping was going through a "perfect storm", there were clouds on the horizon.

"The signs are that the US economy is weakening a little bit," he said. "Is the world that dramatically different than it was in December 2019. Yes, in that we've been through coronavirus, but economically it isn't that different, and we weren't experiencing these kinds of container rates then."

Current rates were artificial and would work their way through the system, he added.

Mr Dacy also warned that past experiences made investors keen to exit container shipping now.

“Not long ago, we had a huge overhang of orders that got delivered in the 2010-2020 period,” he said. “That was a really dismal period and a lot of private equity went in. The returns were not great.”

He is concerned that with their windfall profits, the carriers’ recent return to the yards may lead to overcapacity again.

“When an industry that is not that big generates a lot of excess cashflow, where does that money go? If it all then piles back into buying new ships, then you will get a capacity issue. All this cash being made now is the thing that worries me the most.”

That is among the issues that make it unlikely for there to be any new private equity investment in the sector for some time.

“No one in the private equity or investment community is going to rush to invest in container shipping right now,” Mr Shaerf said. “There may be some speculative buying, but my sense is that prices have run too high.”

Charter rates are still high and there is money to be made for those who remain in the business. The good times in container shipping are likely to last throughout 2022, and possibly longer.

Mr Dacy, however, warns against speculating now. “Buying containerships now is heady business that could potentially hurt you,” he said.

Bulk Shenzhen back in operation after repairs

08 Oct 2021 Nidaa Bakhsh

THE 2020 Bulkers newcastlemax that was involved in a collision with another bulk carrier on the Yangtze River has returned to operation following repairs.

The 208,445 dwt, Liberia-flagged *Bulk Shenzhen* (IMO: 9849746) has been at Zhoushan port in China since August 11, according to Lloyd's List Intelligence.

The 2019-built vessel collided with the 2016-built, 81,36 dwt *RB Lisa* (IMO: 9730828) while navigating under pilot on August 2.

The large bulker, which was partly loaded with 103,655 tonnes of iron ore, sustained some steel damage in the bow area above the water line but was able to proceed to its discharge port in Jiangyin under its own engine power.

No loss of life, personal injury, pollution or other environmental damage was reported. The cause of the incident is still unknown.

The Norwegian company said at the end of September that it converted the index-linked charter for *Bulk Shenzhen* into a fixed charter at $61,628 per day for the period from November 1 to December 31, 2021.

Similarly, it converted the *Bulk Sydney* (IMO: 9849758) charter to a fixed rate of $60,260 per day, gross, for the same period.

Both vessels will still earn a premium related to the fuel cost savings from scrubbers, and the company expects average operating cash breakeven of about $14,500 per ship per day for 2021, after general and administrative expenses and vessel costs, and debt service.

Freight rates ease for Golden Week breather

08 Oct 2021 James Baker

THE Golden Week holiday in China has provided a rare moment of relief in freight rates for shippers on the transpacific, but it is too soon to tell if there will be any meaningful easing of rates for the longer term.

Figures from the Shanghai Shipping Exchange show that freight rates were largely flat this week. The Shanghai Containerised Freight Index rose just 0.7%, with a 2.3% increase in Asia-Europe rates driving the index up.

Other sources, which include surcharges in their indices, reported steep falls.

"On the west coast, rates were previously around $18,000 per feu and have now dropped to $11,000 per feu," said Zencargo chief commercial officer Richard Fattal.

US east coast rates had also eased, albeit from a higher base, and now stood at $18,000-$20,000 per feu.

Data from digital forwarder Shifl also pointed to a substantial drop on the transpacific, with rates down $9,000 per teu, from $17,500 per feu to $8,500 per feu.

"With Chinese manufacturers throttling production due to the power crisis and the off-season coming into view, competition for freight capacity in terms of containers and vessel space has fallen off, moving prices down by up to 51.4% on some routes," Shifl said.

A shortage of electricity in China and government emissions targets had reduced output of goods, alongside the traditional closure for the holidays.

Shifl warned, however, that the temporary relief could lead to a backlog of unfulfilled orders.

"Chinese energy rationing policies and the impact of coronavirus shutdowns are throttling factory output meaning that US and EU manufacturing orders are not being filled on time," it said. "While US and EU businesses scramble to diversify their supply chains, inventory shortages and price increases will become more pronounced."

Mr Fattal also pointed to the more than 100 containerships waiting to berth at Shanghai amid growing congestion in Chinese ports.

"These delays could raise the risk of another bullwhip effect on container trades to Europe and North America," he said. "Delays in schedules are estimated to be 22 days for the worst cases."

On the US west coast, the easing of output from China has helped reduce congestion at Long Beach and Los Angeles, although waiting times of up to two weeks remain in place.

The latest figures from the Marine Exchange of Southern California showed 59 containerships at anchor or drifting awaiting berths, down from peak of 73 on September 19.

Nevertheless, US imports are likely to remain at near-record levels this month, although they could dip back later in the year as congestion slows the movement of cargo, according to the latest report from the National Retail Federation and Hackett Associates.

"Just when we thought things couldn't get any worse with the logistics supply chain, we've been proven wrong," Hackett Associates founder Ben Hackett said. "From power outages and port shutdowns in Asia to backed-up ships and shortages of truck drivers in the US, there are few positive signs that the movement of consumer goods or the supply of inputs needed for industrial production is getting better."

Ports covered by the NRF's Global Port Tracker are forecast to handle 2.2m teu in October, down 0.3% on last year, when the economy was bouncing back after the first wave of the pandemic.

"The congestion and disruption come in the middle of the peak season for shipping, when retailers stock up on holiday merchandise each year, but many retailers began bringing in holiday goods this summer to be sure sufficient inventory will be available," it said.

Hapag-Lloyd vessel not linked to California oil spill

08 Oct 2021 Eric Watkins

HAPAG-Lloyd has been cleared of any involvement in an oil spill off Southern California after the inspection of one of its ships that was in the area at the time.

The German carrier said US Coast Guard officials boarded the the 2000-built, 4,890 teu *Rotterdam Express*(IMO: 9193317) in the port of Oakland on October 6. The crew was interviewed and the ship's navigation systems were examined before the vessel received the all-clear.

A rupture in the pipeline during the past weekend resulted in as much as 131,000 gallons of crude being spilled off the beach community of Huntington Beach. The spillage has now been staunched and clean-up is under way.

"We are no longer under investigation," Hapag-Lloyd spokesperson Nils Haupt said in an emailed statement. The containership was released by the US Coast Guard and is "on her way to Mexico."

Mr Haupt told Lloyd's List that before its October 4 departure to Oakland, the *Rotterdam Express* had anchored at the SF-3 anchorage, one of the farthest points south of the ports of Los Angeles and Long Beach, "as directed by San Pedro Traffic" on September 21.

He said the ship's anchor was dropped "exactly as requested and confirmed" by the Marine Exchange of Southern California, which manages vessel traffic for the region. After that, the vessel did not move from its anchorage and did not pass over the pipeline.

"During anchorage, no oil in the water has been spotted," he said.

Suspicion fell on shipping as the possible cause of the oil spillage after Martyn Willsher, chief executive of Amplify Energy Corp, which owns the pipeline operating company, said that an anchor striking the pipeline was "one of the distinct possibilities".

“We have examined more than 8,000 feet of pipe and we have isolated one specific area of significant interest,” Mr Willsher told local media. “There’s more information to come, but I think we’re moving very closely to the source and the cause of this incident.”

Amplify Energy faces a lawsuit filed in the US District Court Central District of California, Western Division, for damages linked to the spill.

A separate claim, filed in federal court in Santa Ana, alleges “poor maintenance of the pipeline” resulted in public beaches being polluted and damage to private property along the coast.

Eastern Pacific Shipping acquires VLOC duo from Cara Shipping

08 Oct 2021 Inderpreet Walia

EASTERN Pacific Shipping, the Singapore-based shipowner and shipmanagement company, has expanded its fledging presence in the dry bulk market.

It has bought 2015-built, 250,345 dwt *Stella Ivy* (IMO: 9741774) and 2016-built 250,380 dwt *Stella Bella* (IMO: 9741786) from Cara Shipping for around $58m and $60m respectively, market sources have confirmed to Lloyd’s List. Both the ships have been built in China.

The duo have been currently chartered by mining giant BHP, with *Stella Bella’s* contract expiring in 2026 and *Stella Ivy’s* in 2027.

Lloyd’s List understands that Eastern Pacific Shipping will continue with the contracts.

Eastern Pacific Shipping has been approached for comment.

The move is significant as it illustrates a shift towards capesize and larger vessels. The company is expanding its bulker fleet with bigger newbuildings and secondhand ships, while exiting the supramax and handysize carriers.

The company purchased two capesizes this year and one in 2020.

The ships include — the 2013-built 181,412 dwt *Mount Logan* (IMO: 9641900) previously known as *Frontier Expedition*, the 176,820 dwt, 2011-built *Mount K2* (IMO: 9546980), previously known as *Frontier Falcon*, and the 180,242 dwt, 2010-built *Mount Song* (IMO: 9564279), previously known as *Graceful Madonna*.

The latest transactions will leave Eastern Pacific Shipping with a fleet comprising of three very large ore carriers, a newcastlemax bulker, 16 capesizes, two panamaxes and a handysize bulker, in addition to the 13 newbuildings, which will run on liquefied natural gas and conventional fuels.

The company’s newbuilding programme comprises 70 vessels, of which nearly 60 are dual-fuel tonnage. Those include dry bulkers, containerships, gas carriers and tankers.

Shipping needs a new code of conduct on seafarer rights

07 Oct 2021

THE global pandemic has thrust the conditions of seafarers and efforts to protect their rights into the public spotlight.

Hundreds of thousands of them have been stuck on board their vessels, unable to disembark at the end of their contracts, as many states refused passage of departing crews through their ports due to coronavirus-related restrictions. An equivalent number were unable to board ships to start tours of duty.

By late 2020 it was estimated that as many as 400,000 seafarers were still working beyond their contracts, with no indication of when they might be able to go home. That figure is probably still as high as 150,000.

Despite the injustices of their current treatment, seafarers faced difficult working conditions long before the pandemic.

This is the case despite the critical importance of the almost two million seafarers of all nationalities to the world's economy, where over 90% of traded goods are carried by sea.

Seafarers face many significant work-related challenges, from high recruitment fees, unfair terms of employment and workplace discrimination, risks of piracy, to stress, isolation and lack of communication with home, harassment, and ship abandonment.

Added to the complications is the overwhelming combination of countries and companies that influence worker welfare. There are often many stakeholders involved in a single voyage, leading to issues around responsibility and accountability.

For example, a seafarer originally from the Philippines might be employed by a crewing agency based out of Singapore, on a ship owned by a Swiss shipowner, flagged in Panama, managed by a Norwegian company, chartered by an Italian firm, and carrying goods from China to Kenya.

And for a large portion of that journey, the ship will be in international waters. The result is that responsibility for seafarers' welfare and rights is too often unclear and lacking in priority.

Providing a safe, secure and healthy work environment for seafarers worldwide — not least by ensuring these workers are better protected against future unforeseeable global events like the pandemic — is the responsibility of us all.

Although predicting such threats to seafarers' rights is not an exact science, governments and companies involved can and must do more to anticipate risks and better protect and respect seafarers' rights in all foreseeable circumstances.

This is not only the right thing to do, but also in line with shipping's self-interest, as a better working environment will help attract talent and decrease the risk of future workforce shortages.

BIMCO and the International Chamber of Shipping have recently warned that the industry must significantly increase training and recruitment levels if it is to avoid a serious officer shortage, with 90,000 additional seafarers needed by 2026.

Combatting current and future risks to seafarers' rights and wellbeing requires new forms of cooperation and joint action by many actors.

Later this month, the Sustainable Shipping Initiative and the Institute for Human Rights and Business will release a landmark code of conduct and self-assessment tool for the shipping industry, in collaboration with the Rafto Foundation and RightShip.

This initiative is the culmination of an eight-month consultation process with a wide range of stakeholders, including cargo owners, civil society, charterers, seafarers' associations, shipowners and operators, and others.

With these new tools, the industry will have a common baseline against which due diligence efforts can be assessed and improvements made over time.

TEN confirms first LNG-powered tanker order with aframaxes at Daehan

07 Oct 2021 Nigel Lowry

Tsakos Energy Navigation has confirmed an order for up to six dual-fuelled aframax tanker newbuildings as it posted a second-quarter loss.

The New York-listed company provided scant details of the new tanker project, but said that the new liquefied natural gas-powered aframaxes had been ordered against long-term employment to "a major oil concern."

Further details about the order, which has been placed with South Korean yard Daehan Shipbuilding, have been reported by brokers and verified independently by Lloyd's List.

While the first four, firmly contracted units are for 115,000 dwt crude carriers, the two optional ships may be converted to long-range-two product tankers at an estimated additional cost of $3m per ship.

Brokers have given the price of the first four tankers as about $75m each. The tankers, which are the Greece-based owner's first dual-fuel orders, are scheduled for delivery in the last quarter of 2023.

The tankers will go on charter to Norwegian state-owned energy company Equinor, as it has been known since 2018 when the name was changed from Statoil. TEN has a longstanding relationship with the charterer in the aframax segment.

If all six of the tankers are built, TEN projects that revenues from the contracts could reach about $350m.

Chief operating officer George Saroglou said that the move continued the company's "countercyclical investment strategy" and was "capitalising on our strong cash balance and access to capital."

Mr Saroglou described the first months of 2021 "the worst tanker market in recent memory."

The company posted a loss of $13.8m before booking additional non-cash losses of $5.8m on the sale of three tankers.

Operating expenses increased by a "manageable" $3.5m, mainly due to bringing forward of dry dockings for four vessels.

Second-quarter revenues fell to $136.4m from $190.8m last year.

For the first half of the year, it said that a balanced chartering strategy whereby 60% of vessels were kept under secure employment helped it weather the pressures of a poor market and contain half-year losses at $18.7m before accounting for the losses on disposals.

Overall operating costs declined in comparison with 2020 and the company was also able to point to a 5% reduction in general and administrative expenses, and containing the operating loss, excluding vessel sales, to just $4.9m.

The company reduced its total debt by a further $87m during the first six months. It continued to be bullish on the prospects of tanker markets to catch up to the recovery experienced spectacularly in dry bulk and containers.

“The long-awaited resumption of air travel and overall economic activity is setting the foundations for a tanker lift-off,” it said. “We are seeing increased activity from major end-users and in particular long-term business.”

According to Mr Saroglou, the majority of the fleet is now positioned to be able to take advantage of any recovery in the market and the company was “poised to be a primary beneficiary of the tanker upturn.”

UNITED STATES – POLLUTION

08 OCT 2021 London, Oct 8 -- A press report, dated today, states: Investigators searching for the cause of an oil pipeline break off the Southern California coast have pointed to the possibility that a ship anchor dragged the line across the seabed and cracked it, but two videos released so far provide only tantalizing clues about what might have happened 100 feet (30 meters) below the ocean surface. A Coast Guard video released Thursday appears to show a trench in the seafloor leading to a bend in the submerged line, but experts offered varied opinions of the significance of the brief, grainy shots. An earlier video revealed a 13-inch (33-centimeter) rupture in the line, but the pipe showed no evidence of damage that they said would be expected from a collision with a multi-ton anchor from cargo ships that routinely move through the area off the ports of Los Angeles and Long Beach. According to reports, the slight bow in the line displayed in one video ‘doesn’t necessarily look like anchor damage. When a pipeline is hit by an anchor or other heavy object that typically results in physical damage that may lead to a fracture. Investigators, meanwhile, continued to hunt for the cause of the break that spilled tens of thousands of gallons of crude oil off the famed surf breaks of Huntington Beach, as well as determine what happened in the crucial early hours after reports of a possible oil spill first came in. The Coast Guard on Oct 7 slightly revised spill estimates to at least about 25000 gallons (95,000 liters) and no more than 132000 gallons (500000 liters). The Coast Guard is investigating the incident with other agencies as a ‘major marine casualty” due to the potential involvement of a vessel and damages exceeding $500000 as of Oct 7. It said they will determine if criminal charges, civil penalties, or new laws or regulations are needed.

08 OCT 2021 London, Oct 8 -- A press report, dated Oct 7, states: The United States Coast Guard Commandant has designated the oil spill as a major marine casualty “due to the potential involvement of a vessel” and resulting damages, the Coast Guard said on Oct 7. A joint investigation will be led by the Coast Guard, with assistance from the National Transportation Safety Board (NTSB), Bureau of Safety and Environmental Enforcement (BSEE), and the Pipeline and Hazardous Materials Safety Administration (PHMSA). Marine casualties are categorized based on their severity to include reportable marine casualties, as the lowest level of severity, followed by serious marine incidents and major marine casualties, the highest level. A Major Marine Casualty is defined as a marine casualty

involving a vessel that involves the loss of six or more lives; the loss of a mechanically propelled vessel of 100 or more gross tons; property damage initially estimated as $500,000 or more; and/or serious threat, as determined by the Commandant and concurred with by the NTSB chairman, to life, property, or the environment by hazardous materials. The "Pipeline P00547 Spill" has been deemed a Major Marine Casualty due to the potential involvement of a vessel and the resulting damages estimated more than $500,000. The oil spill was reported off Newport Beach and Huntington Beach broke on Oct 2, with the Coast Guard reporting that it was investigating reports of a 13 square mile oil just offshore. According to a report, released by a Unified Command responding to the incident, divers and ROV footage confirmed that a 4,000-foot stretch of the more than 17-mile-long San Pedro Bay Pipeline was found to be displaced on the ocean floor by 105 feet, with a 13-inch gash that is believed to be the source of the oil spill that has impacted vast stretches of Southern California's pristine beaches. On Oct 4, the Department of Transportation's Pipeline and Hazardous Materials Safety Administration issued a Corrective Action Order to the pipeline operator, Beta Offshore, a subsidiary of Amplify Energy, disclosing that the San Pedro Bay Pipeline was ruptured at approximately 0230 hrs, PDT, Oct 2, approximately 700 barrels of crude oil was estimated to have been released into San Pedro Bay, although Beta Offshore has estimated the maximum potential release to be 3,134 barrels.

07 OCT 2021 London, Oct 7 -- A press report, dated today, states: The U.S. Coast Guard inspected a containership in the Port of Oakland suspected as a potential vessel of interest in the Southern California oil spill. However, the ship is currently underway to Mexico and its involvement in the incident has apparently been ruled out, according to a spokesperson for the shipping company. Meanwhile, Hapag-Lloyd has said its ship was in the area but doesn't believe it was responsible as it dropped anchor back on Sep 21 and did not move until after the oil spill was confirmed. An update from the company said its ship has now been ruled out. The vessel was anchored at as directed by San Pedro Traffic, at 0554 local time, on Sep 21. The anchor was dropped exactly as requested and confirmed by San Pedro Traffic, Hapag-Lloyd spokesperson said. During the period in question, the vessel has not moved from anchorage and has not passed over the pipeline. During anchorage, no oil in the water has been spotted. Hapag-Lloyd is fully co-operating with all authorities involved, he also said their ship had now been ruled out. And are no longer under investigation. Officials said the cause of the spill remains under investigation. The vessel has departed Oakland and is underway to Mexico's Port of Manzanillo.

07 OCT 2021 London, Oct 7 -- A press report, dated Oct 6, states: Some of the crude oil that spilt from a pipeline into the waters off Southern California has been breaking up naturally in ocean currents, a Coast Guard official said on Oct 6, as authorities sought to determine the scope of the damage. Coast Guard Petty Officer Steve Strohmaier said some of the oil has been pushed to the south by currents. Storms earlier in the week may also have helped disperse the oil, which he said could make it more challenging to skim as it spreads out. "Most of this oil is separating and starting to float further south," he said while accompanying reporters aboard a boat to the scene of the spill. "The biggest problem is the uncertainty, the amount that leaked into the water. We are at this point unsure of the total amount that leaked out." The pipeline operator, Amplify Energy Corp., has publicly pegged the maximum amount of the spill at 126,000 gallons (572,807 litres) of heavy crude. But the company told federal investigators with the Pipeline and Hazardous Materials Safety

Administration that initial measurements put the total only around 29,400 gallons (111,291 litres). The water and shoreline are still off-limits in Huntington Beach and several other areas, but people are allowed on the sand. A few globs of oil were visible along the shoreline, but no smell remained. Investigators have said the spill may have been caused by a ship's anchor that hooked, dragged, and tore open an underwater pipeline. Federal officials also found that the pipeline owner did not quickly shut down operations after a safety system alerted to a possible spill. “The Coast Guard is looking into a multitude of factors that may have caused the pipe to rupture, including corrosion, pipe failure, or an anchor strike," Strohmaier said.

07 OCT 2021 London, Oct 7 -- A press report, dated Oct 6, states: The U.S. Coast Guard inspected a vessel in Oakland focusing on the possibility that a ship's anchor struck a pipeline, causing an oil spill in California, on Oct 6. Amplify Energy, which owns the pipeline and connected rigs, said on Oct 5 that oil appeared to have leaked through a 13-inch (33 centimetres) gash in the pipe, which was "pulled like a bowstring" about 105 feet from where it should have been.

06 OCT 2021 London, Oct 6 -- A press report, dated Oct 5, states: The pipeline that leaked tens of thousands of gallons of oil into the water off Southern California was split open and apparently dragged more than 100 feet along the ocean floor, possibly by a vessel’s anchor. The segment of the pipe that was dragged was three-quarters of a mile (1.2 kilometers) long, and the gash was over a foot (30 centimeters) wide. The break in the line occurred about 5 miles offshore at a depth of about 98 feet (30 meters) beneath the surface. Those findings were included in an order from the Department of Transportation that blocks the company that operates the pipeline from restarting it without extensive inspections and testing. The order did not identify the source of the investigators’ information, and agency officials did not immediately respond to a request for further comment.