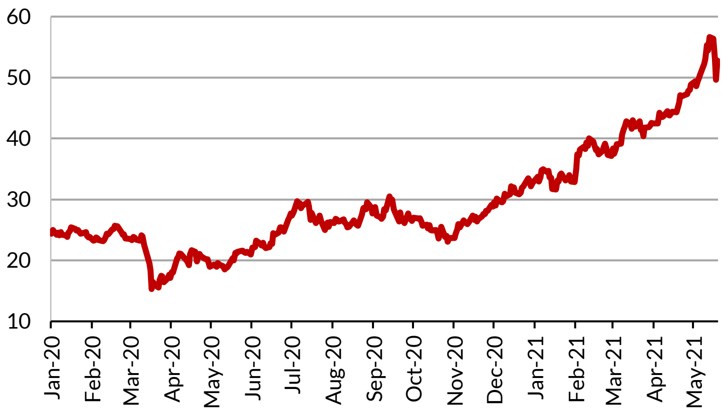
Counting the cost of emissions

Weekly Tanker Market Report

In September last year the European Parliament voted for the inclusion of greenhouse gas (GHG) emissions from ships over 5,000 gross tonnes in the emissions trading system (EU ETS) by 1 January 2022. In the months that followed, EU regulators completed the consultation period and are progressing with the impact assessment. The EU is expected to make final legislative proposals in July this year and despite disruptions caused by the global pandemic, so far there are no indications that the original implementation date could be delayed. Time is running out for the shipping industry to prepare; yet, while the policy specifics are still work in progress, important details remain vague and uncertain.

Most importantly, there is a lack of clarity of how shipping carbon emissions will be calculated, particularly for international voyages in/out of the EU and whether there will be any allowances. For example, in the early 2010s, the EU was persuaded to water down its ETS regulations for the airline industry. Just intra-EEA flights were included in the ETS, while the sector also was given a large amount of free allowances.

ICE Carbon Emissions (EUA) Allowances (Euro/tonne)



While shipping waits to see the final legislative proposals from the EU, we can only speculate about the final outcome. However, if the industry is to be included in the ETS, this undoubtedly will lead to an increase in costs. Carbon prices have more than doubled since October last year, reaching an all-time high of €56 on 14 May and are currently trading at just over €50. Whist it is still uncertain whether EU ETS will apply to intra, just the EU component or the whole voyage, assuming just intra EU trade and ETS price at €50, the carbon cost of shipping 80,000 tonnes of crude from Mongstad to Rotterdam (slow steaming non eco vessel), could reach €46,000 or €0.58/tonne. On a longer haul voyage, for example shipping the same cargo from Mongstad to Trieste, the carbon cost is higher, assessed at €$138,250 or €$1.73/tonne. For smaller tonnage, absolute carbon costs of shipping on a like-for-like basis are lower due to reduced bunker consumption; yet, smaller cargo sizes are keeping the $/tonne cost elevated. Using the same carbon price assumption, the emissions' cost of shipping 37,000 tonnes of clean products from Cartagena to Lavera could reach €21,750 or €0.59/tonne. On a longer haul voyage from Cartagena to Rotterdam the cost is higher, nearly €54,000 or €1.46/tonne. There are of course plenty of sensitivities in this analysis. Carbon prices could rise or fall, while emissions generated depend not just on distance travelled but also on bunker consumption. As such, a greater focus on eco vessels is likely to emerge, as these units offer lower bunker consumption and hence reduced emissions.

Overall, the inclusion of shipping in the EU ETS will reduce arbitrage opportunities for voyages involving European ports and potentially price certain routes out of the market, particularly longer haul trades, if this aspect is not addressed by EU regulators. A greater exposure to currency risks is also to be expected as both tanker shipping and the underlining commodity is priced in US dollars, while ETS is traded in Euros. From a tanker perspective, perhaps the most critical question is who will be liable to pay extra costs? The introduction of emissions control area in the North Sea and the Baltic saw the higher cost of burning 0.1% sulphur bunker fuel being passed on to the charterer. The situation today could be no different. After all, tanker supply/demand conditions and the resulting TCE earnings are the main market drivers, and if the owners' spot returns for trading in Europe are lower than elsewhere, the migration to more profitable trades is inevitable, raising costs for intra EU trades.

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Crude Oil

Middle East

A far busier week for the VLCC tonnage where a combination of Charterers finishing off their May programmes combined with a healthy start to their June programmes has provided Owners the opportunity to furnish a mini recovery. Actual returns still remain rather weak but it is a step in the right direction. Last done to the East is 270,000mt x ws 36 and again it is estimated a voyage West would be around 280,000mt x ws 19.5 to the US Gulf. A burst of early June cargoes loading Basrah/Europe had initially consolidated levels at 140,000mt x ws 17.5 only for rates to further slip towards the end of the week for an ex DD vessel fixing at the equivalent of ws 14. Rates to the East continue to be no better than 130,000mt x ws 58. Aframaxes have remained active and rates have subsequently continued to inch up in the AGulf this week. Rates close the week at around 80,000mt x ws 92.5-95 level.

West Africa

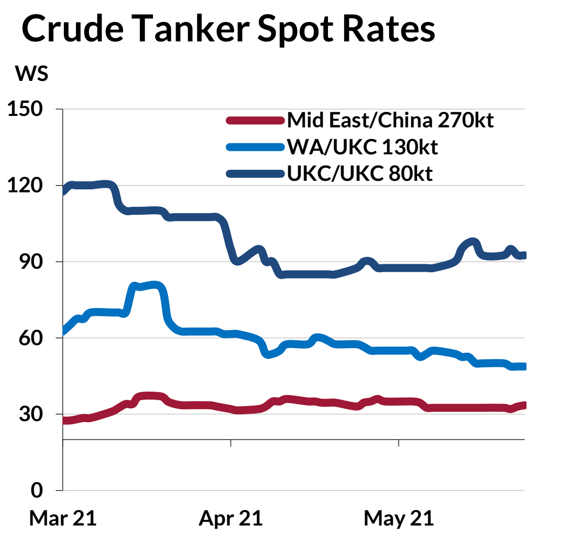
Not an overly active week for VLCCs but, with all the excitement coming from the AGulf the effects will inevitably reverberate here and further afield. Last done levels currently stand at 260,000mt x ws 35 for a voyage East. We would expect this level to gently move up to accommodate for the excitement seen elsewhere. Suezmax activity has been deceptive this week, with many Charterers reverting to picking off Owners under the radar in a bid to conclude as many deals as possible below 130,000mt x ws 50 to Europe. Although the availability of tonnage has been pruned there remains sufficient tonnage to keep levels rangebound going into next week.

Mediterranean

Political instability provided the backdrop for a small rally in the Mediterranean and Black Sea for Aframax tonnage. The reality is the fundamentals do not support a continuation of this. The tonnage list has been heavily trimmed but as loading dates move away from Owners, the stark reality is those extra points sought will be worthless with extra waiting days. For now, Black Sea rates have moved up from 80,000mt x ws 90 to ws 95 and X-Med voyages have crept up to ws 87.5. However, with a weekend restocking of tonnage further moves are unlikely into the next early next week. The Suezmax trend for rates spiralling down has continued again this week against the backdrop of too many free of cargo vessels operating in a weak Atlantic market. Charterers have achieved $2.15 million for a Libya to Ningbo voyage and 130,000mt x ws 48.75 to Europe. Suezmax tonnage still remains more competitive than Aframax tonnage for transatlantic discharge, with fixtures being concluded 130,000mt x ws 33.5.

US Gulf/Latin America

Aframax levels have continued to bounce along the bottom, with only a few transatlantic cargoes coming to the surface. Levels have stuttered at around 70,000mt x ws 77.5, with short haul runs around 70,000mt x ws 100. One glimmer of hope for Owners will be potential weather disruption expected on the horizon, although with the build-up of available tonnage it may have in fact very little affect. VLCC levels look as though there is potential for a slight recovery on the back of what has developed elsewhere, whether this encourages some Charterers to venture in earlier than they would have usually liked remains to be seen with current levels expected to be around $4.45 million for a voyage to the Far East.



*All rates displayed in graphs in terms of WS100 at the time

North Sea

Aframax tonnage in the North has had somewhat of a tepid week. Kicking off with high hopes for Owners with stronger Baltic rates than initially expected. Yet this did not last long, with little to support these higher numbers. There is some expectation that June could offer a fresh breeze for Owners . Currently X-North Sea trades at 80,000mt x ws 90 level and Baltic/UKCont 1000,000mt x ws 67.5, whether these levels are sustainable into next week will be tested with early June cargoes.

Clean Products

East

Steady on the LR1s this week, UKCont been done a few times at $1.35 million and TC5 is steady at 55 x ws 90. The tonnage list has plenty of ships to support the open stems and some have been surprised that Charterers haven't been more aggressive at the levels going on subs. However, Owners currently are reluctant to budge and expect that the busy MR segment will see Charterers look to the larger ships for MR stems next week.

The LR2 sentiment is driven partly by a strong backhaul number done earlier this week, $1.85 million ex Korea gives Owners a benchmark to aim for ex Middle East and $1.8 million levels are the aim, but yet to be realised. Although bigger Owners such as Scorpio aim for 75 x ws 100, there are alternatives for Charterers at this stage so the market remains flat until we see the next round of cargo volume.

A very busy week for the MRs, with 30 fixtures and 12 public cargoes outstanding to finish the week. Furthermore, plenty is going on off market with Charterers quoting out to early June to hedge against further increases in rates. Look out for TC12 being the driver for a heavier market. More Owners are taking a stance that they won't load ex India (due to the covid situation there) and this will further drive TC12. The prompt list this side of Singapore is short and Owners ideas climb with each fresh cargo quoted. The slight mark on this perfect picture is the state of the LR1 market and the large volume of tonnage available comparative to the MRs.

Mediterranean

A positive week for the Handy Owning fraternity, with EMed/Black Sea continuing to be the driving force here. With fixing window tonnage very tight around EMed in particular, Owners were able to capitalise and in exchange for safe itineraries, rate gains were seen. 30 x ws 190 was achieved ex Black Sea on Tuesday and has consistently traded at this level (which has been the peak of the market), with 30 x ws 180 being achieved ex EMed. WMed, however, much like previous weeks, has been quieter and coupled with more tonnage on offer has led to a split market where 30 x ws 165-170 levels are achievable. Monday will bring a replenished list, but it will also likely bring end month influx of stems around Greece/Black Sea/Turkey, which will keep Owners ideas high.

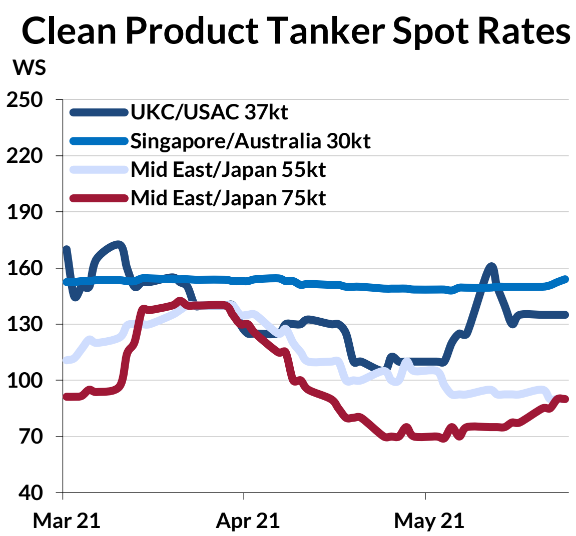
It seems to be a similar story to previous weeks where the Med MR list has been tight enough to keep rates trading north of where TC2 is. We started the week off at the 37 x ws 145 mark transatlantic and, with TC2 softening to 37 x ws 135 levels, this gave Charterers the ammunition to cause rates to slip to 37 x ws 140 levels transatlantic with +10 achievable to WAF. A bit of stability has been found this week but, with cargoes on the thin side and ballasters plaguing the list on Monday, it's likely the pressure will be on.

UK Continent

Little excitement across this week for the MRs, as once we slipped to 37 x ws 135 for transatlantic on Monday, the market continued to trade sideways. Small variations have been seen across the week due to last cargoes or discharge/reload but in general rates have remained stable with WAF still holding a 10 point premium. The second half of the week has seen little enquiry and certainly feels once Charterers hit the early June laycans next week, they will be looking to chip away at Owners resolve with a healthy number of ballasters from the States on the horizon, but for now we hold tight here.

Not been the most exciting week for Handies plying their trade in NWE as once again there has been enough tonnage available in order to cater for volumes throughout. Ships continue to be taken under the radar on COAs ex Baltic meaning TC9 traded flat at 30 x ws 120 at the start of the week. A restricted cargo ex Baltic enabled one Owner to fix 30 x ws 130, which did result in standoff between both parties with Owners pushing for around 30 x ws 125-130 levels but Charterers holding for 30 x ws 120 for natural cargoes. There has been a lack of fixing opportunities for X-UKCont and UKCont/Med voyages forcing a few to ballast down south to the Med to try and capitalize on the higher numbers being fixed. Expect rates to settle back down next week as the 1-5 June Baltic window will be worked.

A rather lacklustre week in this UKCont Flexi market as cargo enquiry remains slow and the snippets of action we have seen have been kept under wraps. Throughout the week rates in this market have tracked in line with the Handies, with the call for a X-UKCont run currently around the 22 x ws 150-155 levels. Owners will be hoping that week 21 can bring them some more fortune but for now the market remains Handy driven.



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Dirty Products

Handy

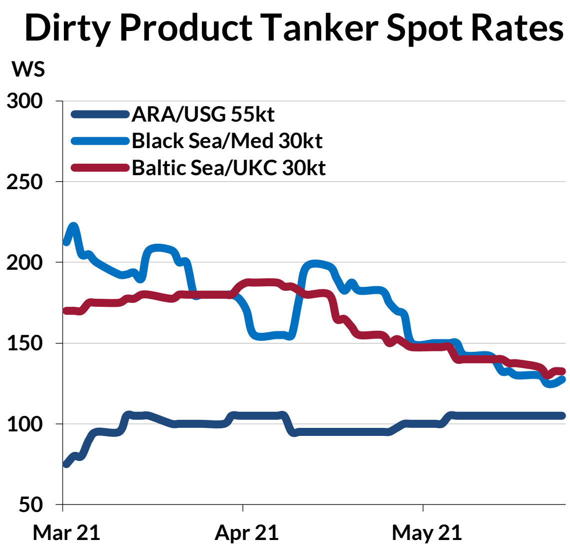
Coming into the week both the Med and Continent tonnage lists were looking rather long, with a perceived inevitability of rate reductions to follow. Focusing for the moment on the Med, indeed this did transpire to be correct. The market was dealt a further blow where a distressed ship took an eyebrow raising low rate, although confidence did rebound quickly dismissing this deal as anything but an anomaly due to the vessel in question's "situation". That said, hitting lows of ws 125 ex Black Sea, the market did receive an injection of pace for 25/30 dates, where at time of writing, not only have the prompt units pretty much all cleared out, but we have seen a rebound of +2.5 points. Conditions in the Continent have also shown some resistance where having suffered some negative correction, Charterers were caught slightly off guard for approved tonnage able to make Baltic dates for laycans just before end month. That said, this tightening of the list is yet to correlate to any noticeable rate increment, but it certainly has made owners think about trying to price their ships more positively in the short term.

MR

If this week were one of those shipping calendars we all have in offices, (the ones you rip the pages off when you move into the next month), then there would certainly be some loud sounds of paper scrunching going on. A pretty lacklustre performance in both the Med and Continent, with the Med dropping to sub ws 110, and the Continent being reduced whereby it just about managed to hold on to triple digit ws rates. Again, for this sector sentiment is being influenced by the surrounding Handies but perhaps with the tonnage lists being kept moving what we have seen this week could act as stabiliser for conditions preventing further decline.

Panamax

Something pretty seismic happened this week, which has had a dramatic influence on how we cover stems on this side of the water. Values in the US plummeted, wiping away the disparity in earnings between the two markets. The significance of this is that over the past few months, we have been reliant on natural tonnage to cover European cargoes and, with supply dwindling we were on the cusp of being forced to think of alternatives in order to cover - or pay more to secure US ballasters. Now, however, as long as you adjust lead time to bring a ballaster over, a degree of normality has been restored to market. Fingers crossed this will now ease Charterers fears for covering on Panamaxes, bringing back some frequency lost to the Aframaxes.



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	May 20th	May 13th	Last Month*	FFA Q2
TD3C	VLCC	AG-China	**+3**	35	32	34	35
TD20	Suezmax	WAF-UKC	**-2**	49	51	59	54
TD7	Aframax	N.Sea-UKC	**-5**	91	96	86	91

Dirty Tanker Spot Market Developments - $/day tce (a)

			wk on wk change	May 20th	May 13th	Last Month*	FFA Q2
TD3C	VLCC	AG-China	**+3750**	3,250	-500	2,250	3,750
TD20	Suezmax	WAF-UKC	**-750**	1,500	2,250	7,000	4,250
TD7	Aframax	N.Sea-UKC	**-3250**	-1,500	1,750	-2,750	-1,250

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	May 20th	May 13th	Last Month*	FFA Q2
TC1	LR2	AG-Japan	**+15**	91	76	80	
TC2	MR - west	UKC-USAC	**+3**	135	133	109	131
TC5	LR1	AG-Japan	**-4**	89	93	106	106
TC7	MR - east	Singapore-EC Aus	**+5**	155	150	150	151

Clean Tanker Spot Market Developments - $/day tce (a)

			wk on wk change	May 20th	May 13th	Last Month*	FFA Q2
TC1	LR2	AG-Japan	**+5500**	8,500	3,000	4,750	
TC2	MR - west	UKC-USAC	**+750**	6,750	6,000	2,750	6,000
TC5	LR1	AG-Japan	**-250**	4,500	4,750	8,250	8,500
TC7	MR - east	Singapore-EC Aus	**+1250**	9,000	7,750	8,000	8,500

(a) based on round voyage economics at 'market' speed

ClearView Bunker Price (Rotterdam VLSFO)	**-14**	471	485	474	
ClearView Bunker Price (Fujairah VLSFO)	**-10**	486	496	488	
ClearView Bunker Price (Singapore VLSFO)	**-23**	476	499	487	
ClearView Bunker Price (Rotterdam LSMGO)	**-5**	536	541	506	

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