

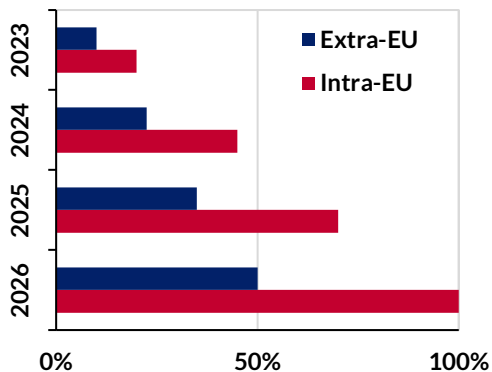
Regulatory Nightmare

Weekly Tanker Market Report

Back in July, the European Union (EU) finally unveiled its much-anticipated plans to meet its climate ambitions, which for the first-time folded shipping into the Emissions Trading Scheme (ETS). The strategy also proposes to expand the Energy Taxation Directive (ETD) to bunker fuels and launch a new scheme to encourage the uptake of low carbon fuels, called FuelEU Maritime. Collectively these three initiatives will substantially increase the regulatory burden on shipping companies trading to, from and within the EU, with the ETS and ETD coming into force at the same time as the IMO’s carbon intensity indicator (CII) and energy existing ship design index (EEXI) in 2023. Evidently shipping companies will feel the regulatory heat like never before. So, what do these EU initiatives mean for shipping companies?

First it is important to define what ‘shipping company’ actually means. Under the ETS, the shipping company is defined as “any organisation or person, such as the manager or the bareboat charterer, that has assumed the responsibility for the operation of the ship and has agreed to take over all the duties and responsibilities imposed by the International Management Code for the Safe Operation of Ships and for Pollution Prevention (the ISM Code)”. However, the EU notes that the “shipping company could, by means of a contractual arrangement, hold the entity that is directly responsible for the decisions affecting the CO2 emissions of the ship accountable for the compliance costs, i.e. the entity that is responsible for the choice of fuel, route and speed of the ship.” By default, the technical manager is usually responsible for the ISM code but has little commercial influence over the vessel. Thus, it would be expected that in most instances, a clause would be inserted into the charter party to hold the charterer accountable for compliance costs, even if the administrative burden falls to the technical manager.

Offsetting Requirements under the ETS



It is then important to consider what the offsetting obligations might be. Under the ETS, shipping companies will be required to buy ETS credits to offset 100% of their emissions for intra EU voyages and 50% for inbound or outbound voyages. However, during the first year companies will only be required to surrender credits for 20%, rising to 100% by 2026. The ETS will only apply to vessels over 5000GT, which means smaller coastal vessels will be able to trade without having to offset emissions and could gain an economic advantage over slightly larger vessels. From a trading perspective, vessels with shorter ballasts prior to loading in the EU could be the most attractive due to lower offsetting requirements under the ETS.

Significantly, the ETS only addresses carbon emissions, rather than total GHG output. This would make lower carbon fuels

like LNG look more attractive, despite issues around methane emissions. However, under the proposed FuelEU, total GHG emissions are addressed. FuelEU is designed to encourage the uptake of renewable low carbon fuels (RLFs), which it hopes to see reach 9% penetration by 2030 and 88% by 2050. FuelEU sets limits on the GHG intensity of the energy used on board based on a reference value reflecting the fleet average in 2020. From 2025, vessels will be required to achieve a 2% reduction in GHG intensity rising to 75% by 2050 relative to the 2020 baseline. Importantly, FuelEU will address well to wake GHG emissions, and assess methane and nitrous oxide emissions on a CO2 equivalent basis. Given methane has a global warming potential 25 times greater than CO2 on a 100 basis, serious questions are raised as to whether LNG is compatible with the EU’s climate goals. In somewhat contradictory fashion, under the ETD, which establishes minimum taxation levels for bunker fuels sold within the EU, LNG is taxed at a 1/3rd discount to conventional bunker fuels, due to its perceived short- and medium-term climate benefits. Interestingly, under FuelEU and the ETD biofuels from crops/animal feed are not considered sustainable due to the perceived risk that higher biofuel demand might encourage deforestation. Shipowners will therefore need to take care to ensure any biofuels they do run are derived from feedstocks such as used cooking oil, not primary crop-based biofuels.

Although yet to be fully ratified, it is widely expected that the EU parliament will offer their approval. FuelEU alone is forecast to cost the industry €89.7bn, with an extra €521.7m in administrative costs expected. One thing is certain, the regulatory burden faced by shipowners will be greater than ever before.

Crude Oil

Middle East

VLCC Owners would have hoped that with September stems being released this week there would be space for improvement in rates. A few cargoes fixed at more than last done put Owners into an optimistic mood. This was quickly eroded when a market cargo attracted 14 offers. The overhang of ships each decade remains and we end the week, much where it began, with a modern approved unit fixing at 270,000mt x ws 30.5 to China. Rates for voyages AGulf to US Gulf are estimated to be around 280,000mt x ws 18.25 (via Cape). Little in the way of excitement for Suezmax tonnage this week and rates have slightly eroded to 130,000mt x ws 57.5 East and 140,000mt x ws 26.5 to Europe. After a few healthier weeks for Aframax Owners in the East, this week cracks have appeared and subsequently rates have faded. TD8 slipped back below three digits yesterday, with AGulf-East around 80,000mt x ws 97.5 as we close the week.

West Africa

The conference VLCC levels of last week have been broken and the new rate for West Africa to the Far East has now settled at 260,000mt x ws 32.75. With the number of committed vessels ballasting towards the West looking for higher TCE returns, this has led to more competition and hence a negative effect on rates. Suezmax Charterers have benefited from Eastern ballasters and tonnage coming open locally. Now these vessels are becoming scarcer, Charterers need to

encourage tonnage to ballast from Europe where the market is stronger, in turn Owners are asking for higher rates as compensation. We end the week where Owners are looking to push levels to 130,000mt x ws 60 to Europe and high ws 50's East.

Mediterranean

A week of the same for Aframax. The situation was not helped by some Owners having multiple positions and needing to thin their exposure. Ceyhan voyages continued to trade at ws 87.5 levels and CPC voyages the same. Some discounts could be found for more flexible ports but as rates trundle along the bottom there is not much less to be done. TCE's are low single digits though and it will not take a sea change for things to turn around; with this in mind Charterers are happily fixing forward as much as possible and for now are taking any possible steam out of proceedings. Looking forward, some port delays and a number of ships leaving the area could give some more spice, but it will be likely be small victories. A rarity this week for Suezmax Owners, with the Mediterranean being the driving force for pushing rates up in the Atlantic. It has been a dysfunctional week for Charterers with many cargoes requiring replacement tonnage and in turn pushing rates higher, the week ended with 130,000mt x ws 72.5 being paid to Europe and rates to China stand close to \$2.3 million. Next week will see the availability of tonnage open up more and it seems unlikely that rates will hold.

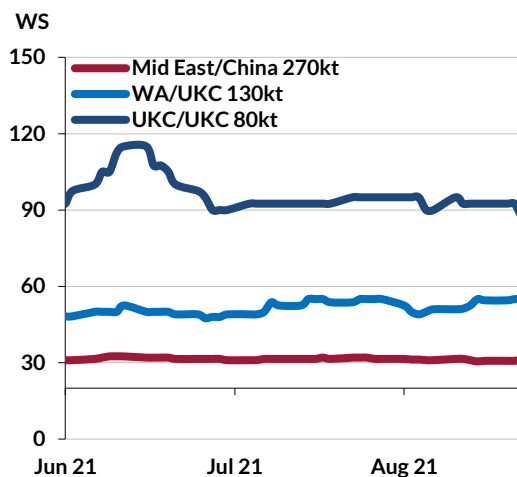
US Gulf/Latin America

Another depressing week for Aframax tonnage where availability of tonnage outstrips cargoes and rates remain at 70,000mt in the low ws 80's upcoast and ws 70 for transatlantic voyages. A number of under the radar VLCC cargoes were worked in US Gulf region but this was not enough to help improve rates. In fact, the opposite happened. Last done now sits at \$3.9 million to the Far East.

North Sea

Slightly more Aframax action has come to the fold this week but levels have been left wanting. X-North Sea continues to trade at 80,000mt x ws 90 and Baltic/UKCont at 100,000mt x ws 57.5. The programme for next month doesn't look particularly exciting and leaves one with the impression that we are a long way from being out of the woods. One positive note is the questions being asked for Aframax tonnage to go longhaul and the volume of vessels taken on subjects is helping to thin what has been a rather dense list. Steps are being taken but they are sideways for the time being.

Crude Tanker Spot Rates



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

Clean Products

East

LRs have seen a contrasting week between different sizes. LR1s started the week reasonably quietly after an active previous week, that saw rates jump considerably. But the momentum couldn't continue and the start of the week saw things calm down and rates take a slight drop. Midweek, LR1s did see a rally with a few more cargoes and Owners bolstered their views again. 55,000mt naphtha AGulf/Japan is at ws 140 now and 65,000mt jet AGulf/UKCont is \$1.95 million. LR2s unfortunately have seen the opposite with few cargoes and just too many ships. Rates had to fall and Owners ambitions from the previous week just couldn't be realised. The drop was heavier and faster than expected though, with 90,000mt jet AGulf/UKCont now at \$1.90 million, with 75,000mt naphtha AGulf/Japan at ws 92.5. The freight for LR2s is now lower than LR1s and so we must see rates drop away next week for the LR1s as anomalies like this never last long. Overall both sizes are expected to dip into late summer though.

A frustrating week for the MR Owners where the sentiment should have been flat given the tightness of the list and the lack of any real ballasters making their way into the AGulf. However, that said we have seen EAF come off as the lack fresh stems in the market has caused Owners to have an end of week wobble with 35 x ws 180 on subs, down some 10 points over the week. Although in need of a fresh test, West runs remain undesirable, and this reluctance means for now it still holds

a premium at the \$1.2 million levels. TC12 again has been a quiet but with a lack of nap suitable ships, 35 x ws 130-135 levels still holds for now. Owners will be hoping for a strong start to next week's trading but, with an air of doubt slipping in (and not just on the MRs), charterers will surely try to capitalize on this to further chip away a last done levels.

Mediterranean

Rates have consistently traded at the bottom of the market this week, with 30 x ws 115 repeated throughout. A plethora of fixing window tonnage was on everyone's lists on Monday morning allowed Charterers to pick off units behind the scenes with Owners not able to justify anything North of this number. Black Sea activity has picked up a touch in comparison to previous weeks but +5 is the rule of thumb premium on top of X-Med as we speak with little room for improvement. Expect more of the same at the start of week 34.

A week to forget for the MR Owners in the Med, with sentiment negative throughout. A slip in rates from 37 x ws 105 to 37 x ws 100 for Med/transatlantic runs has been seen this week which most will argue is the bottom. With bunker prices where they are, returns are so poor that Owners will continue to dig their heels in. A fresh test to WAF on Thursday was seen at the 37 x ws 110 mark although expect less to be aimed for with +5 likely next done on top of the transatlantic number. With TC2 slipping in line with Med rates on Thursday, expect the start of week 34 to be similar.

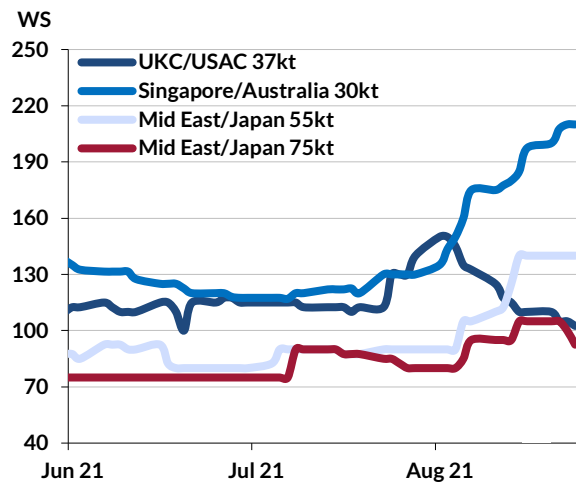
UK Continent

The weight of tonnage continues to thwart Owners hopes of any rebound in the UKCont MR sector, as we see rates continually under pressure all week pulling us down to 37 x ws 100 now for TC2, with the preferred WAF run holding a 0-5 point premium. Just repeating last done is seen as a success at the moment for Owners and with the Med market also falling, very little options have been available. The slight positive is that at these levels it seems a few more cargoes have been seen at the end of the week and if Charterers believe that we really are at the bottom, we could see some further stems on Monday morning, but for now the weekend couldn't come any sooner.

In a nutshell the Handies this week have been under constant pressure. The week started 30 x ws 135 level for Baltic/UKCont and ended today at ws 120... it looks like we are back to square one, and back to the year lows again for this route. Unfortunately there's been activity this week but the oversupply of tonnage, combined with COA/own programme deals off market have merely given Owners no opportunity. Bottoming.

Overall, it's been a lacklustre week in the UKCont Flexi market, with little to report in the way of fresh fixing activity nor cargo enquiry. With the Handies in the North coming under pressure this week, rates in this market have followed suit with the call for a X-UKCont run now at the 22 x ws 150 mark.

Clean Product Tanker Spot Rates



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

Dirty Products

Handy

In the Continent, what first started as a lull allowing for tonnage replenishment soon turned into an extended dry spell. With this in mind, Charterers sensed coming into the week that there was the possibility to test Owners resolve and it didn't take long to see reductions in levels, eventually settling at a 5-7.5 point reduction from where the week started. Looking ahead, it remains slightly grimacing from an Owners perspective as there is tonnage backed up needing to be fixed before the region stabilises.

In the Black Sea this week, the floor was once again lowered, albeit with the comment from many that this is now the ultimate floor. Earnings have become so marginal that Owners cannot even make sense of ballasting ships beyond conventional areas where in a firm market you would otherwise, at a push, be open to doing. That said, despite a healthy list, as the week progressed many of the spot Handies did manage to find employment with X-Med values reflecting a tested and conference ws 120.

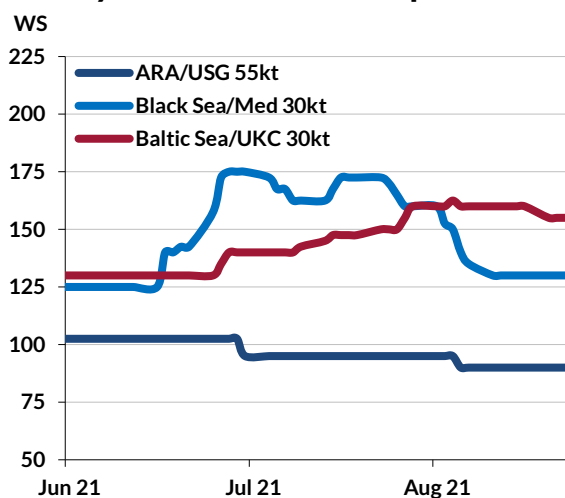
MR

Not a great week for Owners with tonnage on the Continent with freight levels being reduced. From a ws 115 to then seeing ws 107.5, the Continent is now trading in much more comparable realms vs. the Med, where all in all, analysing the MR sector as a whole, sentiment is pretty weak right now, with reliance on Handy stems in many cases to prevent idle time.

Panamax

A sluggish week for the Panamax, with little to report even by means of questions being asked. Tonnage lists therefore have been allowed to populate where it's quite favourable from a Charterers perspective. Throw into the mix caps on upside created by a soft Aframax sector, then you quickly see that the current outlook is set to endure for a while longer.

Dirty Product Tanker Spot Rates



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

Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Aug 19th	Aug 12th	Last Month*	FFA Q3
TD3C	VLCC	AG-China	+0	31	31	32	32
TD20	Suezmax	WAF-UKC	+1	55	54	55	54
TD7	Aframax	N.Sea-UKC	-5	89	94	94	95

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

			wk on wk change	Aug 19th	Aug 12th	Last Month*	FFA Q3
TD3C	VLCC	AG-China	+2500	-1,250	-3,750	-3,500	-250
TD20	Suezmax	WAF-UKC	+2000	5,000	3,000	2,750	4,250
TD7	Aframax	N.Sea-UKC	-1500	-4,500	-3,000	-2,750	-250

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Aug 19th	Aug 12th	Last Month*	FFA Q3
TC1	LR2	AG-Japan	-10	93	103	87	
TC2	MR - west	UKC-USAC	-7	103	110	112	118
TC5	LR1	AG-Japan	-2	138	140	86	107
TC7	MR - east	Singapore-EC Aus	+24	210	186	125	155

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

			wk on wk change	Aug 19th	Aug 12th	Last Month*	FFA Q3
TC1	LR2	AG-Japan	-2250	8,250	10,500	5,000	
TC2	MR - west	UKC-USAC	-500	1,000	1,500	1,500	3,500
TC5	LR1	AG-Japan	+500	15,000	14,500	2,000	8,000
TC7	MR - east	Singapore-EC Aus	+4500	17,000	12,500	2,500	8,500

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

ClearView Bunker Price (Rotterdam VLSFO)	-25	471	496	510	
ClearView Bunker Price (Fujairah VLSFO)	-24	496	520	520	
ClearView Bunker Price (Singapore VLSFO)	-33	493	526	539	
ClearView Bunker Price (Rotterdam LSMGO)	-32	531	563	573	

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