International Chamber of Shipping
Shaping the Future of Shipping

Leadership Insights

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The Right Track

Heidmar's Pankaj Khanna discusses weighing cost against safety, knowing your markets and making informed decisions for shipping

Pankaj Khanna: Staying nimble amid growth and change

Since acquiring former tanker pool specialist Heidmar from TMS Group in November 2020, CEO Pankaj Khanna has grown the company's commercial management business from six to nearly 60 vessels. He talks to *ICS* about what it takes to succeed and grow in an evolving shipping market.

Q How has Heidmar managed to grow its business since you bought it, especially through two very challenging years?

A When we started, we had six ships and six people. The strengths that Heidmar has are recognition, relationships, transparency and people, so there were certain owners and charterers that provided us with a lot of support. But we were also more innovative in terms of what we were doing. In the past Heidmar mostly focused on pools. I changed the product more to commercial management.

We found that Ocean Tankers' fleet had gone into liquidation, so we approached the liquidators and provided a solution to fund the reactivation of some of the ships, including paying for bunkers and repairing some ships. From that we gained almost 15 vessels, starting with crude tankers but then adding product tankers because we were doing a good job.

I have a long-standing relationship with Capital Group, and with Evangelos Marinakis in particular, and we combined in January 2022. We grew from six to 30 vessels by ourselves, and then with Capital that grew to about 55 to 60 managed vessels. So we've had quite a turnaround.

Q You've worked in large companies and helped develop several start-ups including Teekay Tankers, Alba Carriers, Ocean Rig and Pioneer Marine. What lessons do you take from those start-up experiences to operating established companies?

A The problem with large corporates is that they can become elephants as far as decision making is concerned. There can be analysis paralysis with too many memos and meetings, then it takes like three months to take a decision. With a start-up, I take the decision, I move forward. I'm not saying that's always right, but in this industry the opportunity window is very short and if you can't take quick decisions, you lose the market.

So I think the lesson is to stay nimble. You need to make sure that your decision-making circle is small and that the process is quick, so you don't lose your ability to move in the market.

Q Does that short window of opportunity make shipping difficult for finance and investors? Can we do more to make the industry attractive to them?

A I think maritime is a very attractive sector, but you have to know what the sector is. Shipping is cyclical. We go through periods when the markets can

be flat and, as in the last two years, periods when you'll see the volatility. Financial institutions need to know which point of the cycle they're getting in at and what to expect with that.

Some financial institutions lend when the markets are high. But if the cash flow is there it means that the asset values are also high, and when the cycle comes down you can end up in a situation where asset values have come down and then you start having loan-to-value and cash flow issues.

It's similar for investors. There are some investors who have made a lot of money. But of course, you need to understand the cyclicality. If you think I will get in now, and I will get out in three to five years, that may not work out. It can. Let's say you had bought ships in 2019 and 2020, in two to three years you could have doubled your money and made a lot on the cash flow side with the way the markets were. So it depends on timing.

Q Do you think that those cycles are changing with the turbulence we've seen in recent years?

A The cycles have compressed. Twenty years ago, information was not available the way it is today. When an opportunity comes up in this market, it is available for a very short period before everybody knows about it. You know exactly what the orderbook is on a daily basis, and information is changing the demand side as well. Look at how quickly inflation hit us after COVID happened.

Another factor is that shipyards used to take two years to build a ship. Today they can turn the ship around in 12 months, maybe even in some cases in nine months. Then there has been a lot of attrition in yard capacity, especially in China but also in Korea and Japan. All these things have compressed the cycle.

Q How does decarbonisation come into those shipping cycles, and how do you make decisions on technology and fuels in this climate?

A For decarbonisation, I don't think that we can really make an informed determination on which solution is going to work out right away. I don't like being the first mover on technology. I've seen over the years that first movers have never really made money, so I want to be the second mover. If I was advising someone, I would still go with the most economical design out there with conventional fuel, but go with all the other technologies, which are available to reduce emissions.

Look at what we did with scrubbers as an example. People asked whether it would be a successful investment or not. As it happens today, all the people who invested in scrubbers have recovered their investment in two to three years and are making crazy amounts of money.

Where I see the market going is towards carbon capture and storage (CCS). The infrastructure for conventional CCS already exists and we can develop scrubbers to capture carbon, keep it on board until your next port and then discharge the liquid CO_2. The technology exists, but it's not commercial enough to be put on board vessels at large scale. Once we get there I think that's the most feasible solution.

Q Do you see a role for vessel autonomy in managing the cost of the energy transition in shipping?

A I think that fully automated vessels on local, short-voyage, coastal shipping makes sense, because you can get help to them easily if something happens. But if you're doing cross-ocean voyages, I don't think that we can do that.

Let's say a tanker in the market is making US$100,000-150,000 per day. The operational expenditure on that ship varies from US$6,000-10,000 per day. If you reduce that by US$2,000 because you reduce the personnel, do you achieve anything in terms of financial result? It makes no difference. When the market is low, of course, it can make all the difference. But I don't think it's worth cutting the safety margin that a full crew provides.

Q The Maritime Just Transition Workforce recently commissioned a study that showed that up to 800,000 seafarers may need training to use decarbonisation technologies by 2030. Does that concern you?

A I am an ex-seafarer myself. For the last 34 years, I've been hearing about the lack of competent seafarers and the lack of training. When I joined ships, there were still telexes on board and shore support was virtually zero. Your onboard team were what you had to keep the ship running and keep it safe.

That has obviously changed with connectivity. You can monitor machinery condition and all ships factors from the bridge and the engine room. So competence on board has reduced to a certain extent, but the shore support that we can offer is a lot higher.

We're going to have to spend on training. We have managed that in the past. At one point we were saying that the LNG fleet is expanding so much, how are we going to man all those vessels? Well, we manned all those vessels, and more. The LNG fleet is now going to increase by 60 to 80% in the next couple of years, and we will find the seafarers for that as well.

I'm very optimistic that we will be able to meet these requirements. Of course, there will be timing issues and the industry will have to adjust. But in terms of the stopping because we don't have the seafarers, no. That has never happened and it will not happen.

Carbon mechanism could knock 12% off EU industrial imports

A new measure to stop emissions being shifted to countries outside the European Emissions Trading Scheme (ETS) will have a significant impact on trade flows in several key industrial sectors, a European Commission assessment has revealed. The Carbon Border Adjustment Mechanism (CBAM) is expected to reduce the combined import value of iron, steel, cement, fertilisers, aluminium, electricity and hydrogen by 11.9% by 2030.

CBAM gained provisional approval from European Council and Parliament negotiators in December. If signed off by Parliament and EU member states, it will impose a carbon price on imports based on the emissions involved in their production. The mechanism will be phased in this year, starting with data collection, with the new tariffs being introduced from 2026. Free allowances under the ETS, implemented to prevent EU countries from outsourcing high-emissions processes to outside countries, will be gradually phased out once import tariffs are imposed.

Sources involved in the regulatory process confirmed that there will be no direct impact on ship operators. Emissions from transport are not yet covered and the administrative burden will fall on the 'declarant', the entity placing the goods on the European market.

However, the indirect impact on ship operators could be dramatic given the changing flow of trade both into and out of the Union. A Commission impact assessment published in July 2021 shows that fertilisers will be the most affected, with imports in 2030 cut by more than 26%. In the least affected sector, aluminium, imports will fall by under 5%.

Fredrik Roald Brun, Associate at law firm Wikborg Rein told *ICS* that the full implications of CBAM could not be assessed until a final draft is produced. But he said that ship operators could be exposed to CBAM costs through their purchases.

"If you are a European shipyard that relies heavily on aluminium imported from China, for example, the carbon pricing will make that aluminium more expensive," he said. That would likely have an impact on the cost of buying ships in Europe.

> The European Council, Commission and Parliament appear to have agreed to assess extending CBAM to cover embedded emissions from transportation

CBAM for ship emissions?

Brun reported that ship operators are more focused on other elements of European legislation, such as shipping's inclusion in the ETS and IMO efficiency measures introduced this year. But he pointed out the impact of CBAM could be a bigger issue in the future; the European Council, Commission and Parliament appear to have agreed to assess extending CBAM to cover embedded emissions from transportation services before the end of the transition period in 2026.

Exports from the EU will also be affected due to the higher costs of either using CBAM-exposed imports as raw materials, or replacing them with more expensive locally sourced materials. The impact assessment projects that EU exports in CBAM sectors will be reduced by 6.9% in 2030.

Tonje Hagen Geiran, Associate and Special Adviser at Wikborg Rein, explained that much of the discussion about CBAM in the business community has been around export competitiveness. European industrial producers have argued that the mechanism could be better designed to protect exports from Europe, and that current measures against carbon leakage are more effective than the new mechanism.

"For companies that have a market outside of the EU, they will risk losing some of that market," said Geiran.

The capability of regulators to accurately allocate all indirect, Scope 3 emissions, is also being questioned, Geiran added. "There are so many elements in Scope 3 emissions and they can be difficult to measure. Perhaps they will have to be measured by assumptions."

The EU is not alone in considering a CBAM. In feedback to the initial proposal, Canada reported that it is already consulting citizens on a similar measure. Additionally, Brazil's Ministry of Foreign Affairs has registered concern about the impact CBAM would have on non-EU companies trading into the EU, and on existing trade agreements and rules. "There are elements of the legislative proposal that indicate that the measure, either in its current design or in its implementation, could violate the obligations assumed by the European Union in the trade sphere," the ministry wrote in its feedback.

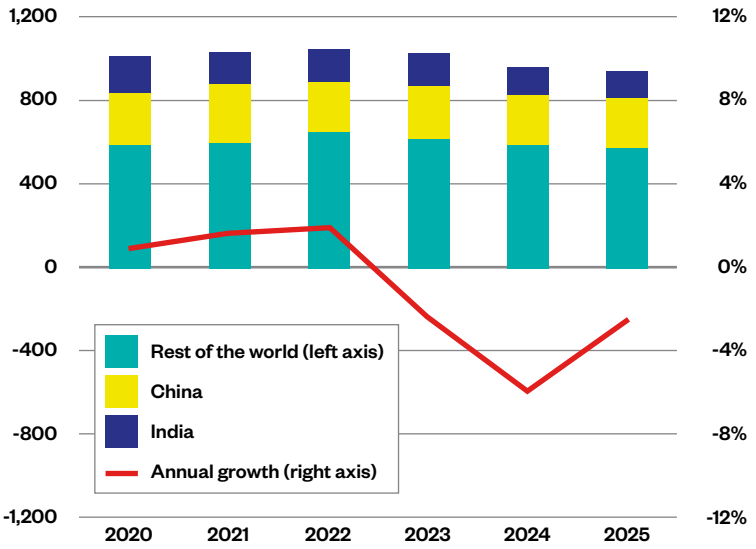
Coal trade reshuffled amid energy crisis

Global coal trade patterns have confounded analysts in the past two years and are set to continue their turbulent evolution in 2023, according to the International Energy Agency (IEA). The agency's Coal 2022 report estimates that demand grew by 1.2% last year. While its projection remains that coal use will peak this year and decline from 2025, the global energy crisis could cause major spikes or contractions before then.

Seaborne coal trade, representing 23% of global dry bulk cargo volumes, declined by 0.9% in 2022 due to both high prices worldwide and lower imports to China, caused by port closures and growing domestic supply. Surging natural gas prices reversed declining import demand in Europe in 2021, while in 2022 the EU ban on importing Russian coal rerouted exports to Asian countries. High prices encouraged small producers including Tanzania and Botswana to enter the export market for the first time.

Keisuke Sadamori, IEA Director of Energy Markets and Security, said: "Coal demand will likely reach an all-time high this year, pushing up global emissions. At the same time, there are many signs that today's crisis is accelerating the deployment of renewables, energy efficiency and heat pumps – and this will moderate coal demand in the coming years."

Thermal coal trade developments (export by destination), 2020–2025



Credit: IEA Coal 2022: Analysis and forecast to 2025

Looking further ahead, IEA anticipates two dynamics to shape global coal trade to 2025. Europe will return to its phase-out path once the current energy crisis is over, while China and India will increase domestic production and reduce imports. The result will be that trade in coal used for heating and power (currently representing 77% of coal imports) will reduce by 10%. Trade in coal used to produce metals will continue to grow, with volumes increasing by around 6% by 2025.

High prices in coal have been a boon for tanker operators, with the surge in coal and gas prices creating substitute demand for an estimated one million barrels of oil a day extra.

However, despite high coal prices, not all exporting countries were able to expand exports. While Indonesia and the United States significantly raised volumes, Colombian and South African exports declined sharply. Exports from Russia remained at the 2020 level. Indonesia increased its volumes by 7%, returning to a growth trajectory that had been temporarily interrupted due to lower demand from India in 2020. Australia's thermal coal exports to China almost vanished due to an unofficial ban and were redirected to other Asian countries, such as Japan, Korea, and India.

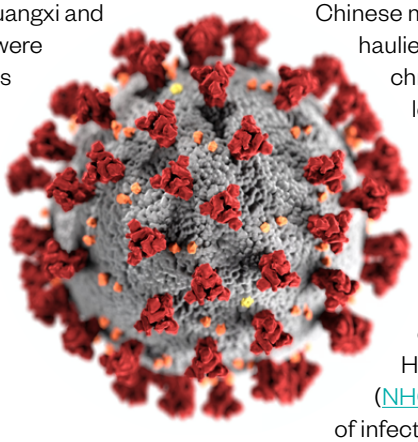
> There are many signs that today's crisis is accelerating the deployment of renewables, energy efficiency and heat pumps
>
> **Keisuke Sadamori, IEA Director of Energy Markets and Security (left)**

Caution around revised Chinese port crew change rules

Although the Chinese government has lifted restrictions on crew change, confusion about these changes abound - with some ports still enforcing the requirements imposed almost three years ago when the pandemic began. The country-wide decision to reinstate pre-COVID procedures took effect on 8 January, and seafarers disembarking at Chinese ports should, in theory, no longer be subject to on-arrival testing nor quarantine before repatriation.

Crew are, however, required to have a Nucleic Acid Test 48 hours before their vessel departs the last port of call before entering China. Authorities also accept negative Rapid Antigen Flow Tests, accompanied by a health declaration, for those unable to comply due to travel schedules.

Although the decision has been cautiously welcomed, a circular issued by Huatai Marine Services on 19 January 2023 advised that certain ports, such as Qingdao port and ports in Guangxi and Guangdong Provinces, were still enforcing restrictions despite lifting them in principle. In addition, they confirmed that the nationwide prohibition of shore leave was still in effect, likely in an effort to combat the recent surge in the XBB.1.5 and Omicron COVID variants.



In contrast to the gradual reopening of ports in China, several countries including India, Japan and South Korea have reintroduced testing requirements and restrictions for seafarers disembarking or taking shore leave from ships arriving directly from China. This may be due to concerns that infection rates may be higher following celebrations during Lunar New Year and China's relaxing of restrictions entailed in its zero-COVID policy in December 2022.

Chinese manufacturers and hauliers currently face chronic staff shortages, leading to freight booking cancellations and congestion increasing at the ports of Qingdao, Ningbo, Shanghai and Shenzhen. However, per the National Health Commission (NHC) in China, the wave of infections has begun to significantly decrease in major cities. This suggests that the outbreak may be on the wane and manufacturing output and port operations will slowly resume to normal capacity.

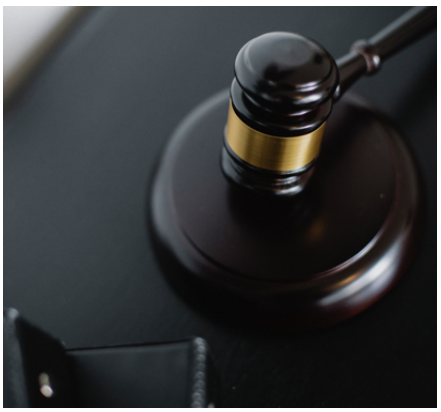
Despite the recent surge in cases, shipowners and operators are not expected to be seriously impacted by restrictions, with lessons from the pandemic in place at major ports to manage crew change risks.

Maritime Anti-Piracy Bill passed by Indian Parliament

India's recent passing of the Anti-Maritime Piracy Bill (2019) in December 2022 reassures shipowners and operators that countering maritime piracy in the region continues to be a high priority. The Bill, which still requires Presidential assent (but is expected to be viewed positively), seeks to enhance existing maritime security operations in the Indian Ocean and the Gulf of Aden.

As targeted domestic legislation, the Bill is an effort to advance safer international transit and domestic operations within the region. It represents India's first piece of domestic legislation specifically written to criminalise maritime piracy on the high seas and allow Indian authorities to respond. The Bill also applies to India's Exclusive Economic Zone (EEZ) which lies up to 200 nautical miles from the Indian coastline.

Indian authorities believe this will strengthen international cooperation and



regional partnerships to combat piracy in the region, ensuring proper compliance with the United Nations Convention on the Law of the Sea (UNCLOS). With more than 90% of trade and more than 80% of its hydrocarbon requirements carried by sea, piracy in the region has a significant impact on the Indian economy and the welfare of seafarers.

Under its terms, the definition of officers authorised to make arrests and seizures is broadened, while criminalising instigating, supporting and/or enabling piracy, in order to target organised crime. Conviction under this law would lead to a sentence of life imprisonment or, if the accused is proved to have caused death through an act of piracy, may result in the death penalty.

The passing of this Bill comes on the heels of the International Maritime Organization (IMO) withdrawing the Indian Ocean's High Risk Area (HRA) designation as of 1 January 2023, reflecting the much improved piracy situation in the region. However, P&I Clubs, and organisations such as BIMCO, the International Chamber of Shipping, INTERCARGO, INTERTANKO, and OCIMF, have continued to advise shipowners and operators transiting the region to take reasonable precautionary measures.

Flip the script: dancing with data

Grant Allen, Head of Technology programmes for Geo at Google, talks about the opportunities for shipping to benefit from wider digital disruption and the potential for crowd-sourced maritime data to underpin real time decision making.

Data is playing an increasing role in efforts to streamline maritime operations, lower the use of fossil fuels and harness the benefits of artificial intelligence (AI). Largely viewed as disruptors by the shipping world, entities such as DNV's Veracity online data platform, Maersk's Logistics Hub, the US Office of Energy Efficiency & Renewable Energy's H2 matchmaker, Marine Traffic's global ship tracking platform and others are using data not just to fill in the gaps but to build bridges to other sectors and connect the supply chain as never before.

Head of Technology programmes for scaling Google Maps globally, Grant Allen's experience in the development of Google Maps in addition to his time as Chief Technology Officer and Chief Product Officer for Dow Jones' enterprise business (including risk and compliance products) makes him an ideal candidate to highlight the opportunities for clever use of data. The top of his list is crowd-sourced data from communities of interest which could be analysed to deliver strategic insight to individual user groups.

Data, gathered from users such as ship crews, leisure users, port operatives, etc via social media feeds or specific platforms, could be fed into machine learning software and processed using AI. "These would look for what's typically called 'sentiment' or 'topics', which identify the content of a discussion and can tell audiences, 'Here's the central topic of this conversation and the patterns mentioned in the conversation'. If you, your ship, your freight forwarder, or your agent or the port you're heading to are mentioned in a particular conversation, you probably want to pay attention to that one, versus general scuttlebutt about what's happening on the other side of the world," he explains.

This could assist real-time decision making. In the case of snap strikes that could cause long delays for vessels berthing or cargo handling, Allen suggests, machine learning could condense conversations from social media. This would allow users to make the decision to reroute their ships to nearby ports or slow steam to their destination within minutes of a strike being announced, far in advance of an official announcement by the port. This would be similar to the user generated alerts for accidents on Google Maps, which allow users to choose different routes or adjust their expected arrival times.

In a maritime context, he says, this information could apply to delays, strikes, disruptions, fuel issues, piracy and more.

Sharing data

Addressing concerns about the impact on competitive advantage and asset security, Allen points out that satellite imagery is now good enough to allow those with access to count individual containers being loaded on to a ship. "The best way to think about this is that the genie cannot go back into the bottle. The imagery is here, it's only going to get better and the analysis is only going improve. Rather than denying that it's here now, you need to ask yourselves, how do we make the most of that for the shipping industry?"

He strongly believes that maritime data sharing will become the norm in the near future, following in the footsteps of a number of other industries that have grappled with advances in technology. "It's almost going to solve itself. Not because the custodians of that data are suddenly going to become more open and more willing to share, but because they're going to quickly realise that they no longer have a monopoly on that data," he says.

The availability, fidelity and value of satellite imagery and photometry are great levellers for data monopolies, Allen explains. "You cannot lie about having 12 ships in queue at your port when I've got satellite imagery from five minutes ago that shows 38 ships queuing five miles offshore, ready to unload."

While this may erode some competitive advantage for a port, from a shipowner perspective the ability to feed this information into fleet routing programmes and generate historical trend data is incredibly useful. Furthermore, regulators would have a new weapon in their arsenal for sanctions compliance, particularly in instances where vessels turn off their AIS devices. Satellite imagery can also be particularly useful in scenarios such as the South China Sea, the Black Grain Corridor and more, where information is difficult to come by and narratives may be shaped by political motivations.

Allen acknowledges that there are specific situations in which data discretion is required, such as the location of military bases, naval vessels and other national security assets. In such cases, there would be the need to filter content generated by users or disruptors to the field, both of whom may not be attuned to security concerns and may release sensitive information without any intended malice.

Approaching horizons

A game changer on the maritime horizon, says the Google Maps guru, is the presence of satellite connectivity disruptors like Starlink that can – in some cases – offer a better signal at sea than on shore. Reliable connectivity with no bandwidth restrictions will open the door for greater use of technology at sea – and provide the technical means to roll out autonomous shipping. "The real issue is liability though," he explains, suggesting that the issues being faced by self-driving cars are a good indicator for those that maritime will face.

A more immediate focus, Allen suggests, is edge computing, which focuses on data processing near the point of generation. Although this technology has repeatedly been discussed as an ideal means to facilitate real time data analysis and decision making, it was presumed to be a future technology. "Although you couldn't do this 10 years ago, a lot has changed and the technology is here," he says, adding that ships can process data as it is created at sea rather than when in port or via satellite transmission in batches. "It completely eliminates issues of latency and bandwidth."

Although Allen's interactions with the maritime sector have led him to see the industry as overly cautious, he believes that digital change is inevitable and that a few powerful disruptions could propel shipping into a more data-savvy future.

ICS in Action

A round-up of ICS news and activites over the last month

Support for clean marine hubs at ministerial meeting

The Clean Energy Marine Hubs (CEM Hubs) initiative has gained further support during a Ministerial event hosted by the International Renewable Energy Agency (IRENA) at its 13th Assembly in Abu Dhabi.

The CEM Hubs initiative was implemented by ICS, the International Association of Ports & Harbours (IAPH) and the Clean Energy Ministerial (CEM). The initiative is a cross-sectoral public-private platform which aims to accelerate the production, transport and use of low-carbon fuels.

Over 60 ministers were in attendance as the CEM Hubs Initiative taskforce joined in the discussions about renewable energy generation to produce low-carbon fuels, strategies going forward and the role of shipping and ports, to support the wider energy transition.

IRENA will continue to expand its collaboration with ICS and partners to strengthen the initiative and accelerate the use of renewables-based fuels in shipping and other sectors.

Advisory committee on Filipino seafarer issues

A new advisory committee will work with the Philippines government to address major maritime issues impacting Filipino seafarers. The International Advisory Committee on Global Maritime Affairs (IACGMA), which includes ICS representation, signed a memorandum of understanding with the Philippines's Department of Migrant Workers on 11 January 2023.

The new body was formed on the recommendation of Philippines President Ferdinand Marcos Jr. It will contribute to the provision of appropriate training to Filipino seafarers as well as addressing concerns regarding unfair labour practices and overseas employability.

ICS' partners in IACGMA are the European Community Shipowners' Associations (ECSA), the International Maritime Employers' Council (IMEC), and the International Transport Workers' Federation (ITF).

Shipping diversity and inclusion toolkit launched

The International Chamber of Shipping (ICS) has launched a Diversity and Inclusion Toolkit for Shipping to enable a positive approach to diversity among maritime businesses.

The toolkit, the first publication on diversity from ICS, has been curated by a global expert group of industry leaders. It provides definitions and explanations of diversity and inclusion, and ways to assess the needs of people working within shipping.

The toolkit also identifies potential gaps in services, policies and practice, and provides best practice on how to fill these gaps. It can be used on shore and on board ships and is structured so that everyone in the company can benefit and take practical steps in their role.

Flag state performance table published

The 2022/2023 Shipping Industry Flag State Performance Table, published by ICS, highlights a 25% increase in flag states reporting on seafarer labour standards compared to last year.

The publication brings together data regarding flag state performance against criteria including Port State Control (PSC) records, ratification of international conventions and IMO attendance.

Flag states achieving all positive indicators in 2022/2023 include Bahamas, Bermuda, Cayman Islands, Denmark, France, Germany, Greece, Hong Kong, Isle of Man, Italy, Japan, Liberia, Malta, Marshall Islands, Netherlands, Norway, Panama, Singapore and the United Kingdom. Among the top 10 largest ship registers, only two have one negative indicator.

International Chamber of Shipping

ICS is the principal international trade association for merchant shipowners and operators, representing all sectors and trades and over 80% of the world merchant fleet.

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