Gibson LNG Market Insight – April 2021
LNG as a Fuel – It's still the future (at least for now)

Introduction

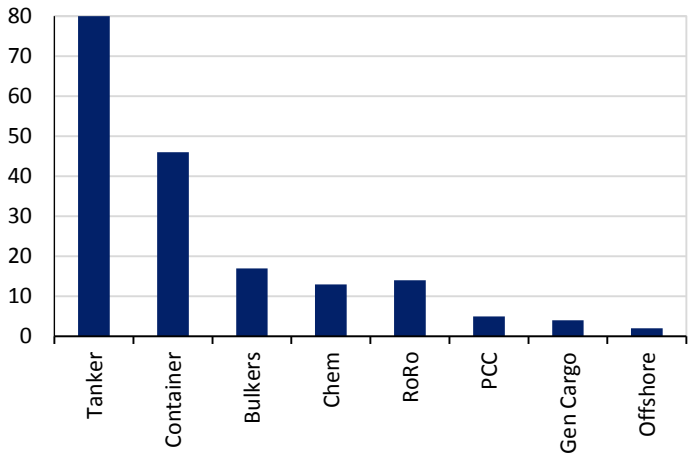
Fortescue Metal Group (FMG) announced it will cancel its tender for 10 LNG fuelled 209,000 dwt bulkers, which was only issued earlier this year. The company is now planning to skip straight to ammonia powered vessels. This got us thinking about what the impact, if any, might be on other companies and their LNG fuelled orderbook.

Whilst this is very far sighted of FMG, it will mean that they will have to wait until at least 2025 before a suitable engine is available, with actual delivery of a vessel maybe several years after that. Of course, the reason for doing this is that the company is planning a green ammonia production facility on in Tasmania, which will provide a new fuel source for the company. However, there are is still a large number of companies planning to build LNG fuelled vessels (and that don't have an in-house renewable fuel supply). This highlights that there is still a significant appetite for the benefits of LNG as a fuel.

Current LNG Fuelled Orderbook

The current orderbook for LNG fuelled vessels stands at over 130 (with IMO numbers). There is a diverse range of vessels utilising LNG as a fuel. However, larger vessel types are now dominating the orderbook, with VLCC, Suezmax, Aframax, ULCVs and Newcastlemax bulkers. The tankers and bulkers are particularly suited to LNG as a fuel, as the bunker tanks can be situated on deck, resulting in limited impact on the vessels cargo carrying capacity. Larger designs of container vessels are being fitted with LNG, their large size makes the loss of TEU capacity less of an issue. However smaller designs are seeing less of an uptake for LNG. In fact CMA CGM has recently announced that they will be ordering up to 20 wide-beam conventionally fuelled Panamax containerships fitted with scrubbers. The reasoning behind this decision is that that the 5,000 TEU vessels are too small to install LNG bunker tanks.

LNG Fuelled Vessel Orderbook



Since the start of the year, there have been 27 LNG fuelled vessels ordered. Of these, 14 have been tankers, nine have been container vessels, with two a piece for general cargo and PCC. The vessels will be built through to 2024 and will join the growing fleet of LNG fuelled vessels.

Tankers

ADNOC Logistics & Services is changing the propulsion specification on its VLCC newbuildings to a dual fuelled system that will utilise LNG. The vessels were contracted late last year at DSME, and includes an option for three more units. The vessels were reported to be priced at $86.7m each. The addition of LNG fuel systems, is thought to add between $15-17m to the cost of each VLCC. Shell has recently ordered 10 LNG fuelled VLCCs at DSME. In addition, Maran Tankers has four LNG fuelled VLCCs on order at SHI, while Total has two LNG fuelled VLCCs also on order at SHI.

Bulkers

There has recently been a spate of mining companies reporting ordering or negotiating for new bulk carriers that will operate on LNG. Rio Tinto has approached two shipyards in China to build up to 12 LNG fuelled Newcastlemax worth about $804m. Reports highlight that Qingdao Beihai Shipbuilding Heavy Industry and New Times Shipbuilding are the preferred yards. These vessels will be built under the Project Orion name. The vessels will transport iron ore between Australia and China and will be 210,000 dwt with delivery dates from 2023.

On the bunkering side, BHP is expected to partner with Shell to fuel their newbuildings. BHP has already ordered five Newcastlemax LNG fuelled (208,000 dwt) bulkers from Eastern Pacific Shipping in mid-2020 at the New Times yard in China.

Anglo American has also taken four newbuildings (190,000 dwt) ordered by U-Ming at Shanghai Waigaoqiao shipyard in China, which will be contracted under a 10 year charter. These vessels are reported to have cost $65m each.

In addition, New Times Shipbuilding recently announced that negotiations were in progress for four firm 210,000 dwt bulkers, with an option for eight more, under the code name Project Himalaya. The scheduled delivery is anticipated from mid-2023. The vessels will be fitted with MEGI engines and they will utilise type-C LNG bunker tanks. The owners and charterers of the vessels have not been released.

Container Vessels

The container sector has really taken to LNG as a fuel. The current orderbook (with IMO numbers) contains over 40 vessels. Of these Hapag Lloyd has six 23,000 TEU vessels that are under construction at DSME. CMA CGM has four 22,000 TEU vessels on order, along with nine 15,000 TEU vessels on order at HHI. While Eastern Pacific Shipping has 10 x 14,800 TEU containerships also at HHI.

Future of the LNG Fuelled Orderbook

The orderbook for LNG fuelled vessels continues to find new recruits, as owners see the immediate benefits of utilising the fuel. However, the question that is becoming increasingly more difficult to find a definitive answer too is, how long will it be before alternative fuels, such as ammonia, methanol and hydrogen become a reality and start taking market share from LNG within the newbuilding orderbook? Whilst hydrogen is seen as a next generation fuel for shipping, the other fuels will potentially start to impact the shipping sector within this decade. Like the move to LNG, the transition to new fuels will be based on vessel replacement and fleet expansion, meaning this could potentially take several decades for the fleet to move fully to renewable fuels. In the meantime, LNG will continue to provide an alternative to conventional fuels in the medium-term.

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