The Pulse From The 58th EPCA Conference

October 2024

With war on the European subcontinent continuing to rage on and tensions in the Middle East rapidly escalating towards a seemingly larger conflict, the topic of energy security took center stage at the 58th annual EPCA Convention.

When the delegates met in Vienna more than one year ago, the global economy was already facing strong headwinds due to weak demand, the collapse of the housing markets in China, and the continued energy concerns due to the war in Ukraine. The events of October 8th, 2023 served to place further strain on an already fragile economic and geopolitical landscape. As the conflict expands, the Middle East region is angling towards a potentially broader conflict. With energy security already a major concern, the global markets face potentially far-reaching challenges should the region get cut off from the main consumer markets.

Shipping has traditionally benefited from conflict and uncertainty, however the senseless attack on unarmed merchant vessels transiting the Red Sea has added a new layer of complexity to managing logistics. The longer ton/mile bodes well overall for the fleet; however, the longer voyages have placed considerable strain on ship assets and in many cases cut the fleets in half creating market imbalances.

Nearly 10 million tons of Europe's chemical manufacturing has either been shut down or mothballed signaling a broader rationalization of aging manufacturing no longer deemed competitive given high energy prices and labor costs. Despite these reductions, the demand for imports has not been commensurate with the perceived shortages, underlining weaker demand fundamentals. It is likely that this trend of "renewal" will continue and more of the production length, particularly in Asia, to be directed towards

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the developed markets in the West. A potentially good development for shipping, provided the demand is there.

Climate change and energy transition remain critical issues impacting the chemical and transportation industries. While tighter margins and weaker demand fundamentals threaten to derail some Company's path to net zero, the regulatory environment is only becoming more stringent. For the vessel owner/ operators, they face a complex decision on what ships to order and what propulsion systems to use. New building prices have reached new highs in 2024, and the alternative systems are not only limited, but they are mainly unproven and small in scale, making for a very risky investment. In some cases, these alternative systems can cost an additional 10-20 million dollars per ship.

The order book for new tonnage stands at around 13%, and while this remains (in principle) below replacement levels, there are other forces at work which are keeping secondhand values high and delaying recycling programs. Speculative capital, particularly in the East, is buying up ship assets and ordering new ships at a torrent pace, presumably to gain access to the international shipping markets and offshore dollars. For certain, these developments will have an impact on the freight markets. Established operators will face market pressures, however they could also find opportunities to get tonnage without having to tie up their own capital.

Unlike previous EPCA conferences, there was a measured degree of positivity that the EU economy will find better footing as from 2H 2025, although the caveat is that there are no further "crises" to derail the already fragile situation. Overall, ship owners remain positive about market fundamentals, however the growing orderbook and number of new entrants into the market are creating some concerns about sustaining market levels in an

increasingly high-cost environment. With the US heading into what is arguably their most important election in nearly a century, many have moved to the sidelines waiting to see which direction the political winds will blow come November 5th which will determine energy policy, trade policy, and the US's own position in the climate change agenda.

On behalf of the entire Quincannon Team, we want to thank our distinguished guest that attended our customer appreciation event at Hugo's Restaurant on Monday evening. Your participation and partnerships are greatly valued.

ABOUT QUINCANNON ASSOCIATES

Founded in 1974, Quincannon Associates is a privately owned Company with fully owned subsidiaries in Dubai, Singapore, and Shanghai. Quincannon Associates continues to push the boundaries of the role of the Ship Broker and value brought to each transaction. Using an innovative approach to analyze shipping data and the markets, Quincannon strives to give the customer heightened insight and visibility into all marine transactions. Its network of companies enables solutions to gases and chemical shipment needs in the customer's local time zone.

For over 50 years, Quincannon Associates has been providing a variety of services that help businesses safely and cost-effectively manage their bulk marine logistics, including voyage chartering, ship sale and purchase agreements, demurrage calculations, port operations, logistics terminology, and ship finance, as well as provide consultation on marine insurance and legal matters.

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