



## LPG World Markets

### Panama Canal booking rule changes fogs VLGC transit plans

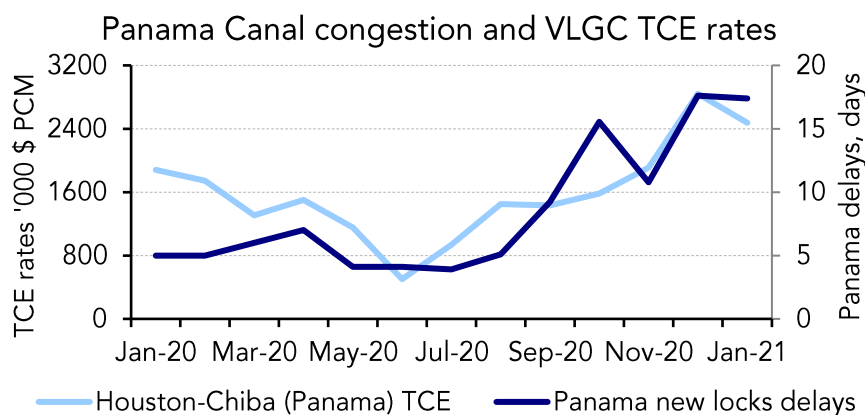
Since the new locks at the Panama Canal opened in 2Q 2016, LPG carriers have been frequent callers at the waterway. Between January and December 2020, around 26% of the total transits through the new locks were by LPG vessels, second only to Container vessels.

The overwhelming majority of LPG vessels moving through the new locks are Far East-bound VLGCs. According to Poten records, around 81% of laden VLGCs headed for Asia from the US Gulf transited the Panama Canal in 2020. In 2019, this ratio was 76%.

The Panama Canal Authority (ACP) made a few key changes to the pre-booking rules on the last day of 2020. It announced that it would accept booking requests only from neopanamax container and passenger vessels during Booking Period 1 with effect from Jan 4, 2021. Similarly, booking requests for neopanamax container, passenger, and LNG vessels only will be accepted during Booking Period 1.a. All other vessel segments will be able to apply for slots at the opening of Booking Period 2.

Changes in the booking rules mean that VLGCs will no longer be eligible to pre-book in the Booking periods 1 and 1.a, and neopanamax VLGCs can only apply for pre-booking slots 14 days prior to the requested transit dates. Old-style panama vessels can only apply 22 days prior to their requested transit dates.

This move from ACP to prioritize container, passenger and LNG vessels caused a spike in the Baltic Forward assessments (BFA) for 2021 and 2022 in the first week of this year, as the market digested the news which some were speculating had potential to worsen already considerable delays for non-booked VLGCs at Panama.



However, Poten's view is that this announcement will likely have a significant impact from 2022 onwards. This is supported by our data that suggests around 450 northbound slots were pre-booked by neopanamax VLGCs for 2021 prior to the new rule coming into force. Around 185 slots have been pre-booked for southbound voyages in 2021. That indicates that a significant portion of the Period 1 slots available for VLGCs had already been reserved, with BW LPG and the Helios pool holding the most of the slots.

As a result, the effect of the rule change will be less in 2021. However, with the average waiting days at Panama doubling from an average five days in 1H20 to 10 days in 2H20, it was perhaps unsurprising that this news, which suggested even more uncertainty, and future inefficiencies at the Canal, was interpreted by the market as a potentially supportive factor for rates. BFAs for 2021 and 2022 were bid up by around \$10/t on the news.

Poten anticipates that smaller owners and trader relets without prebooked slots may prefer to target the Middle East and West Africa loading cargoes rather than ballasting towards the US Gulf on speculation to avoid the risk of not getting a slot in time. This should increase the time charter equivalent (TCE) premium for the US Gulf loading cargoes over the Baltic.

Old style panamaxes that can pre-book Period 2 slots a week ahead of neopanamaxes, and major owners holding significant numbers of pre-booked slots, will have firmer itineraries and will be able to schedule with fewer waiting days for US Gulf cargoes than non-booked vessels in 2021. Charterers will most likely view these ships with firmer itineraries as more attractive and may be able to ask for a premium for these vessels.

If freight rates are favorable or see a significant downward correction, owners could choose to ballast to the US Gulf via the Cape or the Suez Canal after discharging in the Far East. However, with the market trading at more than \$41,000/day for Houston-Chiba via Panama, even considering the current waiting time at the Panama Canal, the economics of the longer haul ballast do not currently make sense.

While Covid-19 related inefficiencies should improve in 2H20, unfortunately for VLGC owners, some of these improvements will be offset by an increase in cruise and container transits. While a gradual improvement of Panama delays is expected as the year progresses, a round trip delays of around 5-10 days may become the new normal.

Overall, one thing is certain that the Panama Canal will continue to be both a blessing and a curse for VLGC owners, as scheduling issues will cause plenty of headaches, but will also remain one of the key factors supporting freight rates over the next couple of years.