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The EU's future shipping emissions regulations: A sweet spot or a bureaucratic monster?

THE ARRIVAL OF a new European Commission means the EU will likely impose a decarbonisation measure on shipping, much to the joy of environmentalists and the dismay of shipowner interests around the world.

As the International Maritime Organization attempts to make good on its commitment to slash shipping emissions by at least 50% by 2050 compared to 2008, those European voices frustrated with progress so far are seeing their vindication in the face of commission president-designate Ursula von der Leyen.

Ms von der Leyen and other commissioners have said they intend to include the maritime sector in the EU Emissions Trading System, a move that has long been championed by the European Parliament.

The reinvigorated push for the EU to regulate shipping has reignited the dispute between these environmentalist voices and those shipping interests that fear the EU's plans would distort the market, penalise ships that operate in European waters and undermine the role of the IMO as the global maritime regulator.

Shipping may be global and one state making the rules on its own is no good, but there are simply too many actors involved in the IMO to take effective decisions quickly enough, according to Faig Abbasov, shipping manager at Brussels-based non-governmental organisation Transport and Environment.

"For making transformational decisions we need to find a sweet spot that is bigger than one [actor] but smaller than 190," he told Lloyd's List during a recent conversation.

Mr Abbasov rejected the recurring criticism that European regulation would undermine the IMO and instead claimed EU rules would complement the global regulator, by introducing more-stringent decarbonisation measures that the IMO could later implement on a global level.

Danish Shipping executive director Maria Skipper Schwenn counter-argued that the EU should use its power at the right level, namely to craft policy at the IMO, and take the lead in pushing for research and development, the production of new fuels, technologies and relevant infrastructure.

"But I am afraid with the ETS as such, if we just look at the system as it functions today, we will create a bureaucratic monster, which will not lead to real reductions and will be an administrative burden for especially smaller shipping companies," she said.

The sector would also see massive non-compliance from flag states outside the EU, she predicted.

An EU carbon levy and/or cuts

The EU ETS caps the permitted emissions of polluters in Europe but gives them the option to buy more emissions allowances, making additional pollution more costly. The scheme, however, has been widely acknowledged to have under-delivered and a revamped version of the ETS is coming in 2020.

The potential inclusion of shipping in the ETS would not necessarily mean issuing carbon credits and trade permits to the sector.

Mr Abbasov believes the EU should use the Monitoring, Reporting and Verification database, which contains data on emissions and fuel consumption for vessels that used EU ports in 2018, to introduce mandatory operational carbon reductions, based on the available figures.

The MRV itself has also come under scrutiny since it went live on June 30, as an early reporting error inflated the actual emissions and the database continues to be updated daily despite the fact that all vessel reports had to be ready by April 30.

Another option could be a levy on carbon emissions for those vessels using EU ports, according to Mr Abbasov. Carbon levies are a decarbonisation measure that individual shipowners appear to be increasingly accepting will come in the future- albeit from the IMO, not the EU.

Despite their strong disagreement on the function of the EU, Ms Skipper Schwenn and Mr Abbasov agree on certain points, including the need for shipping companies to become first movers in using new fuels and technologies.

The Danish shipping executive director acknowledged Mr Abbasov's observation that the development of technology cannot happen globally from one day to the next and needs to start in some region before taking off.

"Developing technology is something different than a regulatory framework. That is where we need something that will encompass the whole global fleet," she said.

Mr Abbasov on his part also recognised that any EU measure that does come needs to be designed intelligently to reduce the potential bureaucratic burden.

"Creating a maritime climate fund under the ETS regulation and requiring ships to pay for the CO_2, as opposed to all the administrative [burden of] purchase allowances and trade allowances elements could be a way forward," he said.

Those revenues would then be reinvested in the sector, for example by helping first movers cut down their operational costs.

That suggestion may not sound completely foreign even to those interests that have long opposed the inclusion of shipping in the EU ETS. Some of the world's largest shipping lobbies are considering proposing to the IMO a mandatory R&D fund based on fuel levy next year.

Shipping's say in the EU climate policy may be slipping away

Since the EU agreed to pause on the inclusion of shipping in the ETS a mere two years ago, effectively until 2023, combating climate change has become the priority for the bloc's leadership.

And while shipping in the ETS was back then very much a European Parliament campaign, the Commission is now perhaps just as eager as the Parliament itself.

Ms von der Leyen's mission letters to her two transport commissioner hopefuls suggest that shipping's voice in the emission debate may be even weaker than it was just a few months ago.

The mission letter sent in September to the then transport commissioner nominee Rovana Plumb asked her to "lead the work on extending the emissions trading system".

But after the European Parliament rejected Ms Plumb and Romania suggested Adina Valean as the new EU transport commissioner, the mandate changed.

Ms von der Leyen wrote to Ms Valean, who was confirmed by the Parliament earlier this month, that she "will contribute to the work on extending the Emissions Trading System to the maritime sector".

This change could simply be semantics. But contribution and leadership could also be worlds apart and given that the transport commissioner will likely be the most familiar with the shipping industry, getting its message to the top will be even more taxing.

The dominance of the climate crisis in the agenda of the EU leadership makes it highly likely that this is no longer a question of if the EU deploys a decarbonisation measure for shipping, but how soon and in what form.

You can listen to the first part of Lloyd's List's conversation with Ms Skipper Schwenn and Mr Abbasov here: https://lloydslist.maritimeintelligence.informa.com/LL1129986/The-Lloyds-List-Podcast-Have-mandatory-speed-limits-hit-a-road-block

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WHAT TO WATCH

VLGC spot rates rise to five-year high

SPOT rates for very large gas carriers on the Middle East to Japan trade route closed at $78.35 per tonne on Monday, the highest level on the Baltic Exchange's liquefied petroleum gas index for the previous five years.

Renewed levels of charter inquiry in the Middle East Gulf drove the rise from $74.70 per tonne on November 1, according to LPG shipbrokers.

Fearnley Securities suggested the momentum could continue in the coming days, boosting the time charter equivalent rates with spikes over the $70,000 per day level.

"The rate rise has come on the back end of what started out as a quiet market in eastern markets, with some added demand from Indian LPG importers before momentum picked up," it said.

There has been an increasing trend to ship LPG to India from the US, making it a regular supplier to Asia's second-largest importer since April, as traders scramble for alternate sources to meet spot requirements after the attacks on Saudi Arabia's oil facilities in September disrupted supply.

With uncertainty persisting regarding the resumption of Saudi Arabia's LPG supply despite the kingdom's assurances that crude output may be restored by the end of November traders have started sourcing supplies from the US, Canada, the North Sea and Australia.

Shipping distance from the US Gulf coast or Canada to Asia is about two to three times of that from the Middle East Gulf, so most of the VLGCs are tied up on long-haul trade. This is shoring up freight rates and boosting tonne-mile demand for the segment.

In addition, as continued discharge delays at Indian receiving terminals tied up time charter ships, importers had to look towards the spot market to cover their term Middle East Gulf cargoes, further tightening the availability of ships.

Meanwhile, China's top petrochemical maker Wanhua Chemical Group signed a 10-year free-on board term contract with Qatar Petroleum last week to import around 800,000 tonnes of LPG per year.

Wanhua, based in Yantai in China's northeast Shandong province, signed the contract with Qatar Petroleum for the sale of petroleum products that begins in 2020 in Doha, said QP in a statement.

The agreement underscores Wanhua's aim of diversifying LPG supply sources, especially with Middle East producers amid the US-China trade tensions and as it seeks to boost LPG imports to about 5.5m tonnes next year from 4m tonnes ahead of new projects in Yantai as well as to widen trade activities in Asia, the company said.

VLCCs and Japanese-built handysizes best bet for asset plays

TYPICALLY for a discussion on asset plays in shipping at Asia's freewheeling capitalist centre of Hong Kong, panellists at the Asian Logistics and Maritime Conference went in big and strong, suggesting very large crude carriers and solid Japanese-built handysizes were the best bets.

Wah Kwong Maritime Transport managing director William Fairclough said that many of the previous generation of very large crude carriers built in the early 2000s would reach their 20-year special surveys, but be unlikely to pass this hurdle.

Meanwhile, in the preceding 10 years, the dire crude tanker market has led to a lack of confidence in the most suitable type of vessel to invest in with many owners simply waiting, and this could lead to new opportunities, he added.

"The cycles when they come, they tend to take you by surprise, that is the nature of the industry that we are in, and I think there are certain signals that those 10 years of bad market are really starting to have an effect on what may plant the seed for the next opportunities on asset play," said Mr Fairclough.

While pointing out that there have been very limited opportunities on asset play during the past 10 years since around 2010, he notes that the current cautious approach to investment in the next generation of ships suggests that during the next two to three years, "there could be certain sectors where there could be a good chance where the asset play will prove it is alive and kicking".

He suggested that for crude oil carriers there is "definitely a cliff coming".

Mr Fairclough explained that by the early 2040s the current generation of newbuilding very large crude carriers being built in the next year or two will reach the end of their economic life, and possibly with the requirements for the transportation of oil being markedly less than currently this point may come even sooner.

"There is a very rational reluctance to invest in a many newbuildings to replace that very significant proportion of the fleet", since there is little clarity on the future requirements. As such, there will not be a huge number of conventionally powered large tankers ordered during the next five years, he said, which would make the market vulnerable to supply shocks.

This, in turn, led panel moderator Mandarin Shipping chairman Tim Huxley to joke that "perhaps the second-hand VLCC is the great punt for the next few years".

Minor bulks specialist Taylor Maritime's chief executive officer Edward Buttery meanwhile said that when he started up his relatively new company, he was raising funds from scratch and it was based solely on asset plays. "Liquidity is basically all that anyone, especially in New York wants," he said.

This explains why the company almost exclusively owns Japanese-built ships. "Japanese handys in our segment is critical for liquidity because they are so much easier to sell," he added.

Dismissing doubts about ability to gain decent yields on these costlier investments compared with Chinese-built vessels, Mr Buttery explained that during the past 20 years, as long as the purchase price is less than $10m, if a 10-year-old Japanese-built handysize is fixed on the average time charter rate over that period an owner would return a yield of 9.5% on average.

OPINION

UK chamber says political demands will pay for themselves

THE Chamber of Shipping's four-point political platform will largely pay for itself if its demands are implemented by the next government, the trade association's chief executive has insisted.

Bob Sanguinetti was speaking to Lloyd's List after the publication of Stand up for Shipping, a set of measures to boost the industry's fortunes in the UK, this morning.

The mini manifesto urges all parties to commit to ensuring that Britain remains a major shipping centre, provide support for decarbonisation and support for training, and to work for frictionless trade after Brexit.

Mr Sanguinetti commended the government of Boris Johnson for its efforts to engage with maritime issues, saying that the government's Maritime 2050 framework is indicative of how seriously it took shipping concerns.

"I sense that shipping is very much to the fore of the politicians' minds, because of the importance that shipping represents to the UK as an island nation," he said.

However, the most urgent demand is that the next government - whichever party or combination of parties forms it - is to end uncertainty surrounding Brexit.

Mr Johnson's existing withdrawal agreement – which has been rejected by parliament – represents in Mr Sanguinetti's opinion "a good start" in building on existing ties to the EU.

But it must be followed up by longer-term agreements. In particular, he indicated that he favoured continued regulatory alignment between Britain and the remaining EU member states.

"Whoever gets into power is for the electorate to decide, but we will work very closely with the new government to make sure that we can continue doing trade to the extent we've been doing with the EU in the past.

"We do welcome the possibility of trade deals more widely. But in the first instance, we should consolidate what we do already with our biggest trading partner, the EU, through a comprehensive trade agreement with regulatory alignment, to make sure that we can continue to trade seamlessly."

Labour has pledged that if it is elected, it will implement the 2010 Carter Review, which recommends the extension of the national minimum wage applicable on land to foreign seafarers in UK waters.

Mr Sanguinetti said that he was not familiar with the Carter Review, but one of the Chamber's priorities during the course of the Brexit debate over the last three and a half years has been to ensure that UK shipping employers have access to the best people, both as seafarers and in shore jobs, while UK seafarers have job opportunities across the rest of the EU.

"My point would be that shipping is very much an international business, and wages and are negotiated internationally across borders, with the trade unions of seafarers involved, to make sure that we deliver a fair working environment," he said.

While the cost of implementing the CoS demands has not been calculated, Mr Sanguinetti insisted that it would not be excessive.

"Frictionless trade with our partners, I didn't think is something that would require further investment. It's just establishing the business environment and the alignment of regulations and so on to make sure the frictionless trade continues. And I would see that as net income rather than a cost.

"Likewise, to create the right business environment in the UK to attract ship owners through the right tax regime, and making it easy and attractive for companies to come and set up in the UK, would be an income generator rather than an expenditure."

Support for shipping decarbonisation might require investment up front, but will generate significant opportunities for the future, with benefits downstream.

"It requires leadership, it requires investment from the government to an extent that we've seen in other sectors such as the car industry, it requires governments to create the right incentives and tax breaks for companies already investing in R&D in the new technologies, to make sure that the UK remains in the lead in this very exciting area.

"This is clearly investing for the future and creating more jobs creating more wealth, creating more opportunities for UK companies."

ANALYSIS

Ocean freight customers face significant fuel price rise next month

SHIPPERS and freight forwarders are preparing to help carriers cover the extra cost of cleaner low-sulphur fuel from next month.

Prices look set to be around 34% to 38% higher than the level paid for the current IFO 380 (intermediate fuel oil) fuel. And although transitional or 'emergency' bunker charges were expected to apply only to spot rates and to contracts of less than three months, customers with annual contracts have also been requested by some carriers to start paying an International Maritime Organization bunker adjustment factor from December 1, container shipping analyst Drewry noted.

With the enforcement date of the IMO 2020 low-sulphur regulation only six weeks away, "shippers and forwarders are starting to get their cheque books out to help ocean carriers cover the additional cost of the cleaner, low-sulphur fuel", said Drewry Supply Chain Advisors director Philip Damas.

Drewry will publish its first bunker adjustment factor reference price, based on low-sulphur fuel and in line with its independent BAF indexing mechanism, on December 4.

Using this mechanism, the bunker reference price will change from the previous high-sulphur IFO 380 fuel to the new low-sulphur fuel and affect the new BAFs from January 1.

Examining what the numbers are likely to look like, Mr Damas said that since early October, the weighted average low-sulphur bunker price for major bunkering ports tracked by Drewry has been $542 per tonne. "So, assuming prices stay at about that level in the next two weeks, the Drewry bunker reference price for the period October-November will be around $530-$550, up about 34% to 38% from the $396 price of IFO 380 fuel at the same bunkering ports in the fourth quarter of 2019," he said.

Drewry recommends that shippers and forwarders use the average October-November low-sulphur price to set new BAF charges applicable from January 1, noting that several carriers have announced transitional or 'emergency' bunker charges applicable from December 1.

"These will apply, they say, only to spot rates and to contracts of less than three months, but a Drewry customer with an annual contract has also been requested by some of his carriers to start paying an IMO BAF from 1 December," added Mr Damas.

"It will be interesting to see whether the agreed contract BAFs go up pro rata the bunker prices, as stipulated by the Drewry BAF indexing mechanism, and whether some carriers end up reducing their base rates and charge the 'full BAF' in their next contracts. Shippers should continue to watch this topic closely in 2020."

MARKETS

Malaysia bans open-loop scrubbers

MALAYSIA has prohibited the use of open-loop scrubbers by ships plying Malaysian waters in the run-up to the 2020 sulphur cap regulations.

"Ships are now prohibited from discharging wash water from open-loop scrubbers while operating in Malaysian waters," Malaysia's Marine Department said in a notice.

"Ships calling at Malaysian ports are advised to change over to a compliant fuel oil or change to a closed-loop system (if a hybrid system is present) before entering Malaysian waters and ports," the department posted on its website.

While more shipowners are investing in exhaust gas cleaning technology to meet the International Maritime Organization's emission regulations, critics argue that instead of SOx being released into the atmosphere, scrubbers merely push the pollutants into the sea.

Closed-loop scrubbers keep most of the water used for sulphur removal on board a vessel for disposal at port, while open-loop systems remove sulphur coming through a ship's funnel with water that can then be pumped overboard, prompting major ports around the world to ban its use in domestic waters amid sea pollution concerns.

In a separate statement, the department said Malaysian ships that are forced to use non-compliant fuel will need to secure approval from the department, the port authorities where the non-compliant fuel was purchased and the destination port authorities, once the new regulations kick in on January 1.

Singapore and Fujairah, both major marine refuelling hubs, have already banned the use of open-loop scrubbers from the start of next year.

IN OTHER NEWS

North Club imposes 'transparent' 7.5% general increase and warns on combined ratio

NORTH P&I Club has joined the ranks of International Group affiliates intending to impose the going rate 7.5% general increase at the next renewal round, and has warned that it expects its combined ratio for 2019/20 to top last year's 105%.

The GI applies to both P&I and freight, demurrage and defence, and there will also be a minimum $1,000 jump in deductibles below $25,000 for the P&I class.

In addition, there will be greater emphasis on ship-by-ship pricing, in line with owners' individual loss records, and this will measure will "robustly undertaken" in the hope of keeping premiums as low as possible in subsequent years.

Euroseas acquires four vessels from Synergy for $40m

BOXSHIPS owner and operator Euroseas has further expanded its fleet.

The Nasdaq-listed company said it has entered into agreements to acquire four 4,253 teu containerships built in South Korea.

The vessels, built in either 2008 or 2009, are being acquired from Synergy Holdings for about $40m, the company said in a statement.

Chamber of Shipping publishes election demands

ALL political parties should commit to ensuring that Britain remains a major shipping centre, provide support for decarbonisation and training, and work for frictionless trade after Brexit, the Chamber of Shipping has demanded.

The calls form part of a four-point platform published by the industry trade association today, titled Stand up for Shipping, ahead of the general election being held on December 12.

The CoS is seeking more investment in green maritime technology, and tax credits for companies who invest in research and development to cement the UK's status as a shipping nation.

Houthi militia seizes Saudi tug in Red Sea

YEMEN'S Houthi militia have seized a tug that was reportedly towing a rig across the Red Sea.

Mohammed Ali al-Houthi, a Houthi leader, confirmed in a tweet the group has seized the vessel and would release it following the completion proceedings related to the violation of Yemen's territorial waters, Reuters reported.

He said that the safety of the crew on board the tug would be assured and that the Yemeni coastguards are checking to see whether the vessel belongs to South Korea or to "countries of aggression".

Euronav gains two suezmaxes with joint venture

CRUDE oil tanker giant Euronav has acquired two 14-year-old suezmaxes through a new joint venture to take advantage of what it expects to be a strong winter market.

The company announced it is setting up two 50:50 joint venture companies with affiliates of US-based Ridgebury Tankers and clients of maritime fund manager Tufton Oceanic. Each joint venture company will own one of the two vessels.

"Euronav will also provide financing for the joint ventures on commercially attractive terms," Euronav said in a statement.

BW Group plans to sell stake in DHT

BW Group is seeking to raise $101.3m by selling a 10% stake in very large crude oil tanker owner DHT Holdings.

The New York-listed owner of 27 VLCCs announced that the Andreas Sohmen-Pao-led BW Group wants to sell 14,680,880 shares of its DHT common stock at a public offering price of $6.90 per share.

The closure of the offer is expected around November 21, subject to conditions. DHT will not be offering any shares or receiving revenues from the share sale.

Classified notices follow on the next pages

ADMIRALTY COURT PUBLIC AUCTION SALE

Jack Up Rigs Decus, Fortius, Impetus, Laurus and Primus

All five jack up rigs were previously on long term contracts to PEMEX. The rigs have been configured for PEMEX requirements and are capable of drilling wells up to 30,000 feet

	Decus	Fortius	Impetus	Laurus	Primus
					
Design	Pacific Class 400	Pacific Class 400	Pacific Class 400	KFELS MOD V-B	KFELS MOD V-B
Builder	PPL Shipyard Pte Ltd.	PPL Shipyard Pte Ltd.	PPL Shipyard Pte Ltd.	Keppel FELS	Keppel FELS
Year Built	2013	2013	2014	2013	2012
Classification	ABS	ABS	ABS	ABS	ABS
Flag	Panama	Panama	Panama	Panama	Panama
Water Depth (ft)	400	400	400	400	400
Drill Depth (ft)	30,000	30,000	30,000	30,000	30,000
BOP	1 x Hydrill 15,000 psi	1 x Hydrill 15,000 psi	1 x Hydrill 15,000 psi	1 x Cameron 15,000 psi	1 x Cameron 15,000 psi
Top Drive	NOV TDS-8A	NOV TDS-8A	NOV TDS-8A	NOV TDS-8A	NOV TDS-8A
Mud Pumps	3 x NOV 2,200 hp 7500 psi	3 x NOV 2,200 hp 7500 psi	3 x NOV 2,200 hp 7500 psi	3 x LEWCOW-2215, 2,200 hp, 7,500 psi	3 x LEWCOW-2215, 2,200 hp, 7,500 psi
Derrick	NOV 1,500 kips	NOV 1,500 kips	NOV 1,500 kips	Lee C Moore 1,500 kips	Lee C Moore 1,500 kips
Draw Works (HP)	3,000	3,000	3,000	3,000	3,000
Accommodation	150	150	150	150	150

All five jack up rigs are currently warm stacked at Freeport, Bahamas where they are under the control of the Admiralty Marshal of the Courts of the Bahamas. They are to be sold by open auction, "as is where is" at the time of sale. For more information, or to arrange inspection, please contact the Admiralty Marshal at the address below.

The auction is now open, and offers may be submitted by email at any time. The auction shall close at 1200 hrs midday on

10th December 2019

Admiralty Marshal
Port Department Administration Building
Prince George Wharf
Nassau, N.P., The Bahamas
Phone: 1 (242) 322-8832 Email: bernewright@bahamas.gov.bs

For additional information on the rigs please contact the Admiralty Marshal and AMA Capital Partners:

Paul Leand
Phone: 1 (212) 682 3344
Email: pleand@amausa.com

Ken Becker
Phone: 1 (212) 682 3344
Email: kbecker@amausa.com

Disclaimer: The above information and any further particulars provided by the Admiralty Marshal are provided in good faith but no responsibility is accepted for their accuracy. Purchasers must make their own independent enquires.