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# IMO's greenhouse gas plan is already outdated

IT'S NOT ONLY Greta Thunberg and Extinction Rebellion who want rapid action to stop climate change, and 2020 is showing that in ways unimaginable when the industry was drawing up its game plan at London's Albert Embankment little more than two years ago.

Trafigura, the giant commodity trader, is calling on the International Maritime Organization to impose a $300 per tonne carbon levy on shipping fuels, even though it would be one of the big names on the hook for the costs.

BP, again nobody's idea of an anti-capitalist beatnik hippy wingnut outfit, thinks a properly designed scheme on these lines would mark a major contribution to slashing pollution.

Meanwhile, other major charterers have agreed to disclose annual shipping greenhouse gas emissions, and assess alignment with IMO decarbonisation targets.

That would mean not only greater transparency, but make emissions performance a key aspect in chartering negotiations, further incentivising reduction.

But the dominant sentiment in shipping is still deference to the IMO's half-decarbonisation by 2050 strategy, which increasingly resembles some kind of lowest common denominator.

It is in the nature of United Nations agencies to seek consensus, of course, but that consensus is crumbling fast. Shipowners have been put on notice of what is to come, and what will increasingly be expected of them.

The great English romantic poet Percy Bysshe Shelley once contended: 'Poets are the unacknowledged legislators of the world.'

Kirstin Holth, the former DNB ship finance chief, recently updated that axiom for shipping in the 21st century. In our case, charterers and financiers rather than the regulators that ultimately make the pace, and for many of them, the IMO blueprint comes over as too little, too late.

"I will not rank one ahead of the other, but you will, over time, not get access to the best resources, being human or capital, unless you have a sustainable business model, financially and environmentally, socially and corporate governance wise," she said.

To give IMO its due, its 2018 carbon reduction strategy has been an important catalyst, and that historic agreement would likely have been impossible without industry support.

But if shipping wants a say on its future — and support from lawmakers when it requires their help — it's going to have to prove its progressive environmental credentials.

Ultimately, entirely decarbonised supply chains are inevitable, and the industry is going to have to be part of them.

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## WHAT TO WATCH

# LNG marine fuel phase-out urged to drive decarbonisation

THE International Maritime Organization has been urged to adopt a decarbonisation path that quickly phases out the use of liquefied natural gas as a marine fuel and establish carbon pricing, rather than waste time on marginal abatement measures.

A Global Maritime Forum virtual meeting heard views from climate change leaders as well as oil company Royal Dutch Shell on paths to decarbonisation for shipping.

The discussion was one of many arranged ahead of IMO meetings during October and November that will discuss reducing greenhouse gas emissions amid intense lobbying over whether to consider carbon trading and taxes.

International shipping must reduce greenhouse gas emissions by 50% by 2050 and cut carbon dioxide emissions by at least 40% by 2030.

LNG was not the answer, the panel heard. Accounting practices were needed to separate real climate action from hot air, niche markets established to trial technologies, and carbon taxes raised to fund investment.

There was a "very big role" in shipping for hydrogen, which is then turned into ammonia, according to Adair Turner, chairman of the UK's Energy Transition Commission.

That required global electricity production, now at 27,000 terrawatt hours, to rise to 90,000 terrawatt hours to make the 600m tonnes of hydrogen needed for any transition. That is ten times the amount produced today, he said.

Mr Turner said he supported a recently announced unilateral European Union proposal to include shipping in its emission trading system as a "nudge" to international regulators.

Likewise, oil trader and charterer Trafigura's proposal for a "feebate" system to raise money for research into green alternatives placed a necessary and needed carbon price on shipping, he said.

"It is important that the IMO be bold, both in ambition and in the rule writing," said Fred Krupp, president of the Environmental Defense Fund.

He said the aviation industry's United Nation's equivalent, ICAO, showed "remarkable leadership" in March by establishing rules for carbon pricing and setting standards for alternative fuels.

"That's what we need to see from the IMO and doesn't have to be the same thing, it can be different," he said.

The IMO needs to avoid wasting money by going down a dead-end or succumbing to traps such as LNG, according to Mr Krupp.

"We need a green fuel and that means bringing alternative fuels to market and making them commercially available at scale at the right price.

"When you look at the life cycle analysis, including the methane emissions upstream, from the production and transport of gas from liquefying the product, it is just not an answer. It would be actually a backward step and investments in that LNG would mean stranded assets."

Carbon pricing can create the business model, so that there's a reason to have a business creating green fuels, he added,

Royal Dutch Shell, the first oil company to establish net-zero emission targets by 2050, defended its support of LNG as a bridging fuel.

"We spent a long time agonising over the role of LNG and this issue of locking in infrastructure because we've got our own fleet ourselves and we feel under intense pressure to decarbonise it," said Katherine Dixon, vice-president of the company's Energy Transition Strategy.

"We sell a huge amount of the dirtiest, bottom-of-the-barrel stuff on shipping.

"The judgement in Shell has been we don't want to hold back the end-ready solution, we're investing in it but we've actively chosen a pathway — and we don't think that we're all-knowing on this — but we've aligned on a pathway internally that we think has the most chances of success.

"We're investing in it, and we've asked ourselves very carefully the question of whether we should continue to invest in the expansion of LNG bunkering... as we don't want to have stranded assets either."

Shell is proposing so-called niche markets for alternative fuels to trial where technologies can be trialled and scaled. A "systems approach" is needed, said Ms Dixon.

"It's not enough for us to produce the hydrogen or the ammonia, you need the ships to be built, the bunkering to be in place, the entire system needs to invest in the transition. That means governments coming together to support industry and play that coordinating role in governance."

Mr Krupp suggested the industry focus on using hydrogen rather than LNG as an interim fuel. Hydrogen produced by electricity that was not generated by renewables such as wind or solar technology was preferable over LNG, which had methane slippage issues, he said.

Mr Turner said the fertiliser industry could be a driver to kick-start the use of green ammonia for shipping. By demanding green ammonia for fertiliser, this could drive the use of green hydrogen, used to produce it.

# LNG boxship conversions not economically viable

THE conversion of existing containerships to LNG propulsion is not yet commercially viable, according to the first company to have attempted the process.

Work began last month on converting Hapag-Lloyd's 15,000 teu *Sajir* at China's Huarun Dadong yard, after being delayed by the pandemic.

But chief executive Rolf Habben Jansen has warned that the cost of converting the ship to LNG means the decision on whether to convert any of its other vessels is on hold.

"The conversion is not trivial," he said in a briefing.

This was despite the vessel, one of 17 it acquired through its merger with United Arab Shipping Co, being designed to be LNG-ready.

"Even then it is turning out to be a fairly costly exercise," said Mr Habben Jansen. "We'll have to see if we convert more ships. In this case we will be looking at around $35m in investment, which we will not earn back in the lifetime of this ship."

The cost of conversion would need to come down closer to $25m to be commercially viable, he said.

"We need to find ways to bring those costs down otherwise it will be economically very difficult to do more ships. It has been a good pilot, but we may not be able to proceed with any more. We're still looking at ways to get those costs down."

The company would, however, continue to look for ways to reduce its CO2 emissions, however.

"We need to step up our efforts to further reduce our environmental footprint," said Mr Habben Jansen. "We will start making a new plan for what will do over the next three to five years. It is one thing to be climate neutral in 30 years from today, but for us it is equally important that we make progress every year and that when we look back at 2020–25 we can demonstrate that we made material progress."

The company is already trialling the use of biofuel blends in its bunkers, and would consider LNG as a power source in any newbuilding orders.

But he reiterated that no orders were imminent.

"We have said before that at some point we will have to order some new ships, simply because the last order we put out was in 2015," he said. "We are constantly looking at that but you should not expect that an order from us is around the corner."

Mr Habben Jansen said that beyond LNG, the future of zero-emission fuels remained clouded.

"I still think the overall picture on what future fuels will be is not yet fully clear. Hydrogen will definitely play a role in the future, but I think there is going to be some sort of synthetic fuel that is gas based."

## OPINION

# Digitalisation: Do the numbers stack up?

START-UP entrepreneurs must be so frustrated by shipping's inability to understand why digitalisation is not the answer to every one of the industry's concerns, *writes Richard Clayton*.

If only shipping companies just shared all their commercial data with each other. On a common platform created by, say, a start-up entrepreneur. Then every company would have the same opportunity to become efficient, sustainable and innovative.

Anywhere, anytime, any device.

The maritime industry lacks a willingness to share information because, essentially, stakeholders are not entirely confident that proprietary data will not be used by a rival to gain competitive advantage.

"The real problem in digitalisation is getting people to trust each other," said one senior port executive speaking on a recent IMO/MPA Singapore webinar. Another speaker agreed that the real problem was not technology at all, it's people.

There's the rub. It is a stand-off between the technocrats in the red corner and the democrats (with a small 'd') in the blue corner. It is a tension between a company's business strategy and the digital processes imported to refine and enable that strategy.

Unfortunately, for many companies, digitalisation has become the strategy.

Lack of trust has kept blockchain in its box, while lack of a strategy has persuaded the messiahs of autonomy to rethink their messaging (Maritime Autonomous Surface Ships is a bid to improve levels of safety not to reduce crew size).

Every cyber attack adds to industry-wide anxiety. Sharing data on a common platform is like revealing your password to a stranger who claims to be your bank manager or accepting an invitation to receive a million dollars in return for a Nigerian promissory note.

The Global Maritime Forum's issues monitor observed that digitalisation holds promise. The forum's report began one section by saying the pandemic had shown digitalisation to be "a shortcoming in the industry," by which it meant the lack of digitalisation.

Industry experts thought that improving the use of technology should be a top agenda item because it would bring benefits such as data optimisation, improved risk management and improved environmental performance. Some suggested shipping companies need to form technology-based partnerships to stop disruption from leading technology firms that are further down the digital pathway.

Shipping gets it. Digitalisation — much more than digitisation — would be good for the industry. There are enough examples of savings of expense, energy and time with reduced emissions and fewer casualties to show that it's a benefit on a small scale.

But scale is the problem. Moving from the individual ship/company level to shipping or even logistics supply chain level exposes maritime business to threats against which it cannot protect itself. It is extraordinarily irresponsible to discuss the benefits

of digitalisation on a Tuesday, then to discuss the advantages of secure networks and cyber security protocols on a Friday. They are one and the same thing and must be discussed together.

That's because digitalisation will always struggle with something far more simple than technology, a very human anxiety: we are still not sure it's safe.

**MARKETS**

# Limited Colombian coal dents demand prospects for larger bulkers

COAL shipments from Colombia have fallen to fresh lows as September volumes dropped to around 3.2m tonnes, which is the lowest monthly rate on record, according to Braemar ACM.

The figure is 32% lower than August this year, and 52% below September last year, the brokerage said.

Panamax shipments have been hit extremely hard, falling by 75% in September year on year, while capesizes dropped to only 12 vessels loaded compared with 24 last year, it said in a note.

At the start of the year, coronavirus lockdowns halted mining operations in Colombia and South Africa. In addition, a fall in demand has also hit outlooks.

Glencore reported that its thermal coal output fell 20% to 35m tonnes in the first half of the year versus the same period a year earlier.

Attributable production from Cerrejon, its venture with Anglo American and BHP, fell to 2.7m tonnes in the first six months compared with 4.2m tonnes in the corresponding period last year.

Mining operations at Cerrejon were suspended at the end of March and restarted on a limited basis from early May, Glencore said.

For Prodeco, operations were also suspended in late-March and remain on "care and maintenance", resulting in first half of the year output losses of 48% to 3.8m tonnes versus the same period last year.

Glencore said it was seeking to extend the care and maintenance period until market conditions improved.

More recently, strikes at sites operated by Cerrejon have restricted volumes further, with reports that it will not meet its 20m tonne output target for the full-year. Previous guidance, before the pandemic broke, had been in the region of 26m tonnes.

SintraCarbon, Colombia's union of coal industry workers, said this week that it was invited to talk with the ministry of labour to try to find a resolution to the dispute about worker's rights.

The South American nation relies heavily on its commodities exports.

Workers were said to be demanding a salary increase above inflation, combined with health, education and housing benefits, according to media reports, while the miners were accused by the union of cutting costs and benefits, while expecting longer working hours.

The dry bulk market had been expecting to see an uptick in volumes in October, following the end to the industrial activity, but it is doubtful that this will materialise, a source said, adding that enquiries were being made about capesize tonnage ahead of the anticipated resumption in activities.

# Container spot freight rates resilient post-Golden Week

THE container freight rate spot market is showing signs of resilience in the post-Golden Week period, with indices largely unmoved at the start of the traditional slack season.

The Chinese holiday marks the close of container shipping's peak season as the world's largest exporter's factories close down. Production takes time to ramp up in the following weeks.

The demand slump that coincides often prompts significant rate erosion in the spot market, before picking up in the latter stages of the year.

However, with reports of continued strength in volumes and positive market sentiment abound, rates initially appear to be holding firm.

This week's Shanghai Containerised Freight Index was little changed at $1,438 as spot rates on the transpacific and Asia-Europe trade lanes stayed relatively steady.

More significant, however, is how its value, weighted on 13 trades out of Shanghai, is up 93% on the corresponding week of 2019.

On the transpacific, the scene of skyrocketing rates in weeks gone by, the SCFI showed prices per 40ft box stay at $4,622 on the China-US east coast route, and falling marginally to $3,848 per feu on routes to the US west coast from China.

Asia-Europe spot rates showed equal resilience.

Rates to northern Europe from China slipped just 1.6% to $1,149 per teu, and a lesser marked 0.7% to $1,202 per teu on China-Mediterranean services.

With carriers enjoying a faster than expected post-covid recovery in demand, the hope will it be that it lasts through to the end of the year.

As things stand, the container shipping industry is set to witness its most profitable 12 months in years. Not least due to the post-pandemic bounce in volumes, but more importantly a disciplined approach to capacity that kept rates afloat even during the height of the pandemic.

Investment analyst Jefferies is one of several industry commentators and analysts forecasting volumes to remain strong, at least in the short term.

Jefferies forecasts post-Golden Week volumes to be maintained, based on forward bookings and by the continued restocking of inventories in the US, which will strengthen transpacific numbers.

Carriers too have also made the move to reinstate previously blanked sailings in the first weeks of October to cope with unexpected levels of demand, but also to clear a backlog of containers that has built up on quaysides across North Asia, according to S&P Global Platts.

SeaIntelligence noted how capacity post-Golden Week on the transpacific trade was up some 26.6% and 30.2% on routes from China to the US west coast and US east coast, respectively, on the corresponding week of last year.

However, there is an expectation that rates will begin to falter come the end of October.

One US-based carrier source told S&P Global Platts that "demand will collapse like a sucker punch to the gut".

How carriers manage capacity in the coming weeks will determine whether rates follow a similar fate.

# Box freight rates likely to ease despite strong volumes

FREIGHT rates are unlikely to remain at their current stratospheric levels for long, despite continued strong demand on major east-west trades, according to Hapag-Lloyd chief executive Rolf Habben Jansen.

He told a media briefing that he did not know how long the transpacific rates boom would last.

"I would like to think years, but it could also be weeks or months," he said. "We have been so often wrong when we try to look at freight rates."

But rates would likely ease, he added.

"I do not expect rates will remain at the level where they have been during the past couple of months. This is just a spike that no one foresaw in an unusual period. There will be a correction to that."

That uncertainty had been partially behind the withdrawal in capacity that had led to shortened supply and pushed up rates.

"When we look at volume in the market I would say that it is not as severely impacted by Covid-19 as we had originally expected," said Mr Habben Jansen. "Initially we felt there would be a double-digit decline. In reality the impact was mainly between April and July and there has been a strong recovery on the east-west trades since then."

The industry had reacted well to the sudden collapse

in volumes, but had also responded by returning capacity when demand increased again during the peak season, he said.

"Capacity that was withdrawn in April and May has come back, and from August we have been well ahead of last year's deployed capacity," added Mr Habben Jansen.

He also defended moves to withdraw capacity during the downturn.

"If we lose 20% of our volumes, then we lose $200m of revenue per month," he said. "In order to react to that you have to take costs out of the system."

He said that the market had been difficult to predict during the pandemic, and the company had had to act fast to meet changing conditions.

"One of the things we've learnt this year is that the market is changing very rapidly and we need to move very quickly to respond to changing market conditions. In the second quarter, after the pandemic spread, we changed half of all our services, which is something that would normally take a couple of years."

Equally surprising had been the return to strong levels of demand.

"If you go back a couple of months, no one would have expected demand today to be as high as it is," Mr Habben Jansen said. "Most experts expect the strong demand to continue at least until Chinese New Year, but inventories seem to be fairly low so it may last longer than that."

Low inventory levels in some markets would help drive demand, he added.

"It must have something to do with all the stimulus that has gone into the economy. One of our hypotheses is that as people spend less money on services they are spending more on goods that are supplied in containers."

## IN OTHER NEWS

**Electronic engines pioneer shipping's digital journey**
THE maritime digital journey might be said to have begun with propulsion technology — with shipowners' demand for better main engine performance and manufacturers' development of electronically controlled engines.

Optimising performance was difficult with traditional mechanical engines. Readings were taken and compared with settings in the technical manual.

"There is a fundamental requirement to limit operational cost," said Dominik Schneiter, vice-president of research and development at WinGD, the Swiss engine developer.

**Shipyard extends closure after more infections confirmed**
HAVYARD Ship Technology's Leirvik shipyard in Norway, which has been closed down after an outbreak of coronavirus among its staff, will not reopen before October 19.

The company said it is extending the shutdown following a ruling of the municipal authorities and after tests revealed more infections.

As many as 75 people associated with the yard have now contracted the virus, the company added.

**Vale joins venture to boost import capacity in China**
VALE, the Brazilian mining giant, is to invest Yuan4.3bn ($641.3m) in building a new terminal at the Port of Ningbo-Zhoushan with a Chinese partner.

The project will boost the handling capacity of the major iron ore transhipment hub, which is seeking to buy more of the bulk material from the other side of the Pacific to diversify its import sources.

Shanghai-listed Ningbo-Zhoushan Port Co, the main operator of the port, said it has set up a 50:50 joint venture with Vale.

**New Diamond towed to Fujairah after owner pays compensation**
THE very large crude carrier that caught fire off Sri Lanka's east coast is being towed to the United Arab Emirates, after the shipowner paid more than $2m of firefighting expenses.

Dutch salvage company Smit Salvage has confirmed that the 299,986 dwt *New Diamond* is now on its way to the port of Fujairah.

The stricken VLCC is expected to arrive at its destination later this month, after which the crude on board will be pumped out and repair work will be planned.

**Suez collision case 'shouldn't have come to court'**
THE Suez Canal collision case

should not have proceeded as far as the UK High Court because it was clear from the start where responsibility lay, according to the law firm that acted for one of the vessels involved.

HFW partner Jim Cashman, part of the team representing one of the exonerated ships, said that it is extremely rare in collision cases for one of the vessels to be found 100% liable.

"But this really was an open-and-shut case and should never have gone to trial, as it was abundantly clear from the outset who was at fault," he said in an interview.

# Classified notices follow

**INTERNATIONAL TENDER FOR PROCUREMENT OF ONE (01) USED AFRAMAX VESSEL**

Tender No:**PLG/AFMAX/2020/003**

Pakistan National Shipping Corporation invites bids through **protected E-mail** for the **"Procurement of One (01) Used AFRAMAX Vessel"** on PNSC Standard Bidding Documents as per Public Procurement Rules, 2004.

Bidding Documents can be downloaded from PNSC website: www.pnsc.com.pk till November 11th, 2020. This advertisement is available on PPRA website www.ppra.org.pk. The Bids on prescribed forms duly filled-in signed and stamped should be sent through protected E-mail only, at E-mail Address: vessel.purchase@pnsc.com.pk title of Tender is **"Tender for Procurement of One (01) Used AFRAMAX Vessel"** latest by (1500 PKT/1000 GMT) **November 12th, 2020.** Bids will be opened on the same day at (1530 PKT/1030 GMT)in the presence of bidders, who wish to attend.

Moreover Pre-bid meeting shall be held on **October 28th, 2020**(1500 hours PKT/1000 hours GMT) at Board Room, 14th Floor, PNSC Building. However, international bidders can join through video-link for which they will have to send an email at sandp@pnsc.com.pk two (2) days prior to Pre-bid conference for coordination.

PNSC reserves the right to accept or reject any or all the bid(s) as per PPR, 2004.

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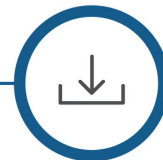

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