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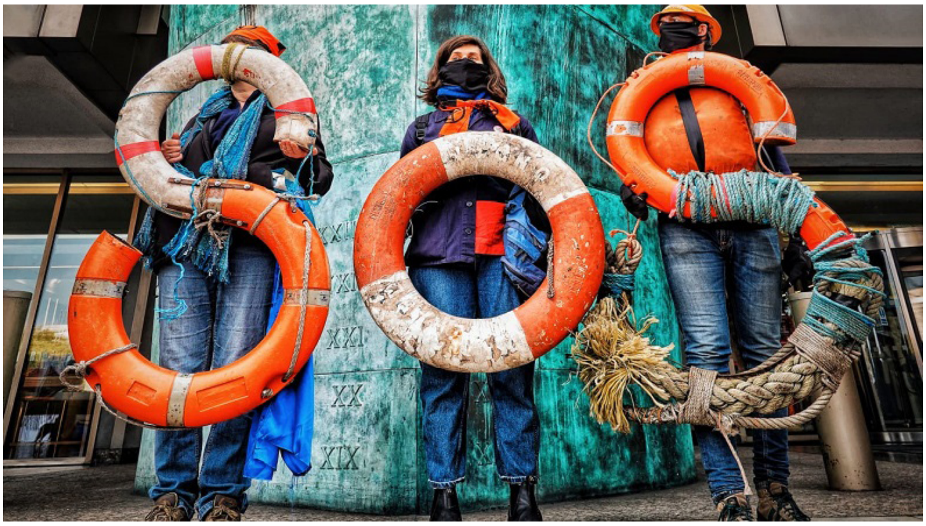
Marshall Islands adds voice to IMO decarbonisation backlash



ONE OF THE world's largest flag states has criticised an industry-backed proposal for a global short term-measure to cut emissions.

The proposal seeks to impose new broad energy efficiency requirements and individual annual carbon intensity targets, disclosures and rating obligations for ships.

It has the backing of the International Chamber of Shipping as well as Japan, China, Denmark, Norway and other shipping nations.

But the Marshall Islands is rejecting the plan, which is being debated this week at the International Maritime Organization.

Albon Ishoda, the Marshall Islands' ambassador to Fiji, who is leading a delegation to the IMO, said the "compromise short-term measure proposal is neither consistent with a 1.5°C temperature pathway nor consistent with the levels of ambition" previously outlined by the IMO in its greenhouse gas strategy.

Lloyd's List understands that the proposal is being used as a base text during IMO talks tasked with carrying out much of the technical work of the proposal, which still has several outstanding issues around implementation.

The aim is to agree on a finalised text that regulators can further deliberate and officially approve at the Marine Environment Protection Committee, the IMO's ultimate environmental decision-maker, which meets next month.

Mr Ishoda said that if the IMO is serious about keeping its commitments, the stringency of the measure and the enforcement of the proposal must be strengthened.

“This measure will not alone solve our long-term climate problems, but ambitious climate action this decade is key to set the IMO on the right path,” he said in an interview.

The Marshall Islands flag accounted for 162.7m gross tonnes as of November 2019, giving it a unique commercial interest in regulatory negotiations. The region is also one of the most at risk from rising sea levels and has been among the most vocal proponents of the implementation for the Paris Agreement.

Mr Ishoda’s criticism echoes that of environmental groups who warned the proposed measure is insufficient to meaningfully cut down emissions and falls short of the IMO’s initial greenhouse gas strategy target.

Green groups had proposed earlier this year had suggested that IMO force ships to improve their carbon intensity by at least 80% by 2030 compared to 2008, making it the most aggressive short-term measure proposal on the table.

The combined proposal that is currently being discussed did not incorporate this more ambitious one from groups Clean Shipping Coalition and Pacific Environment.

Another key concern for those opposed to the proposal has been its enforcement and its expected effectiveness. The co-sponsors acknowledged they could not agree on a number of points and laid out alternatives that governments at the IMO could then choose from.

One of those options would force ships failing to attain a certain carbon intensity rating to lose their statement of compliance, thus making them ineligible to operate and likely head for scrap.

But that would happen only from 2029 or 2030 onwards, a date that green groups claim is way too late to help cut emissions and meet the IMO initial strategy’s goals.

A protest organised by Ocean Rebellion, an affiliate group of Extinction Rebellion, targeted the IMO headquarters in London this week to push regulators to take more stringent measures.

“We demand governments and the IMO adopt real and enforced CO_2 regulation that turns shipping emissions downwards immediately, acting now to address the climate emergency and respect slender remaining Paris compliant carbon budgets in a credible and science based manner,” Ocean Rebellion said in a statement.

WHAT TO WATCH

DNK to return entire decade’s premiums

NORWEGIAN war risk club DNK is set to give members a $300m cashback from its free reserves.

The amount is roughly equivalent to a refund of all premiums over the last decade.

Tanker owners who have bought cover for tankers trading in the Middle East Gulf stand to rank among the biggest beneficiaries.

Recent years have seen some mutuals make similar distributions on the back of healthy investment returns. For instance, Steamship offered a 5% rebate on one year’s premiums in 2020 and 10% in 2016.

But the move from Den Norske Krigsforsikring for Skib stands out by dint of its sheer scale.

DNK has 450 members who between them insure 3,500 vessels with a combined sum insured of $222bn.

An emergency general meeting in Oslo later this month will hear a plan to distribute the money pro rata to the premium payment of individual members over the past decade.

The accompanying documentation makes clear that move is being seen in part as a way of boosting members whose finances may be under strain as a result of the worldwide coronavirus outbreak.

“We are observing that many of our members struggle with great losses as a consequence of the Covid-19 pandemic,” it said. “The capital reduction is justified for other reasons than to help the members in a difficult situation, but the planned distribution of equity in 2021 will undoubtedly represent a welcome contribution in demanding times.”

DNK’s generosity has evidently been made possible by the level of its solvency capital, which has reached $881m.

That is comfortably more than twice as high as its solvency capital requirement of just $378m, as per the stipulations of the Solvency II directive and Norwegian financial regulators.

In all, DNK’s solvency ratio has more than doubled in recent years, and now tops 230%.

Even after the distribution, equity is forecast to stand $570m, giving an estimated solvency margin of 191%, a level deemed more than adequate.

“The board of directors aims to maintain a solvency margin in the range of 120% to 130%, also after stress-testing for a financial crisis, insurance losses and the effects of defaults in DNK’s reinsurance programme,” the proposal stated.

“A solvency margin of 191 % absorbs the impact of these modelled risks without jeopardising the regulatory capital requirement.”

Until now, the club has responded to the enlargement of its coffers largely by expanding its cover, to take in areas such as war or warlike conditions between any of the permanent members of the United Nations Security Council and requisition by a flag state.

It has also reduced its own risk retention through the purchase of reinsurance, cutting retention in the event of war between major powers from $700m to just $400m, with a further $100m reduction planned for 2021 renewal.

Aggregate cover for a major powers’ war is to be held at $1bn, although duration has been doubled from 30 to 60 days.

Shipping groups plan ‘virus testing hotels’ in Manila for crews

SHIPPING trade groups will test and quarantine seafarers in Manila after coronavirus outbreaks on ships were linked to possible gaps in the Philippines’ crew change regime.

The Manila Marriott and St Giles hotels will be used from October 28 as part of a scheme set up by the International Maritime Employers’ Council and International Transport Workers’ Federation. A third-party security company will monitor the quarantined crew.

The groups said the plans were drawn up after “concerns raised by a number of crew change hubs in recent weeks over the authenticity of Covid negative tests obtained in the Philippines and over the efficacy of pre-embarkation quarantine served by joiners before being deployed”.

Western Australia’s state government earlier raised concerns with Filipino testing after several outbreaks this year on ships arriving at its ports.

About half of the 52 crew of the livestock carrier *Al Messilah* tested positive at Fremantle this week.

It said it would consider turning back infected ships to prevent outbreaks spreading, though it is not known if this is possible. Most of *Al Messilah*’s crew were Filipino, but it is not yet known where or when the ship last changed crews.

In August, Singapore’s Maritime and Ports Authority reported an outbreak among 15 Filipino crew on a ship arriving from India.

The IMEC/ITF plan would use grant funding to pay for the Manila hub. Members must pay for hotel rooms at about $40-$70 per day plus testing costs and must arrange transport to and from the hotels under coronavirus-safe protocols.

IMEC chief executive Francesco Gargiulo said ships were diverting to Manila because China and Australia did not allow them, so companies had to be sure Manila was a reliable source of seafarers.

But Australia should “look inwards” and consider more open borders to help the situation, he said.

“The fact you can’t get people into Australia is the reason ships are going to Manila,” Mr Gargiula said in an interview. “Manila didn’t exist as a crewing hub. It’s become a crewing hub because of all the restrictions.”

InterManager said some shipowners would be unwilling to pay for two-week hotel stays for seafarers. The industry should not be made to bear the burden of protecting seafarers only for countries like Australia to refuse them entry, its secretary general Kuba Szymanski said.

Mr Gargiulo said IMEC planned more crew change centres in India and Ukraine once the Manila centre was up and running.

It has booked 200 single rooms at the St Giles and 100 rooms at the Marriott, with rooms offered on a first-come-first-serve basis. Seafarers will be tested in their rooms on arrival and departure, with results within 24 hours.

"The facilities are in the process of being 'white-listed' by the Singaporean authorities and we hope this will be in place by the time they start operating," IMEC said.

ANALYSIS

Yard Talk: Shipbuilders vie for ultra-large boxship orders

PENDING orders for a batch of ultra large containerships may mark the climax of intense competition between Chinese and South Korean shipbuilders this year.

Mediterranean Shipping Co has signed a letter of intent with China State Shipbuilding Corp for the construction of six 23,000 teu ships, according to brokers.

Now yard sources in China have told Lloyd's List that the Geneva-based carrier may have had second thoughts about the deal because the Korean side offered "very attractive prices".

While designs and techniques at Chinese shipyards have advanced over the past decade, shipowners will still tell you in private that they favour Korean-built vessels, especially the high-end ones, because of the quality and after-sales service.

Price used to be a main resistance for owners in the pursuit of preferred products. Yet gone are the days when the country's builders could charge a 10%-15% premium over their Chinese rivals. The coronavirus backdrop and the unprecedented market depression have change the situation.

Now the major Korean yards are said to be quoting up to $144m for a 23,000 teu newbuilding with conventional propulsion systems and $30m extra for the dual-fuel version. That is only 2%-3% higher than the offers made by their Chinese competitors.

The thirst for new projects is certainly behind the willingness to sacrifice profit, based on past experience.

As of the end of the past month, the so-called Big Three — Hyundai Heavy Industries, Samsung Heavy Industries and Daewoo Shipbuilding & Marine Engineering — had only achieved about 27%, 12% and 21%, respectively, of their 2020 order targets, according to company disclosures.

Even a string of orders for liquefied natural gas tankers, expected by analysts to land later this year, will not be enough to fill up that huge gap.

Chinese builders have also been hit hard by the downturn, yet to a lesser extent it appears, on the backing of compatriot owners and lessors.

For the first eight months of 2020, their new orders in compensated gross tonnage terms shrank 31% year on year, according to Clarksons' data. Korean builders were down 64%.

However, do not expect the Chinese to fold easily when vying for the year-end order bonanza.

In addition to MSC, a couple of other major container lines — including Cosco Shipping, Hapag Lloyd, Evergreen and Ocean Network Express — are reportedly considering investment in fresh tonnage of 15,000 teu-23,000 teu, worth billions of dollars in total.

There is no chance for the Korean yards to win orders from Cosco, which is bound to support its compatriot builders. Yet the decisions of the other carriers seem to remain up in the air. Taiwan's Evergreen, for example, chose to bet on both sides when placing its super-sized ship orders last year.

Nevertheless, these newbuilding contracts will provide financing opportunities for Chinese leasing houses to profit. Some lessors, backed by large

Chinese-owned banks, have worked with shipping lines, such as MSC, for many years on many deals.

However, the choice of a shipyard's nationality will probably put them into an awkward position.

The leasing lenders must support domestic yards to be politically correct. That said, it will be difficult for them to reject their client's selection, as well as ships boasting a higher price-performance ratio.

Decarbonising shipping 'must be commercially viable'

A NEW dynamic is emerging in talk about green fuels for maritime: the need to make decarbonisation commercially viable.

BIMCO deputy secretary-general Lars Robert Pedersen raised the question of how the trillion-dollar cost of transitioning from fossil fuels to zero-carbon alternatives might be shared from a commercial standpoint.

"The transition is a special challenge," he said during a an industry discussion led by ABB Turbocharging.

Ships operating on very expensive green fuels will be competing with others running on low sulphur fuels.

"The market itself will not solve this issue," Mr Pedersen commented. "We need regulation. Operating a ship has to be a viable business."

The recent launch of an initiative by energy, mining, and agricultural charterers to align their shipping emissions with decarbonisation targets was "hugely welcomed" by the industry, he said.

Christos Chryssakis, business development manager at DNV GL, said a previous initiative from bankers in their Poseidon Principles was also helpful. "Shipping has passed a point of no return," he observed.

The speakers agreed that while it was technically feasible to decarbonise the world fleet, it would be hugely expensive. With so much investment needed in land-side infrastructure, all stakeholders must be involved.

Mr Pedersen stressed the need to derisk the operation of a low-emission ship. He said there are too many risks today — including pricing and rapidly developing technology.

"The regulatory framework is in place and the world is tuned in to do this," he said, though he cautioned that decarbonising shipping was not a quick fix. "This will continue into the 2030s and beyond."

In line with recent concerns, Mr Chryssakis called for global regulation for a global industry rather than regional policy.

"The EU Green Deal does not consider green shipping... we need a global regulatory framework from the International Maritime Organization," he said.

Further discussion of the commercial imperative in decarbonising shipping will take place at the Lloyd's List Posidonia Forum on October 26. The event will include shipowners Petros Pappas, Ioanna Procopiou, and Sadan Kaptanoglu.

MARKETS

Thailand slows spot LNG purchases as coronavirus hits demand

Thailand has slowed down its imports due to low domestic demand caused by the coronavirus backdrop.

Thailand liberalised its energy sector earlier this year, granting LNG import licences to private sector power companies for the first time in May. Until 2017, only state-owned oil company PTT had been allowed to import LNG. National power company the Electricity Generating Authority of Thailand was given a licence and started imports from 2019.

EGAT took advantage of low spot prices and imported 130,000 tonnes between last December and April 2020.

Gulf Energy Development, B.Grimm Power and Hin Kong Power Co have been granted licences but still need approval for their first gas shipments, the Energy Policy and Planning Office was reported as saying.

However, with gas demand continuing to fall with lockdown-related reductions in economic activity, levels have almost reached the minimum guaranteed purchase limits undertake-or-pay agreements, negating the need for additional spot purchases, the energy authority said.

Thailand receives its gas supply from domestic sources. It also receives imports from Myanmar and this is supplemented with some shipments under long-term purchase contracts with LNG exporters. These contracts usually stipulate a minimum purchase amount.

Meanwhile, congestion in the US Gulf and rising winter demand is putting upwards pressure on prices, with current spot prices about triple that during the second quarter.

IN OTHER NEWS

Laskaridis says Greek shipping must change 'for good and forever'

THE Greek shipping industry has been told it needs to open up and become more proactive if it wants to have greater influence.

Panos Laskaridis, chief executive of Lavinia Bulk, said despite being the largest shipowning group in the world, Greek owners do not hold the analogous amount of influence over policy decisions.

The former president of the European Community Shipowners' Association believes one of the reasons for this is that Greece lacks an actual maritime cluster, unlike other European shipping nations.

Operation to transfer cargo from listing floating storage unit

A TANKER is reported to be on its way to assist a stricken Venezuela-flagged floating storage offloading unit.

Nabarima (IMO: 9316567) is listing and at risk of sinking along with its cargo of crude oil.

The 1993-built, Panama-flagged *Icaro* (IMO: 9038842), a sanctioned vessel owned by Venezuela's state-run energy company PdVSA, is heading in the direction of the laden unit, Lloyd's List Intelligence data shows.

Dangerous cargo link to fatal boxship fire, say investigators

A DANGEROUS cargo was probably the cause of a fatal fire on board a Maersk containership, an investigation has concluded.

Five seafarers died following the incident on the 15,262 teu *Maersk Honam* in March 2018.

The Singapore-flagged vessel was en route from Singapore to Suez with 7,860 containers when the fire started. A report following the inquiry by Singapore's Transport Safety Investigation Bureau has been published this month.

Singapore gas giants increasingly adopt dual-fuel LPG carriers

SINGAPORE-based Eastern Pacific Shipping and BW LPG have been increasingly opting for dual-fuel liquefied petroleum gas carriers and boosting their green credentials by lowering their emissions profile in order to meet regulatory targets.

Eastern Pacific Shipping has agreed to exercise an option held with Hyundai Mipo dockyard for another dual-fuel LPG vessel, according to market sources.

The deal brings to four the number of 40,000 cu m tanker vessels Hyundai Mipo will build for Eastern Pacific. The South Korean yard is scheduled to deliver the vessels in the second half of 2022.

QTerminals buys Turkish port from GPH

QATARI port operator has QTerminals taken a 99.99% stake in the port of Akdeniz in Turkey from Global Ports Holding, the London-listed cruise port operator, for undisclosed consideration.

Located in Antalya, Akdeniz is primarily a commercial export port, specialising in handling containers and general and bulk cargo destined for global markets including Asia and the Middle East.

The deal brings the QTerminals portfolio to three, including the company's flagship Hamad in Qatar, and a recent 35-year concession for the management and operations of Olvia in Ukraine.

US charges Russians over NotPetya cyber attack

THE US has charged six Russian military intelligence officers in connection with masterminding cyber attacks, including developing NotPetya malware, which cost Maersk millions of dollars in 2017.

Those charged are all officers in the Russian Main Intelligence Directorate, known as GRU, a military intelligence agency, the Justice Department said in a statement.

They are alleged to have engaged in computer attacks intended to support Russian state efforts to undermine, retaliate against, or otherwise destabilise events around elections in 2017 in Ukraine, Georgia and France, efforts to hold Russia accountable for the use of a weapons-grade nerve agent in the UK, and the 2018 Winter Olympics.

Japan Inc pulls out of Australia's first regasification project

JAPAN'S largest liquefied natural gas buyer, JERA, and trading house Marubeni have exited as equity partners in Australia's first floating regasification project.

JERA and Marubeni have sold out their interests to Australia-based Squadron Energy, which is now the sole owner of the Port Kembla gas import project.

The Japanese duo "have indicated they remain open to future opportunities for targeted involvement in the AIE Port Kembla Gas Terminal project, including LNG procurement, and the development of an associated gas-fired power station", Squadron Energy chairman Michael Masterman said.

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