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Governments split on market-based measures for GHG emissions

GOVERNMENTS MEETING AT the International Maritime Organization this week were divided on beginning politically tense negotiations on market-based measures, setting the scene for the next major regulatory battleground for greenhouse gas emissions from shipping.

Countries at the IMO Marine Environment Protection Committee disagreed on Wednesday on whether to start work on medium and long-term GHG emissions measures as well as on the revision of the 2018 IMO initial strategy, which is scheduled for finalisation in 2023.

European Union governments and some Pacific Island states called for negotiations to start on more GHG measures and on the strategy revision as soon as possible, while China, Russia, the United States, Brazil and others resisted, voicing concerns about the widespread implications of what they deemed to be a premature move.

MBMs, such as a bunker levy or a carbon tax, are considered as one of the most effective ways to force ships to cut down on fossil fuel use and promote the development of low-carbon fuels and they have received shipping industry backing during the past few years and even a complete proposal for an IMO carbon levy tabled by commodity trader Trafigura.

But MBMs would also increase transport costs, with many concerned the impact would be disproportionately high for developing and small island developing states, because of their high dependence on trade.

The IMO MEPC approved earlier this week a short-term measure on GHG emissions, primarily aimed at cutting average carbon intensity by at least 40% by 2030, one of the IMO's main goals. Important details need to be finalised before the measure is adopted next year and becomes official regulation.

The IMO agreed in 2018 to begin negotiating mid-term measures, including MBMs, from 2023 to 2030, though it recognised that some work on some will need to start before 2023. Discussion on long-term measures, like development and provision of zero-emissions fuels, would start in 2030.

But amid a growing sense of urgency for more rapid action on emissions and following vocal disappointment in the ambition of the approved short-term measure, some countries are demanding negotiations and planning on these measures and the strategy revision to begin as soon as possible.

The Marshall Islands and Solomon Islands proposed to the MEPC to set up a working group dedicated to MBMs that would meet before the next MEPC, held in June 2021. They also proposed MEPC to begin work on medium and longer-term measures more broadly and to start the revision the initial strategy in spring 2021.

MBMs "that align with the revised levels of ambition must be implemented as soon as possible", the two countries also said in their proposal.

Several European Union governments including France, Spain, Denmark, Cyprus, and Malta supported the proposal from the two Pacific nations and called for the opening of talks of new measures and on the revision of the IMO strategy.

Germany said it agreed that "we should urgently progress with the debate on mid-term measures as well as planning discussion on the revision of the IMO GHG strategy".

Canada also said that it was critical to make progress on mid and long-term measures and to look at strengthening the goals during the 2023 revision of the strategy.

Kenya also called on the IMO to progress to the debate on medium and long-term measures.

But the suggestion by the Marshall Islands and the Solomon Islands and the broader call for a speedy move to the MBMs debate met vocal opposition from influential maritime and IMO nations.

Resistance to talks

Opposed governments cited different reasons for their resistance to opening these talks now, ranging from the need to focus on the finalisation of the short-term measures and the lack of technological alternatives to the potential impacts of MBMs on trade.

China opposed the Marshall Islands proposal and warned that given the lack of zero-emissions fuels, seeking to amend the IMO initial strategy would affect the sustainable development shipping, lead to unfair competition and impeded international economic recovery.

"We also believe the current focus should be on development and implementation on the package measures on ship carbon intensity," China said.

The US said it could not support the proposal, arguing that there is still substantial work to be done on short-term measures and that mid- and long-term measure work will require a significant amount of work.

"While work on mid- and long-term measures is important, we should not distract or delay work on finalising short-term measures" the US delegation added.

Russia further opposed opening talks on MBMs, noting that any such discussion could begin when there are "adequate and affordable technical alternatives" to the technologies against which the MBM is directed.

"It is not accidentally that MBMs are mentioned in the IMO strategy as one of the candidate mid-term measures to reduce GHG emissions and not mentioned as a standalone measure, but as part of new innovative emission reduction mechanisms that first need to be developed and put on the market," the Russian delegation said.

The impact on trade also came to the fore, with Argentina saying in its opposition to the proposal that MBMs will affect international trade and could run counter to World Trade Organization agreements.

India similarly called on the MEPC not to reopen the MBM debate because of concerns by some countries that it could breach their national commitments to WTO agreements.

Brazil said it does not support adopting any further measures without a proper impact assessment "especially one that can create disproportionate distortion in the market, such as a market-based measure".

The Cook Islands said than MBM in the form of a financial levy would mean costs being passed down the supply chains, where countries like the Cook Islands pay as ours pays the price again in a disproportionate manner.

"We cannot even consider going forward on any other sort of measure without the impacts of such a measure being identified," the country's delegation said.

MEPC chairman Hideaki Saito reflected the split in the views in his summation of the debate but he did not specify what that means for the Marshall Islands and Solomon Islands' proposal. Its fate should become clear on Friday when the MEPC finalises its decisions of the week.

WHAT TO WATCH

Europe welcomes IMO emissions-cutting measure

THE European Commission has welcomed the approval of a new global greenhouse gas emissions-cutting measure but has reiterated plans to include shipping in its carbon market regime.

The International Maritime Organization this week approved a combined short-term GHG emissions measure with technical and operational efficiency requirements for ships.

"The agreement reached in the IMO to introduce new mandatory technical and operational measures lays the foundation for a dedicated IMO legal framework to make existing ships more energy efficient," an EC spokesperson told Lloyd's List.

The measure was the result of heavy compromise among member states and has received criticism for not being ambitious enough and potentially not helping in meeting some of the IMO's key emissions goals.

"However, we recognise the outcomes do not meet all the expectations and the level of ambition agreed at the EU level," the spokesperson added.

Despite its support for the IMO and the new measure, the commission still plans to include shipping in the European Union's Emissions Trading System, the bloc's carbon market.

The move is opposed by both the shipping industry and the IMO, who want global uniform regulations on emissions.

The commission is expected to roll out its proposal for a revised carbon market, which will include at least intra-EU shipping, in mid-2021.

The European Parliament has already proposed that both intra-EU and international voyages be included in the ETS.

German owners back new IMO line on greenhouse gases

THE German Shipowners' Association has hailed carbon dioxide emissions reduction proposals adopted by the International Maritime Organization's Marine Environment Protection Committee as a major step forward for the industry.

The intervention by Verband Deutscher Reeder comes at a time of talks at the United Nations agency, which could see a split between governments that want action as soon as possible and those that want to resist what they consider to be premature action.

However, a resolution mandating a short-term target to cut shipping-related carbon dioxide emissions by at least 40% as early as 2030, using 2008 as a base year, has found sufficient consensus to be approved.

Set to apply from 2023, the proposals will extend the standards applied to newbuildings from 2013 to take in more than 50,000 maritime vessels in service worldwide.

"This far-reaching resolution represents substantial progress regarding the contribution by shipping

towards combating climate change," said Ralf Nagel, chief executive of the association, who highlighted the industry's commitment to protecting the environment.

All ships will be required to conform to the new Energy Efficiency Existing Ship Index, known as EEXI. This will entail mandatory technical measures to lower CO2 emissions to an extensive degree.

EEXI effectively requires nearly the entire global merchant fleet in service to become up to 50% more energy efficient, depending on vessel types.

To this end, each ship will receive an assessment of its carbon intensity, classified into five categories from A to E, in a manner similar to household appliances.

This Carbon Intensity Indicator stipulates that for ships assessed only as D or E-compliant for three consecutive years, a mandatory plan will need to be created to bring down emissions.

In addition to the short-term target for 2030, in the long run shipping has already committed to at least halve global CO2 emissions in absolute terms by the middle of this century.

ANALYSIS

Armed guards 'not the answer' to piracy threat

SHIPOWNERS considering turning to armed guards to protect vessels in the Gulf of Guinea have been warned that more firepower is not the answer.

Piracy and maritime crime off Nigeria and its neighbouring states has spiked with the end of the rainy season, with 19 seafarers kidnapped in two incidents in the past seven days and a spate of failed attacks.

"Armed guards are increasingly on the wish list of many shipowners with ships in the Gulf of Guinea," said BIMCO head of maritime safety and security Jakob Larsen.

UK-based Ambrey, the biggest provider of maritime armed guards, said it had seen "greater contracted security engagement" in West Africa amid wider recognition of the threat to shipping.

The armed guards' market is smaller than it was a decade ago as falling prices drove consolidation, although it did not shrink as much as some expected. Ambrey said the Indian Ocean market was still robust, reflecting the view that Somali piracy has been suppressed, but not eradicated.

PCA Maritime director Peter Cook, founder of the now-defunct Security Association for the Maritime Industry, said the group had 180 members at its peak in 2012. That fell to 100 companies in 2016.

Mr Cook estimated there were about 50 to 60 private maritime security companies now, with 43 companies certified under the relevant ISO standard. He said more than 80% of business was split between 10 or 12 companies.

"The industry is alive and kicking, if leaner and undoubtedly more cost efficient than it was in the early days," he said.

But security consultants said differences between the piracy threats in East and West Africa mean armed guards are unlikely to see a Somali-style boom.

Most Gulf of Guinea states ban armed guards in their territorial waters and some view even unarmed guards with suspicion. Benin started permitting foreign guards this year, but they cannot disembark with weapons.

Last April the Nigerian navy arrested nine guards, including Greeks and an American, for suspected piracy and confiscated their rifles and ammunition, according to local reports.

Sea conditions also make it hard to deploy the floating, or "vessel-based" armouries that PMSCs use to avoid the legal hassles of where to store their guns.

The guards themselves could be another problem. "The quality of the people deployed out there has dramatically dropped," said Giuseppe Trizzino, founder of Rome-based security consultancy Praesidium International.

Complete disaster

Mr Trizzino said standards have fallen along with prices as competition increased and the Somali threat dwindled. Experienced guards have left the industry and fake qualifications are rife.

West African pirates were also better armed, more capable and more aggressive than Somali pirates. Mr Trizzino said having inexperienced armed guards facing them risked injury or death. "West Africa... if they would allow armed guards on board, it would be a complete disaster," he said.

Dryad Global partner Munro Anderson said the ban on foreign guards forced PMSCs to get creative, and most companies offered to broker security services provided by local navies. These varied between states and by cost, quality and reliability.

Private companies could also offer their vessels to host navies. But the price of a local security escort vessel — about $10,000 a day — meant many smaller vessels went unprotected, Mr Anderson said.

Mr Trizzino said shipowners were more likely to want armed guards to save on these costs than for the security benefits. "They're looking at their bottom line," he said.

He said crew training and vessel preparation were better for preventing kidnappings anyway. "Having a citadel and knowing how to use it, for us is the number-one defence for ships in those waters," he said.

Ambrey senior analyst Robert Peters said piracy has shifted toward areas where armed guards were illegal, or where there were gaps in enforcement. This has driven demand for "passive risk mitigation" measures such as intelligence reports, bespoke risk assessments and liaison officers.

John Stawpert, environment and trade manager at the International Chamber of Shipping, said the local bans on private guards meant ships using them could be denied entry or could face significant penalties.

"We would hope that in the near future, any reliance on private services or having to pay for seconded military personnel will be replaced by the many military operations being deployed in the region to suppress pirate activity," he said.

Mr Anderson said many ships based their risk of attack on the number of incidents, "which despite the high threat, remains low".

Lloyd's Market Association head of marine and aviation Neil Roberts said of the risk: "Some countries say it's unacceptable, others appear to accept that it's business as usual.

"Awareness is beginning to grow outside the region but it's a long-term problem that will not be solved quickly," Mr Roberts said. "Crews are right to be nervous."

Dry bulk owners bullish on long-term prospects for sector

US-LISTED dry bulk owners are feeling positive about future prospects for the sector.

The views are based on demand growing, albeit slowly, coupled with low fleet growth, following years of oversupply.

Speaking in a Marine Money virtual forum, executives from leading companies said the bright outlook could be realised provided newbuilding ordering was restrained.

Star Bulk Carriers president Hamish Norton said that the long period of downturn was caused by an inflated supply side. The orderbook was at 90% of the fleet in 2008, and it has taken more than a decade to "get back on track".

"A refrain from ordering is the right reaction," he said, adding that long-term investors can therefore feel safe. "Dry bulk offers a really excellent opportunity."

His company has an ambition to enter the "mid-cap" category, meaning it will need to get to the $2bn capitalisation mark from about $800,000 today, but fewer sources of capital are willing to invest in the sector.

"The next few years will provide a superb opportunity", due to a shrinkage of the fleet, he said.

Eagle Bulk Shipping's chief executive Gary Vogel said that dry bulk was a growth industry, which has contracted only once since the financial crisis. The market has however been subjected to unrelated events such as trade wars, swine fever, and ruptured dams, which saw cargo-carrying opportunities drop.

"We are moving to a healthier place," he said, adding that blue skies were on the horizon. "The industry is setting itself up nicely for the future."

While demand was constantly evolving, the China effect would "not go away", he said. Added to that was growth in India, and other economies once they emerge from the coronavirus backdrop.

Genco Shipping & Trading's head John Wobensmith said he was renewing his fleet ahead of what he saw as an improving market next year based on a more favourable supply side equation.

Looking ahead, charterers would drive a change towards being carbon-neutral, he envisaged. The drive towards being green was closer than anyone thought and would likely force consolidation, he said, with smaller players not able to afford new technology.

He said a ship-for-shares type of deals could be possible.

Mr Norton expects that shipping will be the first to go carbon neutral, although shipping companies will not be leading the charge as they do not have research and development teams.

"Shipping will be the guinea pig, which is a good thing, as it will lead to outsized profits," he said.

While the industry waits for what a future fuel may look like, owners could make efficiency gains by adapting vessels with special coatings or other equipment, Mr Vogel said.

MARKETS

Golden Ocean looks to dry bulk market strength in 2021

GOLDEN Ocean, John Fredriksen's dry bulk outfit, expects a strengthening market in 2021 and beyond, although near-term pressures may remain due to additional lockdowns in countries seeing a rise in coronavirus cases.

While the International Monetary Fund is expecting a drop of 4.4% in global gross domestic product this year, it expects a recovery of 5.2% in 2021, in large part due to rebounds in China and India, which should see increases of more than 8%.

The Oslo-based company's long-term outlook is also supported by a "rapidly declining growth rate of the global dry bulk fleet".

In the first nine months of this year, net growth has been at 3.1%, lower than the 4.2% growth forecast at the start of the year, based on higher scrapping levels.

In 2021, gross fleet growth will end up at 3.9%, according to estimates, before a further fall to 1.2% in 2022, based on current assumptions that no new vessels will be ordered.

Newbuilding contracting has remained muted, according to Golden Ocean, with only 8.1m dwt, or less than 1% of the fleet, ordered so far this year.

Based on its outlook, the company will maintain a "significant" spot market exposure for 2021, particularly in the capesize market, which gives operating leverage to the market strength expected in 2021, it said.

The company reported a net profit of $39m in the third quarter, up from $37m in the year-earlier period. It recorded losses of $2.3m from associated companies, mainly related to its investment in SwissMarine.

Despite the strong results, it has decided not to pay a dividend "due to the uncertain and evolving nature of near-term expectations". It expects volatility and rapid changes in sentiment.

"The company's results for the third quarter of 2020 demonstrate both its strong leverage to an improving rate environment as well as the strategic advantage gained by focusing exclusively on large vessel classes," chief executive Ulrik Andersen said in a statement.

"Due to scale, fleet composition and strong chartering capabilities, the company was well positioned to capture strength in both the charter and spot markets."

The company, which has 78 vessels in its fleet, of which 67 are owned, refinanced its $425m credit facility which is secured by 14 capesizes,

lowering its daily cash breakeven by $1,000 per financed ship.

It also completed the sale of its 22.19% ownership interest in SeaTeam Management to OSM Maritime for $3.6m and exited commercial management agreements for seven handysize vessels in order to focus on its core vessel sizes.

US west coast ports report surging container traffic

US west coast ports have all reported increased containerised throughput for the month of October, with Los Angeles and Long Beach seeing the highest monthly volumes in their history.

The Port of Los Angeles processed 980,729 teu in October, a 27.3% rise compared with the same month in 2019 and the busiest month in its 114-year history — though overall cargo volumes were still 5.3% lower compared with 2019.

The port's executive director Gene Seroka noted that overall volume has been "strong" but underlined the continuing imbalance between imports and exports through the facility.

October loaded imports reached 506,613 teu compared with October 2019, while loaded exports edged up 2.6% to 143,936 teu. Empty containers increased 39.3% compared with October 2019, reaching a record of 330,180 teu.

"For every three and a half containers that are imported into Los Angeles from abroad, only one container leaves filled with US exports," he said. "One-way trade will not put Americans back to work and it adds logistical challenges to the supply chain."

Mr Seroka has long noted that significant supply chain swings like the current one would occur and said there could be more ahead.

"With Covid-19 cases on the rise nationwide, the US economic outlook remains uncertain," Mr Seroka said. "Volume swings like the one we are seeing are an outgrowth of this uncertainty."

To counteract the uncertainty, he said the facility is using its trademark Port Optimizer data and the expertise of supply chain partners to prepare for "a range of scenarios" to respond to market demands in the months ahead.

Mr Seroka also announced the launch of a new data tool called "The Return Signal" that will assist the trucking community to know when and where they can return empty containers to cargo terminals throughout the San Pedro Bay complex.

The neighbouring Port of Long Beach last week also announced its highest-ever container throughput figure as dockworkers and terminal operators moved 806,603 teu in October, with trade up 17.2% year on year.

Imports jumped 19.4% compared with October 2019 with 402,408 teu, while exports were down 12.9% to 114,679 teu — reflecting a national trend. Empty containers headed back overseas grew 31.8% to 289,517 teu.

Altogether, the port has moved 6,513,908 teu during the first 10 months of 2020, which is 2.3% higher than the same period in 2019.

Meanwhile, to the north, the Port of Oakland said its October imports grew 10.4% year on year, with containerised exports down only 0.5%. The overall figure for October was up 5.8% at 216,686 teu year on year.

Compared with last year, the first 10 months of 2020 show full imports up 1.4% and full exports down 0.2%.

Port officials said consumer products are driving the strong import performance from Asia. In turn, this is causing retailers to continue stocking up fearing a second wave of factory shutdowns.

"We're cautiously optimistic because our industry partners are pointing to continued strong import demand heading into 2021," said the port's executive director Bryan Brandes.

"Peak season is here, and we're seeing retailers stocking up on as much product as possible."

Farther to the north, the Northwest Seaport Alliance of Seattle and Tacoma reported a 4.7% increase in import volumes for October, compared with the same month last year.

Port officials said shipper demand during peak season remained very strong and is forecast to remain so at least until the end of the year.

They said the surge has been driven by retailers bringing in goods for the holiday season and continuing to replenish inventory levels.

While full import demand increased, loaded export volumes in October were adversely impacted as carriers expedited return of empty equipment back to Asia, causing challenges for US exporters.

The NWSA handled 296,892 teu in October, a 4.2% decline compared with last year. Total container volume for the year was down 15.6% compared with 2019, with loaded imports down 13.2% and full exports down 14.4%.

IN OTHER NEWS

Digital freight forwarder Beacon opens Hong Kong office

LONDON-based freight forwarding and supply chain finance company Beacon has opened an office in Hong Kong, hoping to support a growing customer base and expand its global footprint.

James Yu, previously logistics programme manager at Uber in Hong Kong, has been appointed as ocean procurement lead.

Asia–Europe is Beacon's biggest trade lane and the company believes establishing a physical presence in Hong Kong is an important strategic development as a growing number of its customers have supply partners in China and elsewhere in Asia.

Italian classification society repels cyber attack

CLASSIFICATION Society Rina has become the latest maritime company to be hit by a cyber attack, which it describes as having been blocked, according to its website.

The development comes after cyber attacks on French carrier CMA CGM and the International Maritime Organization last month, with a long list of past victims including broker Clarksons and Danish shipping giant Maersk.

The Italian classification society said that customer data does not appear to have been exposed to risk of disclosure. If unauthorised access to such data is ascertained, those concerned will be promptly informed, it said.

DP World close to 'business as usual' at UK terminals

DP WORLD's terminals at Southampton and London Gateway plan to return to "business as usual" this month after "unprecedented" inbound container traffic in recent months that has led to longer vessel dwell times and slower processing of inbound containers.

"The UK is experiencing increased levels of inbound traffic into its port network. London Gateway and Southampton are operating effectively despite unprecedented inbound traffic," said the company's UK chief executive Ernst Schulze. "It is important to understand that having both ports operate at capacity does not mean that either has been or will become 'congested'."

He was speaking following reports that freight forwarders have faced multiple operational difficulties for months at Felixstowe, the UK's largest container port, and to a lesser extent at other UK ports.

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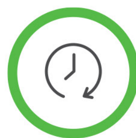

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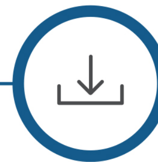

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