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IMO adopts CO2 intensity reductions to 2026 amid strong opposition

THE INTERNATIONAL MARITIME Organization has agreed that ships must reduce their annual carbon dioxide intensity by 2% annually from 2023 until the end of 2026, but with strong criticism from some of its member states, which saw the measure as lacking ambition.

The decision by the Marine Environment Protection Committee during a June 14 meeting that ran over schedule for more than an hour and a half is part of a packaged measure targeting vessels' operational and technical efficiency and which the MEPC is set to adopt later this week.

The package measure aims to fulfil the IMO's pledge to reduce the average carbon intensity of the integral fleet by at least 40% by 2030 compared with 2008.

Monday's decision means the MEPC can move forward with adopting the measure, the first new one since the IMO adopted its initial greenhouse strategy in 2018 — and discussing longer-term issues, such as market-based measures for ships.

But it will also disappoint observers who had warned these reduction rates will not only fail to cut absolute emissions in this decade, but also do not even guarantee at this point the attainment of the 2030 target.

These targets and the phased-in approach were preliminarily agreed by an IMO working group two weeks ago. But the heavily divergent views that were reported in that meeting re-emerged on Monday.

Governments at MEPC agreed they would decide the annual reduction rates for 2027 to 2030 at a later date along with the review of the package measure, which is scheduled to happen by 2026. That was a compromise solution to their inability to agree specific targets during the working group meeting.

The MEPC adopted the annual 2% target reductions for 2023 to 2026, which it estimates will lead to a total 11% improvement in CO_2 intensity by 2026 compared to 2019. That is based on the expectation that the annual CO_2 intensity reductions will be 1% until 2023.

Both the targets themselves and the fact that the agreement would leave the targets for 2027 to 2030 decided at some later point, stoked criticism from countries that thought the measure lacked ambition.

The US argued that in the absence of targets between 2027 and 2030, the MEPC should adopt annual reduction targets that would tally up to total CO_2 intensity reduction of at least 22% by 2026 compared to 2019.

That 22% reduction compared to 2019 is the figure a dedicated IMO focus group earlier in the year had identified as the one the global fleet had to hit by 2030 to meet the 40% target.

Several other nations, especially from the European Union, the UK, the Marshall Islands, the Solomon Islands, Tonga, Tuvalu and others echoed the disappointment of the US and opposed this phased approach to the measure. They criticised the targets for falling short of what they deem to be necessary to fulfil the IMO's target.

However, others defended the proposal, arguing that it is the best compromise solution and that it will allow the IMO to determine the post-2026 targets based on more information.

The supporting nations included China, South Korea, Brazil, Saudi Arabia, Russia and Iran.

WHAT TO WATCH:

Costamare diversifies into dry bulk with deals for 16 vessels

COSTAMARE, the containership owner, has purchased 16 bulk carriers through a flurry of recent market deals, and is said to be looking at further acquisitions in the sector.

The vessels range in size between handysizes of 33,000 dwt up to kamsarmaxes of 85,000 dwt, the New York-listed company said in a post-trading statement on June 14.

Costamare did not identify any of the vessels. However, three are known to be supramaxes recently acquired from Greece-based Onassis Group.

Brokers said the Onassis management outfit Olympic Shipping and Management had shed the 55,700 dwt sister vessels *Olympic Peace* and *Olympic Pride*, both built in 2006, and the 10-year-old 56,700 dwt *Olympic Pegasus*.

Several brokers initially identified the vessels as going privately to members of Costamare's founding Constantakopoulos family.

Onassis is understood to be exiting the dry bulk sector to concentrate on tankers and its investment in liquefied natural gas carrier owner GasLog.

Costamare has been able to hire the Onassis dry bulk team to strengthen its in-house platform. The company said that the Onassis team will be in place within July.

Most of the vessels will be managed by V.Ships (Greece) and a number of the Onassis personnel will join the Costamare-dedicated cell within the V.Ships operation.

V.Ships has also taken on board Onassis dry bulk crews, according to sources close to the agreement.

Two of the 16 bulkers have already been delivered with the remainder expected between now and early 2022.

Kamsarmaxes acquired by Costamare are believed to include the 2012-built pair *Pedhoulas Builder* and *Pedhoulas Farmer*, sold last month by Safe Bulkers, and another nine-year-old kamsarmax, *Spring Aeolian*, from Japanese owner Shunzan Kaiun.

Further underlining the seriousness of the expansion, former Intercargo chairman John Platsidakis has joined Costamare to help establish the new division.

Mr Platsidakis last year left the Angelicoussis Group, where he was a director, and after 32 years as managing director of its Maran Dry unit.

Another leading personality to have joined the dry bulk team is veteran dry bulk broker Nikos Pentheroudakis, who is honorary president of the Hellenic Shipbrokers Association.

"We have decided to invest in a liquid sector with strong fundamentals that provides enhanced return opportunities for our shareholders," said Costamare chief financial officer Gregory Zikos.

All the vessels so far acquired are currently operating in the spot market but the company intends to divulge more details of its business strategy during its upcoming second-quarter results reporting.

Mr Zikos said that the acquisitions were initially being funded with cash on hand, however, the company is arranging bank debt.

"Considering the nature of the dry bulk business we plan to have low leverage of up to 60% of the value of the assets," he said.

Industry sources told Lloyd's List that Costamare is continuing to scour the dry bulk market for secondhand opportunities.

The company, which owns a fleet of about 80 boxships, has not been slow to deal in the container market recently, agreeing the acquisition of 15 vessels in the first five months of this year.

But the dynamic move into bulkers could indicate that it sees the dry bulk space as offering greater opportunity at the moment, given how containership prices have soared.

The company had about $236m in cash on its balance sheet at the end of the first quarter, since when the containership market has supported increasing liquidity.

It was founded by the late Vassilis Constantakopoulos in 1974 and in its early years focused on bulkers and general cargo vessels, before pioneering Greek non-operating ownership of containerships in the 1980s and 1990s.

Why Ever Given cargo claims will get ever larger

ADDITIONAL cargo claims will result from Egypt's continuing refusal to let *Ever Given* sail on, and the longer the vessel is held, the more expensive those claims will ultimately get, legal experts believe.

Once the boxship does finally move, some containers are liable to find themselves dumped at subsequent ports of call, with consignees having already collected on cargo cover, they add.

Ever Given (IMO: 9811000) has remained at anchor in the Great Bitter Lake ever since its grounding caused a six-day closure of the Suez Canal in March, as its Japanese owners battle the issue out with the canal authority in the local courts.

In the last reported legal move, an appeal against the arrest was rejected last month.

The Suez Canal Authority has reduced an initial compensation demand in excess of $900m to around $600m, and has agreed that the vessel can proceed on the back of a $200m deposit.

But insurers, including Japanese market hull and machinery cover and the UK P&I Club, believe those terms to be onerous, and question substantial elements for 'salvage bonus' and 'loss of reputation'.

No immediate legal resolution is in sight, and some commentators privately believe that the Egyptian judiciary will naturally side with the SCA.

General average has been declared, meaning that cargo interests are liable to contribute towards some of the costs of the salvage.

This requirement is almost certain to be contested by insurers, who could even dispute whether *Ever Given* has been 'salved' at all in the legal sense of the term.

As lawyers have already pointed out, there were at least 10,000 boxes on the 20,000 teu ship, depending on how many were 40 footers, and there were up to 20 cargo interests per box. Even collecting security will be a major task.

"If *Ever Given* had sailed on after a slight pause, the dispute between the cargo owners and either the shipowner or the contractual carriers would have revolved around cargo's liability to contribute to the cost of salvage," said James Turner QC, of Quadrant Chambers.

That liability would arise directly from a Lloyd's Open Form, although there is no LOF in this instance, but otherwise arises from the GA. But that would have been the end of the matter.

"It would have been vanishingly unlikely that in this instance there would have been any wider damage claim. But the longer it stays in the Great Bitter Lake, the greater the likelihood of losses arising, either simply because of the delay, or from cargo damage caused by the delay."

Some of the boxes on board are understood to contain perishables. This was not an immediate issue, as reefer boxes slow the process of deterioration of fruit and vegetables for months on end.

But even refrigerated foodstuffs go bad eventually, and the longer the litigation drags, the more this will be the case. This will mean cargo damage claims.

Even where goods are durable, supply chains and delivery times have been disrupted and customers are getting impatient.

This will mean cargo delay claims, if for example a bicycle retailer decides it cannot wait for more stock of bikes and orders another batch from the same manufacturer.

Issues will also arise as to the value of consignments, Reed Smith partner John Ellison told Lloyd's List in an interview in April.

"Where these things get into a dispute often is how you value the loss, especially when you are talking about a lost revenue claim or lost income," he said. "There is never a black and white answer to that question. Accountants, just like lawyers, are good at coming up with different ways to argue about things."

It is difficult to quantify just how much delays will add to the bill, but eight-figure dollars seems a reasonable guess.

Moreover, some cargo interests with a paid-out valid claim on cargo insurance will opt to dump the containers.

"The box will sit on a quayside somewhere for quite a long time until someone decides they have had enough and empties it," said Mr Turner.

What happens after that will vary according to the jurisdiction in which the box ends up and the terms and the conditions under which box in question was carried, likely set out under bill of lading.

ANALYSIS:

Rates crisis favours larger shippers

THE surge in freight rates since last November, which propelled carriers to an estimated record $16.2bn in collective earnings before interest and tax, is having a far greater impact on low-volume shippers than their larger rivals.

Analysis by Sea-Intelligence of freight rate data shows that the difference between the low range and high range of rates paid by shippers on the Asia-Europe trade had increased significantly on the spot market, from around $300 per feu to more than $1,200 per teu.

"The stable competitive environment which previously existed between shippers using spot on the Asia-Europe trade is clearly not stable anymore," said Sea-Intelligence chief executive Alan Murphy.

A similar impact had been felt in the contract freight rates, which peaked earlier and which have seen the spread between the highest and lowest prices decline since March.

"However, despite this decrease, the actual difference remains extremely high," said Mr Murphy.

Even disregarding the extremes, the difference between the lower and higher range of rates paid had increased from less than $200 per feu to more than $2,000 per feu.

"In other words, the price difference is still 10 times higher than what it used to be," he said.

Moreover, the spread between contract and spot rates has been widening significantly since the beginning of this year.

"While of course a generalisation, it is not unreasonable to have an archetypical small shipper who ships on spot, versus an archetypical large shipper who uses a long-term contract," Mr Murphy said. "In this model framework, the small shipper will — at least — be paying the mid-high spot price, due to his limited volume.

"The large shipper will — at most — be paying the mid-low contract price, again due to size."

While the rate difference between the two had always fluctuated, between 2017 and the end of 2019 the average freight rate difference was $340 per feu.

But from late 2020, following an initial early spike and partial retraction, the differential has reached new records.

For the middle range of low contract rates and high spot rates, the differential is now over $9,000 per feu, while at the extremes of low and high it can be more than $10,000 per feu.

This extreme range in the cost of shipping goods is leading to a two-tier market in which scale is everything.

For a large cargo owner with $250,000 of goods in a 40 ft box shipping at the contract rate, freight costs have increased from 0.5% of the value of the cargo to 1%.

For the smaller shipper on spot rates, the change in costs is from 0.7% to 4.5%.

While this is still viable, albeit at some loss profit for shippers of high-value goods, for lower-value items the difference is more marked.

"The large shipper sees freight costs escalate from 5% to 10%, which would certainly be noticeable," Mr Murphy said. "However, the small shipper sees freight costs virtually explode from 7% to 45%."

With freight rates at that level, any profitability on low-value goods was put at risk, he said.

"Here is where we see why a number of shippers are currently under extreme stress. For lower value merchandise, the larger contract shippers see a substantial erosion of profits, but the small shippers see their profits reverted to losses, which in magnitude exceed previous profits.

"The current freight crisis shifts competitiveness between shippers. In turn, this also means the crisis is a clear opportunity for competitive positioning for some shippers."

MARKETS:

China port congestion threatens more schedule disruption

PORT congestion which has reduced work at Yantian is now spreading to other nearby container terminals as the number of vessels waiting to berth increases.

Figures from Lloyd's List Intelligence show that over half a million teu of capacity is waiting at anchor in southern China's main anchorages surrounding Hong Kong.

A month ago, prior to the initial restrictions being imposed on Yantian, the figure was 20,561 teu. By the beginning of June it had risen to 122,098 teu but in the past two weeks the amount of capacity at anchor has increased fourfold, to 553,362 teu.

The number of individual vessels has risen from 15 to 97.

"With a steady inbound flow every day, the total queue of vessels waiting to berth at the Port of Yantian increases," Maersk said in a customer advisory.

It added that the port authority had been successful with re-opening the west port yard for laden import pickup.

One more berth had been reopened, allowing a maximum of seven vessels alongside at the same time.

But these moves had only increased productivity towards 45% of normal levels, Maersk said.

"While this has a positive impact on gate activity, which is soon expected to reach the same levels as

before the incident, schedule reliability will continue to suffer with an average waiting time of 16 days and counting."

Maersk said the congestion at Yantian would impact 19 of its mainlane services, with omissions and diversions being required, but warned that other ports in the region were suffering from a spill over effect.

"In diverting our vessels, we are closely monitoring the situation in neighbouring ports," Maersk said. "The current average waiting time in Shekou, Nansha, and Hong Kong is between two to four days, but as more carriers omit Yantian, this number is expected to rise."

Beyond the immediate problem in southern China was the risk of wider disruption as carriers sought to avoid the region.

"Shipments not directly impacted by the Yantian situation might also be affected as we adjust our network to avoid port congestions and to limit the overall net loss of ocean network capacity due to omitting the Port of Yantian," Maersk said.

Hapag-Lloyd expects extended peak season on strong demand

CONTAINER shipping is expected to see an extended peak season this year, with no evident signs of a slowdown in demand.

Hapag-Lloyd chief executive Rolf Habben Jansen warned that if demand picked up in the traditional third-quarter peak season it would extend beyond the traditional Golden Week slowdown.

"People will start to ship early and it will probably last longer than usual," he told a press conference. Demand was still strong, and unlikely to change soon, he added.

"Inventories are low, which is why people are eager to get stuff shipped, but even once we are beyond the pandemic it's not unlikely that people will want more inventory," he said. "On the back of that, you would expect demand will stay robust for an extended period of time. We just hope that people will do it with some common sense."

But the strong demand was only exacerbating the delays in the supply chain.

"If we look at the situation around the market, the theme remains congestion," he said. "The US is improving a little bit but there are still ships waiting and we have not made the progress we wanted to in the second quarter.

"We need to have a not too strong peak season there to get out of the difficulties, which is not what we foresee at the moment. Demand is still strong, so it is not likely going to change very soon."

On top of the current demand was a "backlog of growth" from the decline in volumes shipped in the past year that still needed to catch up.

"I don't know what we could do to add more capacity on a weekly basis. We have added 14 new ships this year, at very expensive rates, and have ordered half a million teu of boxes. We have tried to do everything to maximise allocation. The challenge we have, though, is that demand is simply outpacing supply."

Increased waiting times for berths meant more ships and equipment were needed for the same amount of cargo, a situation made worse by the congestion in southern China.

"The next week to 10 days are going to be very critical for Yantian port, Mr Habben Jansen said. "We need to see how well the reopening goes over the next week before we know how long-lasting those effects will be. Yantian has a huge throughput so if it is blocked for two weeks, it does create a scarcity of capacity."

The congestion at Yantian would likely not be as critical as that seen at destination ports, however, and could serve to ease up congestion by giving some breathing space for imports to be processed in Europe and North America.

But with 500,000 teu waiting to berth in southern China there was a risk of some disruption.

"The question is how quickly we can get them out of there," he said. "We have decided, in a lot of cases, to omit Yantian."

Even so, shippers were unlikely to see any benefits for some time to come.

"I would like to see a more normal market and we are working hard to try and get that done," said Mr

Habben Jansen. “The challenge is that you can’t always provide all the allocation that you want.”

While he wanted to get to a more normal situation with lower rates, the lack of available capacity in the market meant that it was impossible sometimes to deliver even on contracted commitments, he added.

“Today, all the ships are full. The carrying capacity of the lines will only go up if congestion eases. That is going to go slowly.”

IN OTHER NEWS:

Trøim to launch new dry bulk company

SHIPPING tycoon Tor Olav Trøim is planning to set up a new dry bulk company to be called Himalaya.

According to Norwegian financial media outlet Finansavisen, the company — named to reflect the way in which high dry bulk rates are expected to perform in the future — has already placed four newbuilding newcastlemax orders at Times New Shipbuilding in China to be delivered in 2023.

Options for four more have also been exercised, with a further four ships likely to be contracted at a later stage.

IMO short of emissions experts

GOVERNMENTS have backed the International Maritime Organization’s call to hire more emissions experts to tackle its growing pile of work related to greenhouse gas reduction.

The organisation’s Secretariat’s Air Pollution and Energy Efficiency Section has just three regular staff (one head and two officers) tasked with regulatory matters such as nitrogen oxide emissions, sulphur oxide emissions, fuel oil and black carbon.

It asked the Marine Environment Protection Committee to hire two more officers.

Germany in hydrogen supply pact with Australia

AUSTRALIA and Germany have entered into an alliance regarding hydrogen production and trade.

Australia has committed up to A$50m ($38.6m) and Germany up to another €50m ($60.5m) to back pilot projects to develop a hydrogen supply chain, a statement said.

The accord also outlined collaboration towards export of hydrogen and its derivatives, including ammonia from Australia to Germany.

Pan Ocean to drop dual listing in Singapore

PAN Ocean Co, the South Korean shipping line, is to end its dual listing on Singapore’s main board following light trading interest in its stock.

The unit of Harim Holdings said it would maintain its primary listing on the Korea Exchange.

It said Singapore-registered shareholders can choose to have their shares transferred from the Singapore branch register to the South Korea register.

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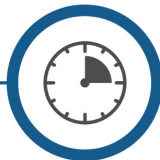

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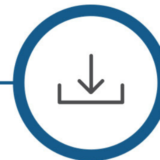

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