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IMO needs to resolve its trust issues

"I KNOW WE have a lack of trust here..."

That blunt observation, issued by the German government during the closing moments of the International Maritime Organization's environmental committee this week, summed up the frustrations dividing diplomats as they negotiated a lacklustre litany of measures to tackle climate change.

The record will show that the Marine Environment Protection Committee, the IMO body responsible for reducing shipping emissions, adopted new CO2 intensity measures and agreed a plan to start considering longer-term measures, such as market-based measures.

The CO2 intensity measures have been criticised by parts of the industry, environmentalists and governments for being too low, even if their adoption does signify some sort of conclusion to the drawn-out negotiations.

The new work plan simply sets up the next phase of the debate that promises to be even more complex and divisive.

But the story of how these decisions were made amid a breakdown of trust, is the more important barometer of where we are and where we are going than the detail of what was and was not agreed.

Technical debate within the IMO is rarely an edifying experience for spectators, but the tone of this week's dialogue showcased a level of diplomatic defiance that should raise serious concerns about the future of global decarbonisation regulations.

Such was the level of distrust in the debate that closing minutes of the meeting saw governments threatening to go back to the audio recordings of the previous conversations in a bid to prove the inaccuracy of the record as it was presented.

The heated tussle was the culmination of six days of divergences on the fundamentals of international climate policy and their role in the IMO's decarbonisation strategy.

The source of the tension was frustratingly familiar to anyone who has watched the IMO mechanism struggle under the pressure of politics it is ill-equipped to handle.

Several developing nations were frustrated early on by what they saw as a lack of concern from developed nations towards impact assessments of incoming CO2 measures. The developing nations were disgruntled with low levels of ambition of the short-term measures.

That fault line seemed to fester throughout the week, creating palpable tension barely hidden beneath the veil of diplomatic decorum.

As petty as these squabbles may seem, the relationships between governments, their demeanour to each other and their ability to find compromise, define shipping negotiations in the IMO. The geopolitical schism dividing governments is not new, but as the negotiations become more detailed, the problems become more stark.

The idea that the IMO can remain a simply technical body while navigating these geopolitical fault lines is naive.

These conflicts have little to do with shipping or the IMO and those who will inevitably lay the blame for lack of progress solely at the IMO's door would do well to remember that. No other UN, or multi-lateral body, has yet established an accepted mechanism to unite developed and developing nations over the economics of climate change. Expecting the IMO to have worked it out is beyond unrealistic.

There is, however, some glimmer of hope to cling on to. COP26, the UN climate conference concerning in Glasgow in November, could generate new momentum in climate action and more importantly result in new marching orders for delegations to the IMO.

The most important UN climate summit since the 2015 Paris Agreement offers the best chance in a generation to agree a new global carbon market mechanism, which could have direct implications for the IMO's MBM discussions.

However, IMO member states and secretary-general Kitack Lim will need to work to find solutions that can help bridge gaps like the ones witnessed this week. The fact that governments are currently quibbling over the basic accuracy of each other's statements does not bode well for future discussions where the devil really will be in the detail.

The organisation has admitted that its resources to deal with emissions are stretched thin and its staff are overworked. Its member state governments must now step in with resources and the IMO's leadership is going to have to find a more robust form of diplomacy to alleviate current tensions behind the scenes.

Regardless of what COP26 achieves or does not, the IMO discussions are only going to become more complex from here on.

Industry will also have to play a role. The associations, usually among the most vocal during MEPCs, were notably absent from the fray this week. Perhaps due to time constraints, but also likely because they understood there was nothing to be gained from intervening in diplomatic issues that were largely about principle, not action, they remained on the sidelines.

Do not expect this to become the norm. Industry will be there to shape these long-term measures, including market-based measures, as much as it can. And the MEPC will have to deal with industry politics too.

We've seen the evident division between the liner and tramp industries when it comes to the inclusion of shipping in the European Union's Emissions Trading System. Just as governments are going to have to find a way to bridge fundamental differences, industry is going to have to find a unified voice on these issues or risk being left out of the discussions altogether.

As Lloyd's List launches its sustainability hub to offer a more concentrated coverage of the topics, the geopolitical dynamics will inevitably become a more frequent feature, next to the technological developments and market changes that are accelerating.

The hope is that this extended coverage of sustainability issues for shipping will offer insights into the progress being made towards a zero carbon future, rather than an examination of the self-acknowledged lack of trust that is stymieing progress within the industry regulator.

The IMO cannot expect external observers and industry to trust a body whose members have a difficult time trusting each other.

Shipping industry left frustrated by MEPC 76 outcome

SHIPPING and environment groups were united in frustration after the International Maritime Organization's environment body ended another round of talks with little agreement on pressing questions of how to decarbonise maritime transport.

The Marine Environment Protection Committee adopted already-agreed short-term efficiency measures and agreed to start discussing market-based measures, which are more consequential to the industry and the planet, but also far more politically contentious.

While shipping groups welcomed the IMO opening the door to meatier measures, they bemoaned the slow pace of decision-making created by its need for consensus among governments.

"This MEPC exposed the fundamental divide between IMO member states on GHG measures," said Maersk regulatory affairs director Simon Bergulf. "It was not an easy task for the chairman to maintain the discussions on the right track but thankfully some important progress was made."

He said it was unclear how shipping would implement the short-term measures and what their effects would be.

The measures lacked incentives for high-performing ships and therefore low- and zero-carbon ships, he added.

"It is nonetheless positive that IMO can now tackle real transition measures with an adopted working plan that provides a view of next steps and a timeframe. Maersk hopes that it will enable the IMO to agree on a market-based measure by 2025, as requested by several IMO member states."

Mr Bergulf said a carbon price was needed urgently. Such a market-based measure would have to fall under the legal scope of Marpol so as not to be bogged down in legal disagreements, he added.

BIMCO deputy secretary-general Lars Robert Pedersen said adoption of the working plan had "set the train in motion".

Once shipping knew if the short-term tools worked — and BIMCO suspects they will not — their ambition could be increased in the future, he said.

Mr Pedersen said market-based measures may take the form of green subsidies or other tools, since it was far easier for a non-state body like the IMO to disperse money to states than to agree on how to collect it from them.

There was widespread frustration that the MEPC meeting did not cover all the topics on its agenda.

Delegates had about three hours a day of working time and no opportunities for the normal coffee-break backroom talks that usually help move IMO decision-making forward.

The Clean Arctic Alliance lamented the lack of firmer action on emissions of carbon dioxide and of black carbon in the Arctic, deriding the efficiency rules as "hopelessly weak".

Intertanko, meanwhile, grumbled that more time was not spent on ballast water management, leaving the industry waiting several months to resolve problems with record-keeping, and what to do when poor water quality stops ballast water systems working. It logged 400 such incidents around the world since April.

The German Shipowners' Association had hoped for longer-term emissions rules to give the industry the basis to invest in greener ships.

"We need to know which conditions will apply for them also beyond 2026. Given the long service lives of ships, that's practically the day after tomorrow," said president Alfred Hartmann.

Mr Pedersen, of BIMCO, said the meeting showed how the global climate politics visible in other UN bodies were now on display at the IMO.

He said there was no way the session could have covered all the topics — and the 209 submissions accompanying them — in the allotted time. But the fact anything could get done online at all was “unheard of” a year ago. “There is a limit to everything,” he said.

Several shipping groups reacted to MEPC 76 with a fresh plea for states to support its plan for a green research and development fund, which was given a third shot at survival yesterday.

Groups including the International Chamber of Shipping, BIMCO, Intertanko, Intercargo and the World Shipping Council said the plan was “mature and ready for approval”.

“The industry has already committed to doing the work needed to establish the fund, a payment system, and the funding necessary,” they said.

“We can do this now, and for the sake of our climate and future generations, we must.”

MEPC 77 starts in November.

Governments agree to start negotiating mid- and long-term GHG measures

GOVERNMENTS have agreed to start considering mid and long-term measures on shipping emissions, including a proposed $100 greenhouse gas levy.

The decision by the International Maritime Organization’s Marine Environment Protection Committee paves the way for the next phase in the implementation of IMO’s initial decarbonisation strategy, which aims to achieve a minimum 50% reduction in greenhouse gas emissions by 2050 compared with 2008.

It will also mark the start of arguably the most challenging negotiations the MEPC has had to undertake since adopting the initial strategy in 2018, as political and economic considerations are expected to permeate the discussions.

After adopting a contested package of short-term measures this week, governments will begin discussing mid and long-term measures at an intersessional meeting on emissions in October, ahead of the MEPC meeting the following month.

The MEPC also agreed to further consider a proposal for a $100 levy on greenhouse gas emissions from ships in October meeting, after MEPC chair Hideaki Saito had indicated the specific proposal would not be considered again until November.

The decision to take up the proposal in the intersessional rather than the MEPC gives it an opportunity for faster development and more thorough scrutiny. The intersessional is dedicated to greenhouse gas issues and delegates have more time to examine and negotiate documents.

Several governments had shown strong opposition to the potential market-based measures, including the $100 levy, during discussion on June 16.

However, when the topic came up again the following day no country objected to re-considering this proposal in October’s intersessional.

Overnight negotiations in an informal group saw developing states such as Argentina, Brazil and others agree to approve the work plan in exchange for the inclusion of impact assessment of the measures on states in the process and the potential to adjust the measures after they are adopted.

The work plan consists of three phases. The first is meant to have finished by spring 2022 and is the collection and analysis of the different potential measures. The second phase will see governments select one measure or more to develop further as a priority by spring 2023.

“This decision should be based on an assessment of the proposed measures, in particular their feasibility, their effectiveness to deliver the long-term levels of ambition of the initial strategy and their potential impacts on states,” the work plan states.

IMO delegates will also be working at the same time on the revision of the strategy and levels of ambition, which is scheduled for 2023.

In the third phase, the MEPC will finalise these selected measures within a specific time frame that is not defined.

IMO secretary general Kitack Lim welcomed the approval of the work plan and said it sends a signal of the MEPC’s intentions to work on new measures.

“Our consideration of mid and long-term measures will demand even more of us,” he said in closing remarks.

Market-based measures, which could take the form of a carbon levy or some other market mechanism, are just one of the potential mid-term measures, according to the IMO strategy.

Other mid-term measures include operational efficiency requirements, more technical co-operation and capacity-building between states and national action plans.

The MEPC also agreed to have another intersessional meeting in September dedicated to measures to tackle methane slip and develop guidelines on the intensity of lifecycle greenhouse gas intensity of fuels.

WHAT TO WATCH:

MOL maps out $2bn route to zero emissions by 2050

MITSUI OSK Lines, the Japanese shipping group, has revamped its decarbonisation strategy by unveiling aggressive emission-cutting targets and a $2bn investment plan.

The company pledged to reach zero greenhouse gas emissions by 2050 in its newly released document Environmental Vision 2.1.

It is more ambitious than the International Maritime Organization's goal to achieve a minimum 50% reduction in greenhouse gas emissions by 2050 on the 2008 basis.

The move is against the backdrop of a world in which societies and governments are requesting stricter environmental rules to stall global warming.

"As we are engaged in marine transport, we have identified shifting to new sources of energy and reducing environmental impact as particularly urgent and important issues," said MOL.

Alongside the earlier zero-emission deadline, the other two medium to long-term targets it set were to "deploy net zero emissions on ocean-going vessels in the 2020s" and to "reduce GHG emission intensity by approximately 45% by 2035 versus 2019."

In comparison, its Environmental Vision 2.0 expected the shipping conglomerate to deploy commercial net zero greenhouse gas emission deepsea vessels by 2030, and to decarbonise its fleet in accordance with the IMO 2050 target.

The new plan is designed to "set higher quantitative targets and accelerate efforts to address environmental issues," it said.

To help achieve the goals, MOL plans to invest ¥205bn ($1.9bn) between 2021 and 2023 in technologies and solutions in its fight against global climate change.

Of the total, ¥91bn will be used to reduce the company's vessel emissions. Those include increasing its fleet fuelled by liquefied natural gas, fitting ships with wind-powered systems and adopting carbon-free fuels, such as ammonia and hydrogen.

The remaining ¥114bn will be spent on projects in relation to clean fuel supply chains, including developing offshore wind power farms.

The Japanese giant appears unflustered by some doubts about the green nature of LNG as a marine fuel.

"MOL will make sure to achieve its target by adopting immediately available fuels such as LNG and biodiesel without waiting for next-generation candidate fuels, such as ammonia, to become available," it said.

The company, which currently operates about 800 vessels, aims to equip its fleet with about 90 LNG-fuelled vessels, excluding LNG carriers, by 2030, and 110 zero-emission ocean-going ships by 2035.

Fuel solutions aside, it said it would launch an internal carbon pricing scheme and use enhanced data analysis to increase ship operational efficiency and trim energy consumption.

The move comes after the IMO adopted technical and operational efficiency requirements for international shipping this week.

The short-term measures, which will come into effect in November 2022, but begin applying in 2023, aim to reduce the fleet's average carbon intensity by at least 40% by 2030 compared with 2008.

IMO member countries have agreed to begin considering mid-and long-term measures on slashing shipping emissions, including a proposed $100 greenhouse gas levy.

ANALYSIS:

Admiralty Court collision ruling offers ‘cautionary tale’ for owners and insurers

AN *in rem* judgment in a collision action can be deployed against the shipowner in later *in personam* proceedings, even if it took no part in the original claim, the Admiralty Court has held.

The outcome serves as “a cautionary tale”, according to Tom Bird, a Quadrant Chambers barrister who acted for the claimant.

“Shipowners and their insurers who choose not to respond to an *in rem* claim may find themselves bound by the result,” he said.

The case arose from an incident in July 2018 in which the product tanker *Tecoil Polaris* (IMO: 8883290) was hit by *Poseidon* (IMO: 7363217), a seismographic research vessel, while the former was at berth in the English port of Hull.

Poseidon’s owner, a company called Neptune, did not dispute liability. Its P&I insurer Lodestar issued a letter of undertaking to pay any claim up to $200,000, “either by agreement between the parties hereto or by the final unappealable judgment of the English courts”.

In June 2019, *Tecoil Polaris* owner Tecoil Shipping began *in rem* proceedings against *Poseidon*, a legal term meaning action against property and distinct from *in personam* action against a thing.

No acknowledgement of service was filed and Tecoil Shipping applied for judgment in default. This was given by Admiralty Registrar Jervis Kay QC in February 2020, who awarded Tecoil the equivalent of around $525,000 in costs.

But the insurers still did not pay out, on the ground that it would not respond to an *in rem* judgment.

Tecoil Shipping issued an *in personam* collision claim against Neptune seeking substantially the same relief, joining the insurers as defendants to these proceedings.

It obtained judgment against Neptune in default of an acknowledgment of service, on the same terms as the *in rem* judgment, and then made a demand under the letter of undertaking.

The insurers rejected the demand, saying the default judgment was not a final judgment within the meaning of the letter, and applied to set the judgment aside.

After the hearing of this application but before the registrar had circulated a draft judgment, the parties informed the court that they had settled the dispute.

Nevertheless, the registrar used his discretion to publish part of his judgment, on the grounds that it raised issues of wider interest.

Mr Kay rejected the insurer’s contention that the judgment was wrongly entered because default judgment was unavailable in a collision claim unless the party seeking judgment had either filed a collision statement of case or at least obtained an order dispensing with that requirement.

He held that an application for judgment could be made in default of an acknowledgment of service, with no requirement to file a collision statement of case.

He also rejected the insurer’s argument that the court should set aside the default judgment on the ground that there was a reasonable prospect of successfully defending the claim.

This depended on the insurers establishing that it would be open to Neptune to relitigate the issues determined in the earlier *in rem* judgment.

But Mr Kay found that Neptune was bound by the determinations in the *in rem* claim.

“This is because although Neptune were not, strictly speaking, parties to the *in rem* proceedings, they were at least indirectly impleaded to answer to, that is to say, to be affected by, the judgment of the court,” he said. “The liability to compensate was fixed not merely on the property, but also on the owner through the property.”

US west coast ports feel the heat ahead of China imports surge

US WEST coast ports impacted by trade congestion caused by rising coronavirus infections in China are facing further disruption after California issued a state of emergency advising ships at berth to disconnect from shore power.

Docked vessels are being asked to run their engines after state governor Gavin Newsom issued an emergency proclamation to free up energy capacity due to an extreme heatwave.

The announcement came as US container ports warned of increasing congestion issues linked to the adverse impact of coronavirus infections on China's export hubs at Yantian and Shekou.

"In Long Beach, we expect that the situation in Yantian could result in some new cargo volume fluctuations, with a lull in the next few weeks and a surge building in August," the port's deputy executive director Noel Hacegaba told Lloyd's List.

"We are working with our supply chain partners to help ensure assets are pre-positioned to move those containers swiftly through our port when they arrive."

Port of Los Angeles spokesman Phillip Sanfield said it was braced for problems.

"About one third of the vessel service strings that come through Los Angeles originate in South China and the Yantian area," he said. "It is possible we may see a slowdown in activity coming from there in the weeks ahead."

Port of Oakland officials said surging trade is creating a vessel backlog, with ships sometimes waiting days at anchor due to berth crowding.

The congestion should begin to ease by the autumn as more dockworkers are hired and fully trained in the coming weeks.

The "potential impacts are difficult to determine at this time since the full impact of the congestion at Yantian is not yet known," they said.

"The only thing we know is that there would be a disruption in ship arrival schedules. That makes planning for everyone in the supply chain more complex with the additional uncertainty in the mix."

Bryan Brandes, maritime director at Port of Oakland, said: "We're in uncharted waters. Record cargo volume coming through US west coast ports and a pandemic issue at a port in China are creating vessel congestion in both regions."

The congestion in Yantian will take six to eight weeks to clear, Nerijus Poskus, vice-president of ocean strategy and carrier development for digital freight forwarder Flexport, told Bloomberg.

The National Retail Federation this week called on the White House to address the logjam at US ports.

They warned in a letter to President Joe Biden that the issues "have not only added days and weeks to our supply chains but have led to inventory shortages, impacting our ability to serve our customers."

The state of emergency in California came as the US National Weather Service issued an "excessive heat warning" to June 19.

Temperatures are expected to reach between 42°C (107°F) and 44°C in the San Joaquin Valley and Coastal Range, it said.

In Palm Springs, about 100 miles east of Los Angeles, the temperature hit 50°C on June 17.

Mr Newsom said the aim of the proclamation was to reduce the demands on the state's energy grid.

It permits ships to disconnect from shore power without penalty while vessels arriving at port before June 20 should remain running on auxiliary ship engines and not plug in to shore power for the duration of the energy emergency.

Vessels can remain disconnected through to June 22 after which they must resume use of shore power if their stay in port exceeds the duration of the emergency event.

Under the proclamation, vessels that would otherwise be required to plug in to shore power should not be penalised by the California Air Resources Board.

"All calls during this period should be treated as compliant and included in the fleet averaging baseline under the At Berth Regulation," it said.

Californian container ports' preparations for the impact of congestion come against the backdrop of record throughput figures for May.

Long Beach moved more than 900,000 teu for the first time in its 110-year history. Imports jumped 42.3% to 444,736 teu, while exports saw a relatively flat increase of 0.6% to 135,345 teu. The number of empty containers moved through the port increased 80.7% to 327,135 teu.

The port has moved 4m teu during the first five months of 2021, a 42.3% increase over the same period in 2020.

Port of Los Angeles reported throughput of 1m teu for May, a leap of 74% over the same period in the past year and the busiest month ever.

Loaded imports rose 75% year over year to hit 535,714 teu, loaded exports increased 5.3% to 109,886 teu, and empty containers climbed to 366,448 teu, 114% higher than in the past year due to the heavy demand in Asia.

Port of Oakland has handled the equivalent of 1.1m teu from January through May, an all-time high, and a pace that could see annual volume surpassing 2.6m teu for the first time ever.

Oakland reported a 26% jump in containerised imports in May compared with May 2020. Exports were up 7%, but down 1% through the first five months of the year due to a shortage of containers and space on Asia-bound ships early this year.

MARKETS:

Secondhand bulker market heats up

THE secondhand bulker market is rife with activity given the strong freight rates. and almost immediate benefits from trading.

Participants were also flocking to the market given limited newbuilding opportunities based on high steel prices and yard capacity constraints, and continued lack of clarity over future fuel regulations.

The secondhand market is cheaper and more attractive, according to Belships chief executive Lars Skarsgård, who said vessel values were lagging the freight market by about 20%.

The development "offered huge potential and limited downside", he told an Arctic Securities webinar this week.

Brokerage Braemar ACM said the secondhand market has been "extremely hot", with prices of five-year-old kamsarmaxes up by 33% and capesizes up by 41%.

"We expect activity in this sector to remain heated in the coming months, as owners use this avenue to renew fleets and engage in the strong spot market," it said in a note.

US-listed Safe Bulkers said it acquired a 2013-built panamax for $22m, financed with cash reserves.

The 78,000 dwt vessel, built in Japan, is expected to be delivered by August.

"This new acquisition is part of our efforts to gradually renew our fleet through selective acquisition of younger secondhand Japanese built tonnage replacing older vessels or Chinese built vessels," company president Loukas Barmparis said.

"The core part of our renewal strategy remains the acquisition of advanced design energy-efficient newbuilds."

Meanwhile, Germany's Harren Bulkers has added its first handysize, bringing its fleet to 23.

The Bremen-based shipowning and ship management company acquired the 2012-built *Pabari* (IMO: 9609677).

Chartering for the vessel, which was built at the Hyundai Mipo Dockyard in South Korea, will be handled by OneBulk, based in Hamburg.

"Pabari is a modern ship with a highly flexible economic design," said managing director Joachim Zeppenfeld, adding that as the first bulker of this size, the vessel is "a valuable addition to our growing fleet".

IN OTHER NEWS:

Monsoon delays X-Press Pearl wreck removal

THE operator of *X-Press Pearl* (IMO: 9875343) says plans to remove the sunken boxship are being postponed due to a monsoon.

"Due to the exposed nature of the anchorage to the prevailing South Westerly Monsoon, it is likely that the wreck removal can only start after the (southwest) monsoon subsides," X-Press Feeders said in its latest incident update.

The monsoon brings heavy rainfalls to the southwestern part of Sri Lanka between May and September, according to the country's meteorology department.

Premuda enlists CTM to manage 12 bulkers

C TRANSPORT Maritime, a dry bulk management company, is taking over commercial management of the Premuda bulk carrier fleet.

The long-established Italian shipowner currently has a fleet of 12 bulkers alongside a fleet of tankers.

Both companies confirmed that the bulkers, consisting of nine handysizes, two panamaxes and a post-panamax, according to the Premuda fleet list, will be managed by the commercial team of CTM at its head office in Monaco.

SITC earnings boosted by box shipping frenzy

SITC, the China-based intra-Asia focused container line, says it expects a first-half profit due to the rise in demand for container shipping.

Net profit for the period is forecast to be in a range of $440m-$480m, an increase of $320m-360m from the year-earlier period, it said in an exchange statement.

The earnings surge could be a portent of what is to come in the rest of the box shipping sector, as most carriers have already shown strong performance in the first quarter amid a pandemic-led freight market boom.

US container leasing firm sold to Japanese finance house

MITSUBISHI HC Capital, a Japanese financial company, said it has agreed to buy CAI International, a San Francisco-based global transportation company offering intermodal container leasing and sales.

The $1.1bn all-cash deal comes amid a surge in demand for shipping services due to the coronavirus pandemic fuelling stay-at-home consumption, with demand for shipping containers rocketing around the globe.

"We have decided to make this acquisition in order to strengthen our 'global assets', which are one of our focus areas," MHC said in a statement.

Greek LNG terminal receives EU state-aid backing

THE European Commission has approved Greek state aid for a liquefied natural gas terminal in the northern Greek port of Alexandroupolis.

The recipient of the €166.7m ($197.8m) grant is Gastrade, a company backed by LNG carrier owner GasLog, among others.

The approval brings the project closer and, although expected, is understood to have been critical for the terminal's viability.