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China sees shipping as a potential target for national carbon market

CHINA IS EXPLORING the idea of adding shipping into a national carbon trading market as a way of decarbonising the country's maritime sector, according to a government official.

The talks are at an early stage, with no clear pathway and timetable for the implementation of the measure, said China Maritime Safety Administration head of hazards and pollution control department Xu Jixiang.

Studies are being carried out on the "application of greenhouse gas emission reduction tools, including carbon trading, a differentiated carbon taxation scheme and carbon credits, to the shipping sector," he said.

Mr Xu was speaking at the Green Shiptech China Congress 2021 in Shanghai organised by Ridge.

The move comes against the backdrop of Beijing's pledge to decarbonise the country's economy and the pressing need at the international level for cutting greenhouse gas emissions generated by ships.

China expects carbon emissions to peak by 2030 and reach carbon neutrality by 2060.

Large state-owned companies, especially those in steelmaking, power generation, petrochemical and coal production, have already been asked to comply.

One of the major initiatives is to establish a country-wide carbon trading market.

Due to be launched this month, it will initially cover power generators and be gradually extended to other industries, Chinese premier Li Keqiang told a recent State Council meeting.

Mr Xu said the CMSA wanted to "actively conjoin" that market with shipping's emission cutting, as part of the policy efforts to make the sector "green and clean".

The European Commission is already expected to unveil its final proposals for including shipping in the European Union's Emissions Trading Scheme, which could lead to a substantial increase in costs not only for intra-Europe but also international seaborne trade.

Mr Xu declined to comment on whether EU's plans will set a precedent for the world's largest trading nation, but said he was aware of the controversy drawn by the unilateral move.

Other decarbonisation measures being considered by the CMSA include creating a roadmap to carbon peak and carbon neutrality for the county's shipping companies, ensuring that shipbuilders meet the International Maritime Organisation's requirements for energy efficiency designs, and developing green ports equipped with shore power and clean energy facilities.

The administration will also work with other government bodies to roll out policies that encourage the research and use of alternative marine fuels, such as liquefied natural gas, ammonia, hydrogen and batteries.

Mr Xu said that China will speed up the construction of LNG fuelling stations for ships.

Domestic efforts aside, he said China needs to "actively" participate the negotiations at the IMO and within the United Nations Framework Convention on Climate Change, to guide the making of international rules and "form fair and reasonable institutional arrangements."

WHAT TO WATCH

Regional freight rates set to follow main lane trades

SHIPPERS operating on regional routes have been warned to brace for impact as the capacity constraints seen on the main lanes cascades to the minor trades.

Freight rates on regional trades have seen large increases, but nowhere near the severe rises on the main lane trades between Asia and Europe and North America.

"India to UK, as an example, has not seen the same extreme moves in freight rates," Zencargo chief commercial officer Richard Fattal said in a webinar. "Rates are up around three times, compared with six to eight times on the Asia-Europe market."

One of the reasons behind the lower rates for regional trades was the value of the commodities shipped from those markets, he added.

"India has a lot of basic commodities like rice and fruits," said Mr Fattal. "The same is true of Australia and Latin America so the dramatic price changes in freight have more of an impact on the underlying commodity there."

In Asia, however, there was a wider mix of goods and higher value goods, so there was more leeway in terms of pushing up the rates.

But Vespucci Maritime chief executive Lars Jensen warned that what happened elsewhere in the market would soon affect smaller trades.

"Anyone moving goods on secondary or tertiary trades should brace for sharp increases in the coming months," he said.

The "extreme boom" on the transpacific and Asia-Europe had led to both existing carriers and start-ups operations like CULines and BAL realising that with $20,000 per feu spot rates, even a 1,000 teu vessel can make money.

"But they can't conjure vessels out of thin air," Mr Jensen said. "The vessels that are now being put into these deepsea trades are being pulled out of regional trades."

Vessels chartered on regional trades previously cost $10,000 per day or less, he said.

But regional players that had charters coming up for renewal faced a stark choice: either they sign up at five to six times the normal charter rates, for three to five years, or they simply do not get the vessel.

"There are players willing to pay $100,000 per day for these vessels to put them into the deepsea trades," Mr Jensen said.

The spill-over effect into smaller secondary trades was already becoming visible, he added.

"You can easily be a shipper in a small local trade that has nothing to do with the wider macro developments and suddenly capacity drops out from under you and freight rates start skyrocketing," he said.

"This is because your local carrier decided to not to operate a vessel in a local trade where he was earning $500 for a container when he could earn $25,000 on the transpacific."

Further evidence of increasing rates and the sensitivity of volumes to rates on regional trades emerged from the latest figures from Container Trades Statistics.

Exports from the Indian subcontinent and Middle East totalled 1.1m teu in May, down 3.6% on April. But the ISCME to North America price index saw the largest increase at 154, a gain of 15 points.

Carriers are also announcing rate increases on non-main lane trades.

Hapag-Lloyd, for example, has in the past two days announced price hikes of $1,000-$1,200 per teu for cargo originating in the subcontinent and the Middle East destined for northern Europe, the Mediterranean and North America.

UK sanctions divergence may be headache for marine insurers

UK SANCTIONS are increasingly likely to diverge from those imposed by the European Union or the US, presenting marine insurers with an additional set of rules to stick to, an industry audience has been told.

The Sanctions and Money Laundering Act 2018 is the UK's primary legislation, which sets the framework for autonomous sanctions.

Sitting underneath it are statutory instruments and secondary legislation that set out specific prohibitions for various country regimes.

"In a reinsurance context, the key change is not specifically the concern that the UK is adopting a different approach on sanctions," HFW partner Daniel Martin told a webinar event organised by the shipping-oriented law firm as part of its Marine Insurance Week events.

"There is a contingent concern that the UK approach to sanctioned countries may begin to diverge from the EU and the US."

In the situation where the UK sanctions different people, or different activities in different countries, it could potentially generate the problem of having to administer multiple sets of rules.

"At the moment, we are not quite there yet, but there are areas of difference, and we have clients for whom we are keeping a watching eye on the UK position."

Essentially, in developing autonomous sanctions, the UK has adopted and continued EU sanctions, but rephrased the regulations in terminology that is more familiar to UK readers.

Some of the concepts have been expanded, and this includes the definition of 'financial services' under SAMLA, which now mean any service of a financial nature, specifically including insurance-related services.

The approach has deliberately been broad, to take in insurance, reinsurance and intermediation such as brokerage, agency and services auxiliary to insurance.

HFW has been involved in an application to the UK authorities for a licence related to insurance activities where that would not have been an obligation under EU rules.

There are also thematic measures targeting particular activities and behaviours such as terrorism, rather than specific jurisdictions.

This means that it is no longer possible to guarantee compliance by the straightforward expedient of

simply not trading with sanctioned countries, as was possible until recently.

"What has changed with these new measures that target human rights abuses and corruption, is that it makes it much more difficult to apply a purely geographical focus," said Mr Martin.

Of country-specific sanctions, Russia continues to keep lawyers busy. It is a substantial market, in a way that third world countries are not.

Russia is also difficult to manage because lack of transparency can make it difficult to identify counterparties and those who sit behind counterparties.

Further measures against Belarus have been imposed in the past 10 days by the UK, the EU and Switzerland, targeting particular Belarusian individuals.

HFW has now reclassified the country as high rather than medium risk.

Insurers must also be aware of the risks when sanctions are gradually lifted rather than imposed.

"Rather than moving from a situation where on Friday everything is prohibited and on Monday everything is permitted, only certain things are permitted to start with," he said.

"Your assured may have heard that sanctions have been lifted and be very keen to rush into a market and insurers and lawyers are having to say, it is not quite like that at the moment."

ANALYSIS:

European forwarders call for fairer taxation regime

EUROPEAN freight forwarders have called on governments to ensure a "level playing field" in the maritime supply chain by ensuring that shipping companies' logistics businesses are taxed in line with others operating in the same market.

The European Association for Forwarding, Transport, Logistics and Customs Services (Clecat) and the International Federation of Freight Forwarders Associations (Fiata) said they welcomed the proposals by the Organisation for Economic Co-operation and Development and the G20 nations for a global minimum tax rate.

But they warned that with shipping exempted form the Inclusive Framework on Base Erosion Profit Shifting two-pillar plan, a door had been left open for shipping companies to benefit.

"Clecat and Fiata raise concerns that the broad definition of shipping services, which currently includes ancillary services, would open the door to tax avoidance and trade distortion, undermining the overarching intent of the OECD/G20 BEPS framework," the organisations said in a statement.

They called on OECD member countries to include cargo handling, logistics and ancillary activities within the scope of the proposals in the interests of ensuring a level playing field.

"The final details of the agreement still need to be further defined, and should ensure that the definition of 'shipping services' eligible for the exemption focuses on vessel-related port-to-port services only, so as not to perpetuate tax evasion," the statement said.

"Clecat and Fiata underline that the exemption should in no way apply to other ancillary or door-to-door services in the maritime supply chain, as it would create further distortions, and would enable tax evasion schemes."

The organisations are concerned by the "overly broad" definition of shipping that could lead to an exemption of shipping companies' services in the areas of freight forwarding, customs, and logistics services.

"This would mean that freight forwarders, logistics service providers and terminal operators would be required to pay taxes for the same activities that shipping lines could offer tax-exempt or partially tax-exempt, thereby providing incentives for carrier haulage (door-to-door transport arranged by the carrier) rather than merchant haulage," they said.

"This would further distort competition in the maritime logistics supply chain and would weaken the very purpose of the new OECD proposals."

The statement warned that this would have a detrimental impact on small- and medium-sized companies, who were already suffering from the ongoing disruptions in the maritime supply chain and the "dominant position of the shipping companies".

"Fiata and Clecat call on OECD member countries to include all services which are not directly related to the ship within the scope of BEPS Pillar 2, including hinterland transport, storage, cargo handling, customs services, fiscal and insurance services, and all other ancillary services," the statement said.

"Carve-outs and exemptions for ancillary activities will undermine the policy intent of the OECD/G20. Such tax exemptions will encourage further consolidation in the sector and reduce choice and service in the logistics supply chain, to the detriment of SMEs and consumers."

MARKETS:

US freight transport sector faces crackdown on anti-competitive behaviour

PRESIDENT Joe Biden will issue an executive order for US government departments and agencies to tighten their scrutiny of railroads and ocean carriers amid a broader effort to crack down on anticompetitive behaviour in freight transport.

The order specifically calls on the Department of Justice to work with the Federal Maritime Commission, adding greater investigative resources and enforcement capabilities to the commission's existing powers.

The announcement "focuses on saving American businesses money on shipping costs. In turn, that will lower prices for American consumers," White House press secretary Jen Psaki said. "Three foreign-owned shipping alliances now control more than 80% of the market. That concentration has contributed to a spike in shipping costs and fees during the pandemic.

"The executive order calls on the Federal Maritime Commission to crack down on unjust and unreasonable fees and work with the Justice Department to investigate and punish anticompetitive conduct."

FMC chairman Dan Maffei said the move engenders a new "spirit of co-operation" among various government departments and agencies.

"This kind of leadership right from the top, the president himself, that basically says, 'We need to work together. We need to pull resources on this' is terrific," he told Lloyd's List. "That can be a huge help. Let's say we do find something that we think might be extensive, but we're a small agency.

"We don't have the resources to look into it, particularly in the midst of a situation which is affecting the entire supply chain."

Peter Friedmann, executive director of the Agriculture Transportation Coalition, a lobbying group, especially welcomed the order directing the Department of Justice to work with the FMC.

"There is no question that when the Justice Department gets involved in any industry activity, they are not going to be satisfied with observing and reporting," he said. "Involvement of the Justice Department always means serious business."

The Agriculture Transportation Coalition has been one of the strongest critics of the ocean carriers over the past year or more, helping to spearhead the current FMC investigation into the causes of congestion at the Ports of Los Angeles, Long Beach and New York and New Jersey.

"It's very encouraging to hear of President Biden's willingness to peel back the onion and expose some of the challenges our member companies and our shipper partners have been experiencing throughout this current crisis," said Matt Schrap, chief executive of the Harbor Trucking Association, which represents drayage firms in ports along the US west coast.

It has been a strident critic of the ocean carriers, claiming their alliances have led to confusion at marine terminals, resulting in unnecessary detention and demurrage charges.

Foreign-flag ocean carriers and marine terminal operators have been subjected to much criticism in recent weeks, including at a hearing of the House

Subcommittee on the Coast Guard and Maritime Transportation in June.

"The shortage of containers and delays in goods movement are a direct result of rent seeking by the foreign conglomerates who lease the vast majority of America's marine terminals," Frank Ponce De Leon, coast committeeman on the International Longshore & Warehouse Union, told the Congressional committee.

"They have consistently prioritised their own, short-term profits over the domestic benefits of operational efficiency and the greater good of benefitting America's economy."

Committee members were told that ocean carriers are threatening exporters with retaliation if they take their complaints to the FMC.

"We didn't get as many complaints as we wanted because our exporters are concerned about retaliation," FMC commissioner Rebecca Dye reported to the subcommittee, which has jurisdiction over the regulation of ocean shipping and carriers. "I can assure you and the members of the subcommittee, and all of my export colleagues, that that is a violation of the Shipping Act currently.

"We would take prompt and decisive action if we heard about any carrier actually retaliating against any exporter or any other supply chain actor for coming to the FMC."

Ms Dye said her Fact Finding 29 investigation, which was authorised in March 2020, is continuing despite the efforts to prevent shippers' reports. She said no date was established for its conclusion and she could not state when it would be completed.

Mr Maffei said the investigation has been slowed by a number of barriers "like fear of retaliation," which "is keeping individual shippers from filing their own complaints."

IN OTHER NEWS:

Singapore leads shipping centre rankings for eighth year

SINGAPORE remains the top shipping centre for an eighth consecutive year, according to the latest rankings by the Baltic Exchange.

London and Shanghai retain their positions in second and third place, respectively, with Hong Kong and Dubai in fourth and fifth place, respectively, according to the Xinhua Baltic Shipping Centre Development Index.

The only change in the top 10 has been the emergence of Ningbo-Zhoushan in 10th position, usurping Tokyo, due to its growing shipping services centre and burgeoning port complex.

Singapore strengthens crew change rules

SINGAPORE has further tightened its crew change rules.

A Maritime and Port Authority circular said new "enhanced" requirements were to protect seafarers and Singapore's people.

Most are more restrictive, but the requirement for sign-on crew to isolate at home was reduced to 14 days from 21 days.

Paulo Enoizi named to lead GasLog Partners

PAULO Enoizi, chief operating officer of GasLog Partners, has been appointed as chief executive of the New York-listed liquefied natural gas carrier owner.

He takes over the role from Paul Wogan on August 1.

Mr Wogan remains chief executive of privately-held GasLog, which delisted last month after conclusion of a merger deal that saw US investment giant BlackRock acquire 45% of the company.

Abu Dhabi considers green ammonia bunkering facility

ABU Dhabi has taken its plans to become a green ammonia bunkering hub one step further.

The Abu Dhabi National Energy Co and Abu Dhabi Ports have said they are in talks over building a local hydrogen-to-ammonia export project.

A joint statement said the proposal would amount to a bet on the future, as no ammonia-fuelled vessels are yet in commercial operation, although the technology shows considerable promise.

Prokopiou eyes fresh challenge as new owner of Hellenic Shipyards

SHIPOWNER George Prokopiou has said Hellenic Shipyards may "eventually" resume commercial shipbuilding among other activities.

The founder of Dynacom Tankers, Dynagas and Sea Traders said he saw the yard as "a challenge"

after being confirmed as its new owner.

"Success will depend very much on co-operation from the government and from the authorities over matters such as licences, but we are definitely keen to offer a helping hand to our country," he told Lloyd's List.

Sovcomflot secures charters for LNG duo from TotalEnergies

SOVCOMFLOT has chartered out another two 174,000 cu m liquefied natural gas carriers to TotalEnergies for up to seven years.

The French energy provider exercised an option to take on the two X-DF-powered vessels from the Russian shipping company following a deal earlier in the year to take in an identical vessel from Sovcomflot beginning in the third quarter of 2023, also for up to seven years.

Sovcomflot did not disclose when these newly agreed charters would begin.

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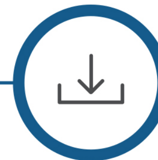

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