



# RESPONDING TO ENVIRONMENTAL REGULATION

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The shipping industry faces a number of significant challenges as society increasingly demands improvements in environmental performance. The International Chamber of Shipping (ICS) is engaged at the International Maritime Organization (IMO) on behalf of the global shipping industry on all three of the following environmental policy areas.

## REDUCING CO<sub>2</sub>

IMO Member States will in June 2017 begin to develop a strategy to reduce CO<sub>2</sub> emissions from the international shipping sector, in line with the ambitious spirit of the Paris Agreement on climate change. This historic agreement was adopted in 2015 by all 196 parties to the United Nations Framework Convention on Climate Change (UNFCCC) and entered into force in 2016. The intention is for IMO to agree an initial strategy to reduce greenhouse gas (GHG) emissions from shipping by 2018.

ICS is confident that the IMO's member states can adopt a strategy by 2018 that matches the ambition of the Paris Agreement, and also agree upon a baseline year for peak CO<sub>2</sub> emissions from shipping, allowing the sector to dramatically cut its total CO<sub>2</sub>.

ICS also believes that the IMO should adopt CO<sub>2</sub> reduction objectives for the sector as a whole, rather than setting targets for individual ships, in the same way that governments have already agreed CO<sub>2</sub> commitments for their national economies under the Paris Agreement. Individual ships that are newbuildings will already have reduced emissions as they are required to be constructed to the Energy Efficiency Design Index (EEDI). But IMO also needs to agree measures for delivery of industry-wide CO<sub>2</sub> reduction commitments which ICS would like to see in place by 2023.

It is possible that IMO member states will conclude that any objectives agreed

will not be achievable in the immediate future through technical and operational measures alone. Accordingly, if IMO Member States should decide to develop an MBM, the clear preference of the industry is for a global bunker fuel levy charged per tonne of fuel purchased for consumption.

In the event that IMO should decide to develop an MBM, any money collected from the industry must result with a reduction in the CO<sub>2</sub> emissions attributed to the sector, with a significant proportion used for research into the development of alternative fuels that will allow shipping to drastically reduce its future CO<sub>2</sub> emissions.

IMO needs to establish CO<sub>2</sub> reduction goals that will be sufficiently ambitious to allow shipping to play its part in achieving the United Nations '2 degree' climate change target, but ICS believes these goals should also be realistic.



Ambitious CO<sub>2</sub> reduction objectives will only be achievable with alternative, fossil free, marine fuels and propulsion solutions which do not yet exist- although ICS expects these will be available in the not too distant future.

Widespread availability of alternative energy sources (such as hydrogen or fuel cells) and the associated infrastructure is probably not expected for at least another 20 or 30 years. However, as a result of technical and operational measures that have already been taken, the sector's total CO<sub>2</sub> has already reduced by more than 10% between 2007 and 2012.

Additionally, projections for trade growth – over which the industry has no control, due to population growth and improved global living standards – suggest that dramatic reductions in the sector's total CO<sub>2</sub> emissions will be very difficult to achieve until these alternative marine fuels and technologies become globally available and affordable. In the meantime, ICS will argue that any CO<sub>2</sub>

reduction goals agreed by IMO must also address the legitimate and valid concerns of developing nations about the potential impacts on trade and development.

#### **BALLAST WATER MANAGEMENT**

ICS is committed to making IMO's Ballast Water Management (BWM) Convention a success. ICS fully supports the intention of the BWM Convention, which is to address the problem of invasive marine organisms having damaging impacts on local ecosystems through their unwitting transportation in ships' ballast tanks.

The IMO Ballast Water Management Convention will enter into force on September 8, 2017

The Convention's imminent entry into force presents ship operators with a serious challenge because of the expected lack of shipyard and manufacturing capacity needed to retrofit the new treatment systems on around 40,000 vessels over the five year period.

It was adopted under huge political

pressure back in 2004, when the technology required for ships to treat millions of gallons of ballast water simply did not exist outside of a laboratory. As a consequence, the enormous cost of installing completely unproven systems was dramatically underestimated, first by the manufacturers, and then by governments, who heard what they wanted to believe.

The total current cost of ensuring compliance across the world fleet is estimated to be about US\$100 billion. But after so many years of delay, the entry into force of the Convention should at least give shipowners some of the certainty needed to make important decisions about whether to retrofit the new equipment or, because of the prohibitive cost (US\$1- 5 million per ship), send older ships for early recycling.

In October 2016, the IMO MEPC finally adopted revised and more robust type-approval standards for ballast water management systems. These will be

included in what will soon become a mandatory Code for Approval of Ballast Water Management Systems – the previous ‘G8’ Guidelines having been found by shipowners to be inadequate in a number of key areas. IMO has recommended that flag administrations apply these revised standards as soon as possible. However, they will not become mandatory for new system approvals until October 28, 2018 and only systems being installed after October 2020 will be required to comply with the new Code.

Because of the lack of confidence in the IMO type-approval process, and the previous uncertainty as to when the Convention would enter into force, very few existing ships have so far been retrofitted with the required ballast water treatment systems. But there is also little logic, from an environmental protection standpoint, in requiring thousands of ships to comply until they can be fitted with systems that have been approved under the more stringent 2016 standards.

Following a welcome submission to IMO in 2016 by Liberia, the MEPC has begun consideration of whether the implementation schedule for installing ballast water management systems should be further amended, perhaps extending the date by which all ships must have installed a system to 2024 from 2022.

The additional two years could be used to allow ships that would currently be expected to retrofit a ballast water treatment system by their first IOPP survey to delay the retrofitting until the date of their second IOPP renewal survey. If agreed, this would allow shipping companies to identify and invest in far more robust technology to the benefit of the environment. The MEPC is expected to take a final decision on the implementation schedule at its meeting in July 2017.

## 2020 GLOBAL SULPHUR CAP

The IMO’s MEPC made a critical decision that will have profound implications for the economics of shipping. In October 2016.

As expected by ICS, IMO confirmed that it will implement the global cap on the sulphur content of marine fuel on January 1, 2020 setting aside an option to postpone until 2025. This global cap is the requirement under Annex VI of the MARPOL Convention, adopted in 2008, for all ships trading outside sulphur Emission Control Areas (ECAs) to use fuel with a sulphur content not exceeding 0.5%.

This decision is highly significant for the shipping industry because the cost of compliant low sulphur fuel is currently about 50% more than the cost of traditional residual fuel or bunker, and in

response to the greatly increased demand by ships needing to comply by 2020 the price of low sulphur fuel may increase considerably. Residual fuel is that most commonly used by ships today when operating outside of the ECAs, which apply in North America and North West Europe (in which fuel with a sulphur content of 0.1% or less must be used).

Even if fuel costs stay at the current lower levels which have applied since the significant fall in oil prices in 2015, this mandatory switch to low sulphur fuel in 2020 could mean that bunker costs will return to their 2014 peak. If by 2020, oil prices increase to something approaching US\$70 a barrel – still well short of the 2014 peak – it has been estimated that the differential between compliant low sulphur and residual fuels could still spike by as much as US\$400 a tonne.

Under the terms of the MARPOL Convention, IMO was obliged to conduct a study into the availability of compliant low sulphur fuel in order to allow Member States to decide whether the global cap should indeed be implemented in 2020. ICS was represented on the steering committee.

The IMO study concluded in October 2016 that sufficient quantities of compliant fuel will probably be available in 2020. Although the supply of compliant fuel was projected by the IMO study to be tight – with some sections of the oil industry, amongst others, questioning the conclusion those adequate supplies of fuel will be available – IMO Member States nevertheless decided that it would be politically unacceptable to postpone implementation.

Now that the 2020 date has been decided, ship operators and oil refiners need to prepare for implementation. The oil refining industry in particular will need to take important decisions to ensure that sufficient quantities of compliant fuel will indeed be produced. But governments need to monitor this carefully, since it may be in the refiners’ commercial interest to keep the supply of compliant fuel as tight as possible. It is important to remember that the IMO decision focused completely on the likely availability of compliant fuel and took no account of the possible purchase price.

It is anticipated that due to the massive scale and global nature of the switch, oil refiners may be very hard pressed to supply sufficient quantities of 0.5% sulphur fuel, produced specifically for marine use, to satisfy demand in all regions from the day the global sulphur cap enters into force, January 1, 2020).

As a consequence of these supply issues shipowners could take an alternative route

deciding to invest in other compliance mechanisms (which are permitted by MARPOL) such as exhaust gas cleaning systems (‘scrubbers’) or the use of low sulphur fuels such as LNG. The decision to implement the 0.5% sulphur cap in 2020 may also affect decisions on whether or not older and less fuel efficient ships will be sent for early recycling.

As the implementation date for the global cap approaches, it will be vital for IMO Member States to start addressing issues associated with compliance, in order to ensure fair competition and the maintenance of a level playing field.

Immediately after the MEPC decision in 2016, ICS and other shipping associations submitted a joint paper to IMO highlighting those fuel availability and implementation issues that will need to be resolved before 2020. The industry paper was well received by governments at an IMO Sub-Committee meeting in January, and work will continue on these critical issues at the MEPC meeting in July 2017 with a view to being completed by 2019.

## ABOUT THE AUTHOR

Simon has worked in the shipping industry for more than 20 years. A graduate of Oxford University he initially worked for the General Council of British Shipping as well as the International Support Vessel Owners’ Association (ISOA) and the International Maritime Employers’ Committee (IMEC). Simon has subsequently held various positions within the International Shipping Federation (ISF) and the International Chamber of Shipping (ICS) where he is currently Director of Policy & External Relations. Working for ICS, Simon has represented the global shipping industry at the various intergovernmental organisations which impact on shipping including the IMO, ILO, OECD, the UN, UNFCCC and the WTO.

## ABOUT THE ORGANISATION

The International Chamber of Shipping (ICS) is the global trade association for merchant shipowners. Its membership comprises national shipowners’ associations from 36 countries representing over 80% of the world merchant fleet.

## ENQUIRIES

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