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Industry proposes mandatory \$5bn decarbonisation research and development fund



SHIPPING IS CALLING for the creation of mandatory payments from companies to fund an independent research and development body that will help accelerate maritime decarbonisation.

Under the proposal being made to the International Maritime Organization by eight leading shipping associations, shipowners would pay \$2 per tonne of fuel oil each of their ships consume into a newly formed international maritime research fund to help finance decarbonisation research and development projects.

They said the fund, which would be set up by the IMO, would raise around \$5bn over a decade, based on the estimation that the global fleet will consume an average 250m tonnes of fuel oil annually.

“An effort of this scale is expected to be successful in identifying one or more technical pathways that can lead to the introduction of zero-emission vessels across the maritime sector by 2030 and beyond,” the associations said in the proposal seen by Lloyd’s List.

Lloyd’s List had reported last month that five major shipping associations were plotting to launch this mandatory R&D fund proposal.

That number has since grown to eight, meaning the proposals enjoys overwhelming industry support; the associations claim they collectively account for more than 90% of the global merchant fleet.

They hope the fund can be up and running by 2023.

“Frankly we need to do that, because the pressure created by the IMO 2050 target is so great... we really do have to start seeing the appearance of zero-carbon ships in the 2030s,” International Chamber of Shipping deputy secretary general Simon Bennett said during a conference call on Tuesday.

Though the proposal is for the next IMO Marine Environment Protection Committee, meeting in April 2020, Mr Bennett acknowledged the focus of regulators on the short-term emissions-reducing measures means the more detailed discussion on the fund may happen at the next MEPC in the autumn of 2020.

The fund would support a proposed International Maritime Research and Development Board that would be responsible for approving funding and managing the R&D projects on maritime decarbonisation, undertaken by qualified third parties.

“The IMRB and its coordinated R&D programmes would help accelerate the development of low carbon and zero-carbon emission technologies and fuel systems that are specifically tailored for maritime application, especially larger transoceanic ships,” the proposal said.

The associations suggest the IMRB and the international maritime research fund could function for a period ranging between 10 and 15 years, after which they would be dissolved. The specific dissolution date would be up to the MEPC to decide in the future.

Activity of the funded research would also focus on the potential development of prototypes and other aspects like technical and safety issues associated with the bunkering, use and storage of new fuels.

“Commercial development of relevant technologies, fuels, and related infrastructure would be the responsibility of other stakeholders such as energy producers, ports, engine manufacturers, and shipbuilders,” the proposal read.

When it comes to ships consuming low carbon fuels or fuels with lower GHG emissions, such as liquefied natural gas, the proposal suggests that the contribution should be smaller than the \$2 per tonne.

The industry bodies want to make this payment a legal requirement by amending existing conventions, or through other legal means.

They believe companies should be obliged to pay, but they added that IMO member states could encourage or require other stakeholders to also pay into the international maritime research fund.

The associations stressed that this mandatory payment is not meant to be a market-based measure on the shipping industry nor is it meant to delay the development of an MBM, if IMO member states eventually agree to that at some point.

“However, if this IMRB concept is taken forward by the IMO, it could potentially provide some of the architecture for the possible future development of a levy based MBM for shipping, in a manner that would reduce the possibility of market distortion,” the proposal read.

The role of the charterers

The legal onus to pay into this international maritime research fund will be with the shipowners.

But in the perpetual argument about who should be powering shipping’s decarbonisation, the industry bodies are signalling the burden should not fall solely on the shipowners in line with current practices.

Charterers are the ones that often pay for vessel fuel costs. This mandatory payment into the fund should be considered an integral part of fuel purchase costs, the industry bodies argue in their proposal.

“This is to ensure that if an entity other than the shipping company (such as a charterer) is responsible under commercial contract or charter party for paying or reimbursing the cost of fuel this entity shall also be responsible for the cost of the contribution to the international maritime research fund,” the proposal said.

Mr Bennett said the co-sponsors are confident they will have the support of the major charterers for this fund.

“It suits their objectives. It suits their corporate social responsibility goals and environmental goals,” he said.

While the co-sponsors have had informal conversations with charterers, now that the proposal is made public, Mr Bennett is targeting greater engagement.

A non-politicised international \$5bn fund

The industry bodies seek effective oversight from the IMO but insist they want to avoid politicising the IMRB and the international maritime research fund.

Companies would pay into the international maritime research fund, through an automated payment system for each tonne of fuel oil they buy to consume, according to the plan.

Enforcement of the fund is meant to work through mandatory statutory certificates, that ships will be required to have to trade.

The international maritime research fund will first have to verify that a ship has made the necessary contributions to the fund before giving the shipowner a confirmation document. The company subsequently gives that to the ship's flag state, which then issues that mandatory certificate for the ship.

The structure and composition of the IMRB will also be crucial in how funding is allocated and it may be a big factor in whether it secures approval from the IMO.

Funded by the international maritime research fund, the IMRB would be set up by the IMO as an R&D non-governmental organisation.

Composed by a secretariat and a board of directors, the IMRB would report to a supervisory body of the IMO, which would also approve the IMRB's budget.

But it would be up to the IMRB and its board of directors to decide which specific R&D projects they will fund, something the associations believe will help prevent that exact politicisation.

The bodies are also demanding that the leading officers and board members of the IMRB should not even appear to have some kind of conflict of interest.

"It is critical that nominees for IMRB officers are free from notable conflicts of interest, both commercial and political," the proposal said.

ANALYSIS

Cartel fears behind block exemption disquiet

THE European Commission's decision in principle to extend the Consortia Block Exemption Regulation for another four years has drawn mixed responses from across the wider container shipping community.

Shipper and port authorities have condemned the move, and lawyers working for both sides of the debate have contrasting opinions on whether extending the exemption is beneficial.

Behind these concerns are fears of a "cartel-like constellation" emerging under the guise of the current regime, according to International Transport Forum ports and shipping expert Olaf Merk.

Mr Merk said consortia could, in practice, act like cartels if they co-ordinated not just schedules and other practical areas of operations, but also the price or available capacity.

Writing on the ITF website, he said joint capacity planning for "adjustments in response to fluctuations in supply and demand" is allowed by the block exemption.

"But there is evidence that carriers might have co-ordinated orders for new mega ships as well as the timing of ship dismantling within alliances," Mr Merk said.

Additionally, blank sailings were done simultaneously by different consortia and alliances.

"While some interpret this as joint 'capacity adjustments in response to fluctuations in supply and demand', others might suspect concerted action to influence freight rates," Mr Merk said. "Because the different shipping consortia and alliances are heavily intertwined, even detailed co-ordination between them is not particularly difficult."

The extension of the block exemption regulation would also fail in the stated goal of providing legal certainty, Mr Merk said. "Without the BER, consortia would need to carry out self-assessments to ensure they meet the EU's general competition regulation."

MARKETS

Coal demand to be stable to 2024, IEA says

GLOBAL coal demand will continue at stable levels through to 2024, according to the International Energy Agency.

Despite pressure from environmentalists about curbing coal use, consumption will continue mainly due to manufacturing and energy needs of a growing population.

After a rebound in demand to reach a record in 2018, this year saw an overall decline in coal-power generation which “appears to have resulted from particular circumstances in some specific regions and is unlikely to be the start of a lasting trend,” the IEA said in a report.

But the stability could be “undermined” by stronger climate policies from governments, or lower natural gas prices.

The outlook is supported by the “resilient” Chinese market, which accounts for half of global consumption. But its dependence on coal for power generation will fall to 59% in 2024 from 67% last year as it tries to cut air pollution.

The IEA thus expects coal demand in China to plateau by 2022, with a slow decline thereafter.

The outlook counts on India continuing to be a driver, with growth of 4.6% per year to 2024, according to the IEA.

Coal demand in Southeast Asia is also forecast to grow by more than 5% per year through 2024, led by Indonesia and Vietnam, it said, adding that the region’s strong economic growth will lead to higher electricity and industrial consumption, which will in part be fuelled by coal.

United Nations plea to halt coal use

A United Nations report issued at the end of November said it was “ramping up pressure” on countries to end their reliance on coal due to concerns about climate change.

Some countries have taken heed such as the UK, which is expected to completely phase-out coal in the next few years, while Germany has agreed to stop use of coal by 2038, according to the report. Eight other European Union countries have said they will put an end to coal use by 2030.

Elsewhere, Chile has pledged to close all of its coal-fired power stations by 2040, while South Korea will close 10 plants by 2022, it said.

According to brokerage Simpson, Spence and Young, a “near-term negative” for coal import demand in the Pacific has been measures by China and South Korea to combat winter pollution. The measures, which are likely to remain in place until March, sees at least 10 coal-fired power plants switched off in South Korea.

SSY expects South Korea’s imports to slide to 110m tonnes in 2019 from 117.5m tonnes last year as a result of the closures. A further five slated to halt by February 2020.

“The country’s steam coal imports are set for fresh disruption,” SSY said in a report, as six plants are expected to be permanently shut by the end of 2021.

Banchemo Costa’s head of research Ralph Leszczynski said South Korea’s trade patterns have been unusual this year, with a poor first half in terms of coal imports followed by a strong second half. In previous years, there has not been any clear seasonality with volumes steady through the year.

He expects this unusual trend to continue in 2020.

In the first six months of 2019, the country imported 59.4m tonnes, 4.8% below the same period last year, while it imported 46m tonnes in July to October, which is a gain of almost 9% from 2018’s levels, he said, adding that he expects at least 11m tonnes to have been imported in November based on vessel tracking data, up 16% from the same month last year.

According to the IEA report, exporters in the Pacific basin will do better than those in the Atlantic as Asian demand continues to be strong.

“With the collapse of the European market, Atlantic producers, including the US and Colombia, struggle, whereas Australia and South Africa fare better,” the IEA said, adding that Russia is increasingly targeting Asian markets, while Indonesia’s domestic needs will eat into exports.

IN OTHER NEWS

Avance Gas orders two dual-fuel VLGCs at DSME

AVANCE Gas, a Norwegian owner of 14 very large gas carriers, has entered into an agreement for two new 91,000 cu m vessels to be built at the Daewoo Shipbuilding & Marine Engineering yard in South Korea.

The two VLGCs, which are expected to be delivered in the fourth quarter of 2021 and the first quarter of 2022, will be able to run on liquefied petroleum gas and its dual-fuel propulsion system will "significantly" lower fuel use, thereby cutting fuel costs and emissions, the Oslo-based company said in a statement.

"The transaction enhances the green profile of the Avance Gas fleet while increasing its competitiveness," it said. While pricing details of the newbuildings were not disclosed, the company did say that payment terms were attractive.

CMA CGM in biofuel bunker blend deal with Shell

CMA CGM is tapping Shell for the supply of a marine biofuel blend to power ocean-going containerships.

Shell will supply tens of thousands of tonnes of bunker with 80% low sulphur fuel oil and 20% biofuel content to CMA CGM.

The biofuel going into this blend will be sourced from used cooking oil, rather than drawing directly from corn, sugarcane or other crops that are either consumed as staples or used into food production.

Indian seafarers taken hostage off West Africa soar to 89 in a year

The number of crew members abducted from the Marshall

Islands-flagged *Duke* off Nigeria has been confirmed as 20, according to shipmanager V.Ships.

All the seafarers taken hostage were Indian nationals, it said. "With the confirmation of 20 Indian nationals kidnapped, this latest incident represents the largest kidnapping event in West Africa within 2019," according to security consultancy Dryad Global.

The consultancy said that the latest kidnap of Indian crew, off Lomé, brings the total number of seized Indian personnel within West Africa to 89 since the beginning of this year, thus making up the highest proportion among kidnapped crews in the region.

DP World integrates former Topaz Energy into P&O Maritime Logistics unit

DP WORLD has topped off its takeover of Topaz Energy and Marine by officially folding it into its Dubai-based marine solutions and logistics unit P&O Maritime Logistics.

Coming under the DP World group, the unit will be led by Topaz Energy chief executive officer René Kofod-Olsen and focus on offshore, port services and logistics, DP World said in a statement.

Integrating all three strategic segments, a core focus for P&O Maritime Logistics will be the further optimisation of offshore logistics for energy companies, DP World said.

Maersk appointments bring board back to strength

MAERSK has reshuffled its executive board following the departure of former chief operating officer Søren Toft.

Vincent Clerc has been named as chief executive of the Ocean and Logistics division, while Svitzer chief executive Henriette Thygesen becomes chief executive of Towage, Manufacturing and Others.

"A year ago, we integrated our customer facing roles across the company. We are now ready to accelerate the execution of our strategy through increased commercial and operational integration," Maersk chief executive Søren Skou said.

Tonnage tax extension seen as growth filip for Cyprus shipping

CYPRUS is eyeing gains for its shipping registry and resident maritime cluster after the European Union approved its tonnage tax regime for another 10 years.

The Cypriot tonnage tax scheme, which applies to shipmanagement and chartering activities as well as ownership, was the first of its kind approved by Brussels for an open registry when it was introduced a decade ago.

Securing approval for a full decade will provide stability and certainty for shipping companies choosing the flag or operating in Cyprus, according to Natasa Pilides, the country's deputy shipping minister.

MOL teams up with e5 Lab to develop hydrogen hybrid car carrier

MITSUI OSK Lines has agreed a deal to conduct a joint study of a hybrid pure car carrier equipped with a hydrogen fuel cell system and large-capacity batteries.

The company will join e5 Lab, a Japanese shipping solutions provider working to develop and promote electrically powered zero emissions vessels, to

develop a zero-emissions hydrogen hybrid PCC.

With propulsion coming from electricity supplied by the hydrogen fuel cell system and large-capacity batteries which do not emit carbon dioxide, sulphur oxides, nitrogen oxides, or particulate matter while under way in coastal waters or in ports, the partners hope to achieve true zero emissions performance.

Swire Shipping to offer joint Pacific service with Matson

CHINA Navigation Co's Swire Shipping unit is tying up with Hawaii-based Matson to provide a new Pacific service.

The new vessel-sharing partnership will create a service from New Zealand to Tonga, Samoa (Apia), Cook Islands and Fiji that departs every 10 days from Auckland.

The service, which starts in January 2020, will expand global coverage into the Pacific islands, as well as specifically provide

New Zealand customers with a new direct service alternative, Swire Shipping said in a statement.

Zeamarine co-founder exits as restructuring specialist is called in ZEAMARINE has dramatically ditched managing partner and co-founder Jan-Hendrick Többe and appointed consultant Sven Lundehn to chair the board. He will undertake a restructuring exercise at the company, according to a source aware of the situation. Sister companies in the Zeaborn Group are unaffected.

The changes were confirmed by a spokesperson for Zeaborn Group, the shipping wing of construction major Zech Group, who stated: "We are not issuing an official statement and will not comment on rumours.

"The fact is that Jan Többe has relinquished the management and Mr Lundehn has now taken over the management of Zeamarine, and will press ahead with restructuring."

Slips, trips and falls cost American Club \$14m a year

SLIPS, trips and falls at sea cost the American Club more than \$14m a year on average, according to a survey of available data produced by the International Group affiliate in collaboration with classification society ABS and Texas-based Lamar University.

The finding is based on an analysis of more than 12,000 injury records with a total financial cost of \$246m, and a further 100,000 near miss reports, from the ABS-backed Lamar Mariner Safety Research Initiative, and nearly a decade of data from the marine mutual.

Injuries sustained while lifting or in slips, trips and falls were the most frequent category, with more than 1,300 incidents in the study's dataset. American Club records suggest these incidents cost in excess of \$85m for the six-year period studied.

Classified notices follow



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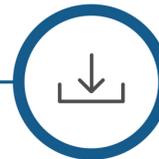
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