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IUMI Diary: Day One – Speakers cast eyes forward to 2050

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Roel Honders (Head, air pollution and energy efficiency, marine environment division, IMO, UK-London), observed that the climate emergency was at the front of everybody's mind. He observed that IMO had been working since 2011 on regulatory action to reduce greenhouse gas emissions. The Paris Accord of 2015 famously did not include shipping in its agreement, but Honders said that the IMO, as a part of the United Nations, decided to come up with its own initiative in 2018. That saw the organization aim for a 40% reduction in carbon intensity by 2030, with 2008 being the starting point. He noted that this was mainly an attack on an individualistic basis – making the ships at work more environmentally sound.

Meanwhile, the aim to reduce GHG by at least 50% by 2050 (a percentage which other speakers were quick to emphasize should be seen by the industry as a minimum target, not a maximum target) was on a macro basis – for the industry as a whole.

As Honders observed, this was a tougher ask, because the shipping industry was going. So, while ships had on average become something like 20% to 30% more efficient in individual terms, the total GHG emissions from the industry had remained broadly flat. Indeed, shipping's share of global greenhouse gas emissions had risen to 2.86% by 2018, up from 2.76% in 2012. This, Honders observed, was the size of a medium-sized country's emissions.

In June 2021 IMO adopted a short-term GHG reduction measure, which will enter into force in November 2022. There will be an annual operational carbon intensity reduction requirement. However, while ships rated 'D' (second-from-bottom) for three years in a row, and any ship rated 'E' (bottom) would be penalized, that penalty consisted only of having to "develop a plan of corrective actions".

Honders said that the short-term initiative was expected to mean that annual emissions of CO_2 would be at around 600m tonnes by 2030, compared to about 750m tonnes if no action were taken.

The IMO has a busy time ahead of it before the end of the year when it comes to dealing with climate change. The next regulatory steps will be at ISWG-GHG9 this month (15th to 17th) (development of life cycle GHG assessment guidelines to incentivize uptake of alternative fuels), ISWG-GHG 10 in October (18th to 22nd) (collation and consideration of mid to long term initiatives), and then MEPC 77 in November. Honders noted that for MEPC 77 there was a “concrete proposal for a global fuel levy of $100 per tonne carbon”, which has been proposed by the Marshall Islands an Solomon Islands.

Those are two nations that are in the physical front line when it comes to climate change. It remains to be seen whether a majority of the other shipping countries will come on board.

Increased transparency a must

The second speaker, Johannah Christensen, CEO, Global Maritime Forum (GMF), Copenhagen, said that it was against the 2018 initiatives from the IMO that the GMF had launched two industry initiatives – The Poseidon Principles and the Sea Cargo Charter. The first of these has signed up banks which deal with the shipping industry to assess how its financing policies are aligned to the IMO initiatives. There were 27 signatories to date, with more on stream, and with about 50% of shipping finance globally being covered. Christensen said that the aim was for the Poseidon Principles to become a de facto standard when it came to shipping finance.

A key factor here was not just the first three principles – assessment, accountability, and enforcement; but also the fourth principle, transparency. The banks committed to publishing their findings.

The TPP launched in 2019 and in the first public release of its findings, the first 15 signatories found that only three of them were aligned to the IMO’s goal to cut emissions by at least 50% by 2050.

The Sea Cargo Charter was launched only last year, and so far has yet to report. It has 23 signatories, and its first report will be in Spring 2022. It roughly aims to create an equivalent of the Poseidon Principles for the cargo sector, the customers of the shipping firms from the buy side.

GMS has now come up with a third initiative, for which it is now encouraging applications. That is a Poseidon Principle for the insurance sector. It has begun for insurers offering Hull & Machinery products and aims to have signatories assess climate alignment in marine insurance, and to support clients in the transition towards the 2050 target. Christiansen said that there were two trajectories, the minimum IMO ambition of 50%, and maximum IMO ambition of 100%.

The ambition is for the principles to provide a net zero target (a 100% reduction) and to be consistent with the goals of the Paris Agreement of 2015.

“We anticipate launching them before the end of the year, perhaps by the end of October”, said Christensen.

Shipping lines in the front line

Simon Bergulf, head of regulatory affairs at AP Moller Maersk, had many interesting things to say on the topic. Bergulf observed that we should not underestimate the relevance of “green steel” (i.e., that recycled from old sources). He predicted that the value of this would increase considerably in coming years.

Bergulf noted that there were a number of initiatives, including the design of carbon neutral vessels and the drive to innovate new fuels. While Maersk had experienced considerable success in using old cooking oil as a fuel, this sector (biodiesel) was not a sustainable solution to scale. For that, Maersk has ignored LNG, which Bergulf said was considered to be a fossil fuel and had plumped for methanol. He noted that ammonia was the other “hot fuel” for the future but said that it was important to consider safety concerns for crew. “A lot of people are talking about ammonia and we are looking into it, but there are safety aspects. We need to make sure it is 100% secured for the safety of seafarers. It’s not impossible, but it needs to be tested.” He also observed that “an engine running on ammonia for shipping does not yet exist” and that the retrofitting case for ammonia was not as clear as some had claimed.

This was why the company decided to move forward with methanol.

Indeed, a coaster container vessel, in the 4,000 teu region, is in the works. There are plans for international 8,000 to 16,000 teu vessels. However, while the fuelling of the feeder vessel can be operated from a single Scandinavian methanol producer, for a global container ship the problem is greater. Bergulf said that Maersk had received interest from people who claimed to be able to provide methanol from ports in several parts of the world.

Bergulf did not mince words. He said that the situation was one of existential risk for shipping companies. “Some of them will make the wrong choice and will cease to exist”, he said, warning that it was not enough just to look at CO_2 emissions.

Companies needed to future-proof (given the long life expectancy of vessels) against all greenhouse gas emissions. Pressure will increase both from banks, from investors, and from customers.

Observation: We should not see the giants of the industry as fully representative of the industry as a whole. As some questioners observed, the long life of ships tends to see them passed down the line as they get older. The smaller firms will therefore find it harder than the larger ones to comply with the IMO targets, and this will reflect on the industry as a whole.

Upside, downside, “impact”

Alice Montoya, Head of Research Commercialization at Swiss Re Institute, spoke on “Marine Sustainability, Incentivizing the transition to decarbonization and beyond”. She said that what was needed was “a paradigm shift vision”, adding that “the assets that we protect are changing and new risks and targets are emerging”.

Meeting targets would require $1.4trn to $1.9trn in investments in low/non sulphur fuels between 2030 and 2050. Other risks were creating an urgent need for transparency and credibility, she said.

The Swiss Re Institute had created a third “platform” to underwriting principles. Added to “upside” and “downside” was “impact”. This appeared to be adding a macro/long-term aspect to the more short-term assessments involved in the technical aspects of underwriting. While the underwriting of an individual policy could be assessed in terms of its profitability, the “impact” part of it looked at its sustainability from a long-term point of view (including, but not restricted to, carbon footprint).

The session completed with a couple of questions and answers, in which two points were emphasized about the forthcoming COP meeting. First, it would be nice if noble words were immediately followed by some actions. And it would be nice if, instead of talking about putting a price on carbon, an actual price could be agreed. There was a feeling that, ahead of COP, much of this was in hope rather than expectation.

Bergulf made a key point. He said that the developed world needed to start approaching these meetings with a sense of humility, and to look at things from the point of view of the developing nations. If they fail to do that, it was unlikely that an agreement would be reached. “It’s the task of everyone that there is an alignment between positive words and actions right afterwards”, he said.