

IUMI Blog – Day Two; full support for shipping’s move to decarbonization

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If the first two days of IUMI are anything to go by, the IMO target for 2050 and the development of alternative, less polluting fuels, above and beyond the low-sulphur requirements that the IMO introduced at the beginning of 2020, are going to be the main focuses for the minds of the attendees.

Helle Hammer, Managing Director of Cefor – The Nordic Association of Marine Insurers, and chair of IUMI’s key committee the Policy Forum, gave a top-level assessment of the many other areas on which the Policy Forum has been working this past 12 months, as well as spending some extra time on another high-focus issue for the association – container fires.

She welcomed Selina Lau from HKFI in Hong Kong as a new member of the forum. Hammer then observed that the committee had 12 items that were currently under review, as well as four that were “standing items”.

Highlighted in red were ESG, fuels, and macroeconomic factors.

Hammer noted the topics covered on day one and said that “following discussions yesterday, now it is down to us on how we are going to facilitate it on our side”.

However, the Policy Forum was not going to get away from what has been a major campaign issue for IUMI for the past several years – container fires and how to reduce the loss levels from such incidents.

Hammer said that this issue was “perhaps the one that we spent most time with” over the previous 12 months. The work on the topic started back in 2017. Hammer was pleased to say that IMO MSC 103 agreed in May 2021 on a new output.

Hammer said that IUMI hoped to get an agreement in 2025 that will be adopted in 2026 and will apply to new vessels from 2028.

The basic idea is to implement changes to SOLAS and the Fire & Safety System Code (FSS) in order to make the regulations more suitable for the ever-increasing size of container vessels and the problems that this can bring.

An IUMI Expert Group will be putting a proposal to SSE in March 2022.

Hammer said that IUMI expected the European marine agency EMSA to sign a tender in October for a safety risk study. This was expected to take about 60 weeks.

Hammer noted that losses from fires on larger container vessels were still on the increase.

Other issues being discussed on the forum include:

- Arctic Sailings
- Autonomous vessels, where an MSC scoping exercise has been completed
- limitation of liability and the test for breaking of limit
- low pressure fuel systems
- loss of containers overboard, where there is an IMO focus on tracking and recovery.

Highlighted by IUMI was its full support for the shipping industry's move to decarbonisation. However, it said that it recognizes that adequate risk management provision needed to be in place to underpin the transition. "New fuel types such as ammonia and hydrogen are being promoted and their use will need to be properly managed and insured – and this requires regulation."

Hammer said that IUMI applauded the IMO's ambition and calls for a decarbonized shipping industry. "As marine insurers, it is our job to help shipowners transition to low or zero carbon fuels safely and with all associated risks fully understood and managed. As these new fuel types are largely untested, the insurance industry has no history or loss records to help it assess the potential risks involved. We need to learn about these new fuels and educate our clients accordingly. As importantly, we need IMO regulation and Class rules on the implementation and use of these new fuels. This will ensure the safety of the crew and enable marine underwriters to assess and offer necessary financial protection for this new risk profile. Mindful of the time it takes for new regulation to come into force, we urge IMO and other regulators to begin work now".

IUMI noted that two recent submissions to IMO had proposed the development of safety guidelines for new fuel types and European Union Member States and the European Commission propose to include this in the work plan for the next phase of the development of the International Code of Safety for Ships using Gases of other low-flashpoint Fuels (IGF Code). As a new output under the Maritime Safety Committee, Japan, Singapore, International Chamber of Shipping (ICS) and INTERCARGO have proposed to develop guidelines for safety of newly built

vessels using ammonia as fuel. IUMI believes that guidance is also needed for the education and training of crew onboard, and to address safe and environmentally sound operations.”

Hammer noted that “environmentally friendly fuels carry their own risks, ammonia is both toxic and corrosive, and hydrogen has a wide flammability range and ignites easily. Whilst we welcome the proposed safety guidelines as a useful starting point, they are non-mandatory and so can only be an interim measure. We urgently need mandatory requirements to be developed and implemented to facilitate the transition to greener fuels.”

ESG

Once again, repeating day one of the IUMI conference, coming virtually from Seoul, South Korea, there was no getting away from this year’s focus on ESG. Friday’s speakers were:

Gunter Pauli (Founder, ZERI Think Tank, RSA-Cape Town), who discussed micro-plastic pollution of the oceans and how there needed to be a paradigm-shift change in the way that businesses are run so that a crisis could be averted.

Sangick Lee (Principal Researcher, R&D Division, Korean Register, KOR-Busan), discussed Safety Considerations on Use of Alternative Ship Fuels

Benjamin O Kostrzewa (Registered Foreign Consultant, International Trade and Investment, Hogan Lovells, HK), speaking from his hotel room on day 15 of a 21-day quarantine, gave us an update on Asian Free Trade Agreements: Trends, Prospects and Challenges.

Neil Roberts (Head of Marine and Aviation, LMA, UK-London), was moderator.

Dr Lee on Safety Considerations on Use of Alternative Ship Fuels gave an account of the potential dangers of methanol, ammonia, LNG and hydrogen. The warnings were quite frightening enough for the layperson viewing his presentation. For this viewer certainly it was noted how often the words “fatal” and “fatality” appeared, with side orders of “toxic”, “explosion”, “very violent event”, “lung damage” and “cryogenic burns”.

On the positive side, Lee pointed out how proper practice could lead to the prevention of accidents and, should an accident still occur, how to mitigate the impact. It was clear that no alternative fuel was a silver bullet, but that the drawbacks were not uniform. While hydrogen, methanol and ammonia come with associated challenges, they are challenges particular to each individual fuel.

Redefining the industry

Gunter Pauli (Founder, Zero Emissions and Research Institute (ZERI) Think Tank, RSA-Cape Town) gave a talk, from a train, on *Redefining Competitiveness and Sustainable Growth*. He had not intended to give the talk from a train, but circumstances led to a reshuffling of the order and an emergency broadcast. As Neil Roberts observed when topping and tailing the presentation, it was clear that the Wi-Fi connection on Swiss trains was superior to the one he experienced on his train journeys into London.

Pauli said that, unless we have a novel business model, we will not be able to deal with the situation. It's a legacy that has been accumulating over decades, so it is impossible to pass the cost of fixing it onto consumers all at once.

"We need a healthy ocean system to avoid methane emissions, so an equilibrium in the oceans is important", he said.

The insurance industry is involved because many policies have extended product liability. Pauli had noted that asbestos had been a problem for constructors and builders, "and we think that the challenge is going to be the same for the plastics". Pauli said that "when we examine the micro plastics we discover material that has been banned for decades". He concluded that "you need strategies to ensure that the past does not catch up with you in the future. This has to start with education."

And finally

Benjamin O Kostrzewa (Registered Foreign Consultant, International Trade and Investment, Hogan Lovells, HK) closed out Friday's programme with an update on Asian Free Trade Agreements: (Trends, Prospects and Challenges).

Trade agreements are a standing topic with the Policy Forum, that is to say, something that might not be a priority focus all of the time, but which is always "on the agenda".

Kostrzewa said that at the moment the UK was desperate to show that it was open to new free trade agreements, but the US was moving more into protectionist mode.

He noted that the Regional Comprehensive Economic Partnership agreement (RCEP), which was signed virtually in Hanoi after eight years of negotiations on November 15th last year, was less ambitious and liberalizing than the Comprehensive and Progressive Agreement for Trans-Pacific (CPTPP).

RCEP has a relatively slow schedule. There is limited data protection, no environment or labour protections. It does not have a great deal of e-commerce.

However, Kostrzewa said that there were reasons to be bullish about RCEP.

First, there was its size. It will cover 30% of the world population, between a third and a quarter of global GDP. It is the first free trade agreement involving Korea, China and Japan.

It would entail a tariff elimination on around 86% of goods (eventually).

Six of 10 ASEAN and three of five non-Asean signatories need to ratify, and at the moment only two of each have done so. Covid-19 plus events in Myanmar and Malaysia have slowed it down. Kostrzewa said that it might come into effect in 2022, “but the world is moving a bit slower these days so I would not be surprised if it were pushed back – not least because the attention span of politicians are being pulled in different directions”, he said.

It will lead to more intra-regional shipping because the 40% limit on “regional value content” limit (the limit required to define whether a good qualifies for tariff-free trade within the countries who are members) is lower than said 60% regional value content for the US-Mexico-Canada Agreement (USMCA).

Kostrzewa said that exports could be boosted by \$90bn just through the more relaxed rule of origin.

Kostrzewa said that there would be some relaxation of cross-border maritime services and insurance. “The bad news is that it is complicated to figure out just how these services are being liberalized”. A mixed approach meant that it was unclear to what extent trade in services would be increased in the agreement. “There are relaxations in cross-border services, but precisely how it will work is not easy to establish”, he said, noting that the agreement was 20 chapters long and thousands of pages in length. “People are still figuring out what they can do under each of these chapters”, he said.

Kostrzewa observed that the two giants in the room are US and China. He said that in the US at the moment, for domestic reasons, there was little appetite to sign up for new trade agreements. Under President Trump the Republican party became much more protectionist than it had been in previous decades. Kostrzewa observed that Trump still wielded a lot of power in the Republican Party.

Meanwhile, left-side Democrats also tended to be pessimistic when it came to the claimed benefits of trade agreements. This meant that the pro-trade agreement part of US politics was linked to centrist democrats and a currently defensive sector of the Republican Party.

Kostrzewa observed that this would leave the US on the sidelines economically in the region just as they were trying to assert more political influence.

Finally, Kostrzewa predicted more OFAC investigations and scrutiny on transshipping, CBP interdictions, multilateral enforcement. There would also be more restrictions on technology trade and bifurcation of standards.