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Green shipping needs green initiatives

I have frequently been asked lately about the low-sulphur fuel requirement of International Maritime Organisation (IMO), which is due to be implemented on 1 January 2020, and the associated surcharge that shipping lines are proposing.

The IMO regulations state that all merchant fleets are required to use no more than 0.5% of sulphur in their fuel, or other forms of compliant fuel; this applies mainly through use of scrubbers onboard or liquid natural gas (LNG). Some regions like the U.S and EU require further that vessels have to use no more than 0.1% in Emission Control Areas (ECAs) along their coasts.

Given that marine shipping is the top emitter of air pollutants, I am fully in favour of supporting greener methods of shipping.

In 2011, marine vessels accounted for 33% of NOx, 54% of SO2, and 37% of RSP (Respiratory Suspended Particles) of Hong Kong; this was higher than those emitted by power plants. On a global basis, marine shipping still accounts for 18% of air pollutants at present.

Nonetheless, credit must be given to Hong Kong government in its effort to protect the environment. As early as in 2008, the government diesel fleet has been using Euro V diesel with sulphur content not over 0.001%, which made Hong Kong a pioneer in using low-sulphur fuel.

In 2011, the government and the industry launched the Fair Wind Charter. 17 major ship liners committed themselves on a voluntary basis to switching to low-sulphur fuel of not more than 0.5% sulphur while berthing in Hong Kong; and the government rewarded those adopted this practice by a 3-year 50% reduction in Port Facilities and Light Dues as incentives.

While all these initiatives are encouraging, the impact is limited. Only about 12% of ocean-going-vessels (OGV) participated in the government incentive scheme. The main reasons are that such initiative really needs a regional approach, or Hong Kong ports would be in a competitive disadvantage cost position, vis-à-vis neighbouring ports.

Furthermore, it should be a mandatory scheme for fair competition because the reduction in Port & Light Dues is insufficient in making up for the increased fuel costs, and thereby higher cost for the liners using cleaner fuel.

While a regional approach is desired, it is understandable that when Shenzhen Ports said while they supported the motive, they needed a national policy to introduce new requirements of such

kinds, especially because the policy was under intensive review.

In response to this, the SAR Government alone capped sulphur content of locally supplied marine light diesel (for local craft and Pearl River Delta (PRD) feeders) at 0.05% since April 2014, and OGVs use of low-sulphur fuel (0.5% sulphur content) mandatory while berthing since July 2015.

The results were very promising, as the amount of SO2 and RSP was reduced by 12% and 5% respectively. On top of that, the government simultaneously extended the 50% reduction of Port Facilities & Light Dues incentive scheme to March 2018.

In December 2015, the Ministry of Transport (MoT) issued an implementation plan for setting up 3 Domestic Emission Control Areas (DECAs) in PRD, Yangtze River Delta and Bohai Rim. The DECA scheme was to be implemented in phases that by 1 January 2019, all merchant vessels would be required to use low-sulphur fuel within the DECAs.

The PRD DECA covers a vast area embracing Hong Kong waters. Therefore, it is entirely logical for the SAR Government that after consulting the industry, mandated all vessels to use low-sulphur fuel (0.5% sulphur content) within Hong Kong waters from 1 January 2019.

The IMO requirements will come into effect from 1 January 2020. Although there are queries that the measures would still be far away from achieving the IMO commitment to cut carbon exhaust to 50% of 2008 level by 2050, the maritime shipping industry has taken a big step in that direction.

While all maritime bodies are in support of the motion, the main concern of the industry is the cost.

In short, the cost impact to different lines would vary, depending on the fleet size, age of the fleet, bunkering policies, places to bunker, proportion of fleet using scrubbers instead of low-sulphur fuel, docking schedules, speculations of whether IMO would prohibit the use of scrubbers in the future, trade lanes, financial arrangements including fuel and exchange forward policies, etc.

ING estimated that the container shipping prices might have to go up by as much as 25% for compliance in a recent report.

The costs will have to be paid, and this is an inevitability.

Shipping lines are proposing a Low Sulphur Fuel Surcharge in lieu of other proposals, but this is a wrong approach.

The basic principle is that the low-sulphur fuel requirement is to be applied universally for all liners, so it is part of liners' normal operating business environment. The cost is normal operating cost and therefore should not be recovered in the form of a surcharge. Any surcharges could only be justified in the case of sudden development of unforeseen events such as in the outbreak of war, catastrophes, etc. When these events cease to exist, or "stabilised" to become part of the normal operating environment, these surcharges should be cancelled and incorporated into freight rates to be negotiated between shippers and liners in the open market.

Liners should rely on freight for their revenue and not surcharges. Shipping lines usually do not compete over surcharges, and surcharges are usually non-negotiable, and hence improper from a competition angle. Moreover, since different lines would have vastly different cost elements regarding bunker cost, a flat surcharge is unreasonable and should be rejected.

Regarding the future, there is a lot more that the authorities and the industry could do to encourage green shipping. CMA CGM launched its first LNG powered flagship – the 23,000 TEU "JACQUES SAADE" in September 2019, and I am confident that many more green initiatives will follow.