

Multi-year Expert Meeting on Transport, Trade Logistics and Trade Facilitation

Sustainable Freight Transport Systems: Opportunities for Developing Countries

14-16 October 2015

SHIPPING INDUSTRY PERSPECTIVE

by

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15 October 2015

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Sustainable Freight Transport Systems

Shipping Industry Perspective

Simon Bennett

International Chamber of Shipping

UNCTAD, Geneva, 15 October 2015



International Chamber Shipping

- ➔ Global trade association for ship operators
- ➔ Represents shipping at IMO, ILO, UNFCCC etc.
- ➔ 37 national shipowners' associations, over 80% of world merchant fleet



'Global Rules for a Global Industry'



IMO in session in London

UN Sustainable Development Goals

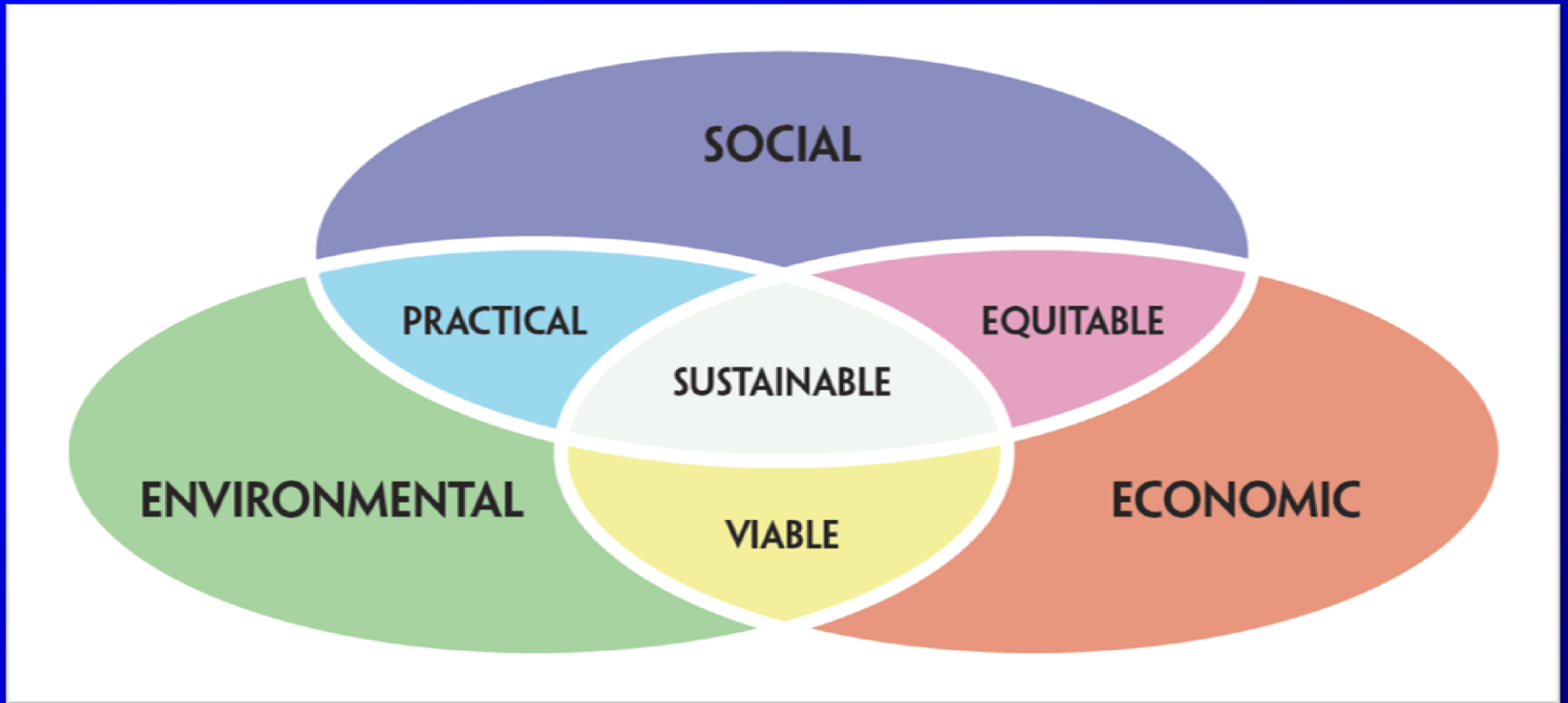


Shipping facilitates global trade, economic growth and spread of prosperity

Social Sustainable Development: A model for other industries?



The Three Pillars of Sustainability



Shipping and CO₂



Reducing CO₂ Emissions Today

- ➔ 10% reduction in total CO₂ emissions (2007-2012)
- ➔ Share of world emissions 2.2% (2.8% in 2007)
- ➔ 20% reduction in CO₂ per tonne-km since 2005
- ➔ 'Carbon neutral growth'



Reducing CO₂ Emissions Tomorrow

- ➔ ICS aspiration –
50% CO₂ reduction by 2050
- ➔ MARPOL requires ships built after
2025 to be 30% more efficient
- ➔ Plus technical and operational
measures and new technology



But Governments Want More

- ➔ False belief that MBMs will deliver further CO₂ reductions (*high fuel costs already incentivise!*)
- ➔ Challenge of meeting \$100 billion per year 'Green Fund' promise by 2020 – shipping *in their sights*



Market Based Measures (MBMs)



A Change of Government Tactics

- ⇒ Global CO₂ data collection supported by ICS
- ⇒ But EU and others want *overly complex* metrics
- ⇒ EU and others want *operational* efficiency indexing of ships - **serious risk of market distortion**



The UN Paris Conference



A Shipping MBM Looks Increasingly Likely?



But shipping is not a 'cash cow'

What Does ICS Hope to Achieve?

To ensure any money shipping must pay is *commensurate* to its share of total of CO₂ emissions

Shipping should not be expected to pay tens of US\$ billions a year!



Avoiding Market Distortion

If governments adopt an MBM...

ICS prefers IMO bunker levy based
on fuel consumption alone

*Not arbitrary and theoretical metrics
(or ETS) that will distort global
shipping markets*



Conclusion

We need to keep detailed debate
at IMO

But ICS is aware of political
pressure for industry to do even
more



Thank you



UNCTAD, 15 October 2015, Geneva

**FOURTH SESSION OF THE MULTIYEAR EXPERT MEETING ON TRANSPORT, TRADE
LOGISTICS AND TRADE FACILITATION**

**SUSTAINABLE FREIGHT TRANSPORT SYSTEMS: OPPORTUNITIES FOR DEVELOPING
COUNTRIES**

Ship Operators' Perspective

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International Chamber of Shipping (ICS)

[Slide – Title]

Given that the UN Climate Conference in Paris will be starting in 6 weeks' time, I thought I should take this opportunity to explain our position with respect to the treatment of international shipping. But I have also been asked to say a few quick words about the UN Sustainable Development Goals.

[Slide – International Chamber of Shipping]

In case you are unfamiliar with ICS, we are the global trade association for ship operators, representing the industry with those international regulatory bodies that impact on shipping.

[Slide – Global Rules for a Global Industry]

Shipping of course is a global industry, and ships trading between different nations need a global regulatory framework to operate efficiently. Otherwise we would simply have chaos. If there is one key message to governments about sustainability in shipping then this is it! And, with the exception of social issues, which I will talk about in a moment, the best place to develop detailed rules for shipping, including on CO₂ emissions, is at the IMO.

[Slide - Sustainable Development Goals]

As we continually seek to remind politicians, about 90% of world trade is carried by sea, and about 70% is carried on board ships registered with developing nations. Without low cost maritime transport, the movement of raw materials and energy that is necessary for the world's continuing development would simply not be possible.

[Slide – Social Sustainability]

But while shipping is undoubtedly a driver of 'green growth', and I will talk more about CO₂ in a moment, it also takes its social responsibilities very seriously.

Two thirds of the world's seafarers working on internationally trading ships come from developing countries. As a result of the ILO Maritime Labour Convention, which is now being enforced worldwide, shipping is the only industry to have global regulations in place governing virtually every detailed aspect of seafarers' employment, regardless of the country they come from. This regime has been developed with the full support of the industry and unions via the ILO tripartite process. Shipping is also probably unique in that, through the ILO, it has an agreed international minimum wage. There is also a strong international seafarers' union – the ITF – with whom some shipping companies even chose to negotiate international collective bargaining agreements.

[Slide - The Three Pillars of Sustainability]

The three 'pillars' of sustainable development: environmental, social and economic are of course all closely linked. But the maintenance of the shipping industry's economic sustainability is also obviously important given its vital role in transporting world trade, upon which the functioning of the world economy depends. This

provides a nice lead into CO₂ reduction issues and the position which governments may choose to adopt at COP21.

[Slide - Shipping and CO₂]

The shipping industry has an impressive record with respect to reducing its CO₂ emissions. But there is an expectation from policy makers that shipping must do more, and the industry – as represented by ICS – is committed to the challenge.

I will therefore quickly explain what the industry has achieved so far, and what we believe can be delivered in the future.

[Slide – Reducing Emissions Today]

According to IMO, shipping reduced its total CO₂ emissions by more than 10% between 2007 and 2012, despite continuing growth in maritime trade.

Moreover, the proportion of the world's total CO₂ emissions for which shipping is responsible was only 2.2% in 2012 compared to 2.8% five years earlier, although ships continue to move about 90% of world trade. I repeat, 2.2%, because this figure is often incorrectly overstated, especially by environmentalist NGOs.

ICS is confident that shipping will reduce its emissions *per tonne-kilometre* by 20% by 2020 (compared to 2005), with significant additional reductions going forward. Indeed, according to the latest IMO Green House Gas Study, this goal has already been achieved, and we are currently delivering 'carbon neutral growth'. These are real emission reductions; achieved without the use of virtual measures such as carbon offsetting, or promises to plant of lots trees – which seems to be the strategy of many other industries.

[Slide - Reducing Emissions Tomorrow]

For 2050, ICS has a serious aspiration for ships to reduce emissions by 50%. This may sound very ambitious. But under the mandatory changes to the MARPOL Convention, that have already been agreed by IMO, all ships built after 2025 will have to be 30% more efficient. When combined with further technical and operational measures, assisted by new technology, we think that this 50% goal is both realistic and achievable.

[Slide – But Governments Want More]

But in the run-up to Paris, many governments are demanding more in addition to the technical and operational measures already agreed by governments at IMO. In particular they want to apply so called Market Based Measures – or MBMs – to shipping. In theory they argue this will somehow further incentivise shipping companies to reduce their CO₂.

Frankly we think that Market Based Measures are very unlikely to achieve this objective. The high cost of fuel – set to increase dramatically with the implementation of the IMO global sulphur cap which may double the price of marine fuel after 2020 – means that ships already have every incentive they need to further reduce their fuel consumption.

However, the EU and others seem to believe that reducing CO₂ is not enough and that international shipping also has a responsibility to pay for the CO₂ created by moving world trade on behalf of the world's nations.

The governments of richer nations, of course, have shipping in their sights in order to help them meet the promises which they made, at the Copenhagen Summit in 2009,

to provide 100 billion dollars a year – from 2020 onwards – to the UN Climate Funds set up to help all developing countries.

But as you probably know, Small Island Developing States have also been pressing at UNFCCC for shipping to make a contribution to help them, by IMO establishing a maritime fuel levy which might contribute to UN Climate Funds. A proposal to this effect had been made prior to the Paris Conference – although we note, to our surprise, that explicit references to shipping are now absent from the latest streamlined draft text, just issued by the COP21 co-chairs. But this does not mean that the debate will not continue at IMO.

[Slide – Market Based Measures]

The debate about MBMs has actually been high on the agenda of IMO for several years. But progress has been difficult because developing countries, such as China and India, have understandably not wanted to prejudice their position at the high level UN negotiations. After the Paris Conference, we expect this to change.

This current situation is not the fault of IMO, but rather the intrusion of politics from UNFCCC, where because of the CBDR principle, developing nations are permitted to accept different commitments to rich nations. The problem, of course, is that it is very hard to reconcile this with the IMO principle of having uniform global rules for a global industry. We cannot have IMO rules that only apply to ships registered in some nations but not in others which would generate massive carbon leakage.

[Slide – A Change of Government Tactics]

Because of this impasse at IMO, the European Union, supported by nations such as Japan and the United States, has changed its tactics and has persuaded IMO to

focus on the collection of data about ships emissions – so called Monitoring, Verification and Reporting. But they are not just seeking to collect data on fuel consumption. They also want to collect complex data from individual ships about efficiency and transport work. Somewhat unhelpfully, the European Union has already *unilaterally* adopted a regional Directive – which will apply to all ships trading to Europe by 2018 – which will require ships to submit information on a number of complex metrics.

ICS fully supports the establishment of a simple global CO₂ data collection from ships by IMO. But ICS is also very concerned – as revealed by the EU Directive – that the ultimate objective is to establish a system of mandatory *operational* efficiency indexing of individual ships. This could involve the application of arbitrary and complicated metrics, over which ships may have little operational control. Vessels that are somehow deemed to be ‘less efficient’ will then be unfairly penalised financially (a kind of Market Based Measure by stealth) with the efficiency index allocated to individual ships for charging purposes bearing little relation to actual fuel consumption or CO₂ emissions in real life. The result could be a serious distortion of global shipping markets.

[Slide - The UN Paris Conference]

Linked to this is the growing pressure to establish absolute CO₂ reduction targets for shipping, so that if ships exceed their allotted emissions they can be charged. A proposal to this effect may yet also form part of the UNFCCC text. The establishment of CO₂ reduction targets is also on the agenda at IMO, having been proposed by the Marshall Islands with support, in principle, from other governments and the European Commission.

[Slide – A shipping MBM Looks Increasingly Likely]

As you can see, these overlapping negotiations are extremely complicated. Although there are a number of shipping related proposals that have been made in advance of the Paris Conference, it is still unknown which of these will actually be taken forward as part of the final UN text. But the pressure for a shipping MBM, possibly involving the payment of money to UNFCCC Climate Funds, is clearly growing.

[Slide – What Does ICS Hope to Achieve?]

These issues are very complicated, but I can summarise ICS's objectives as follows:

If there is to be a Market Based Measure, ICS members believe that the amount of money ships should pay should be *commensurate* to the industry's share of the world's total CO₂ emissions – which are currently about 2.2% of global CO₂ emissions. But we certainly intend to resist those that simply see shipping as some kind of 'cash cow' that should pay out tens of billions of dollars every year, regardless of the negative impact on the cost of world trade.

[Slide – Avoiding Market Distortion]

But we also want to ensure that if governments decide to develop an MBM it will be something that the majority of the industry can live with, even if it is not everyone's first preference. ICS's current position therefore is that **if** governments should decide to adopt an MBM, the clear preference of the majority of the industry is for a bunker levy, based on fuel consumption alone. This would be relatively simple to administer and lend itself to forward financial planning.

Perhaps most important, however, is that the industry wishes to prevent a serious distortion of shipping markets. We want to avoid the imposition of a complicated mechanism that uses arbitrary and theoretical metrics, such as mandatory operational efficiency indexing, which will treat some ships unfairly and lead to market distortion.

[Slide - Conclusion]

In co-operation with governments, we are keen to keep the detailed discussion about how CO₂ should best be regulated at the IMO, which has a good track record in helping shipping to deliver carbon neutral growth but without damaging the flow of world trade. This includes any discussion of MBMs. But if UNFCCC decides that a Market Based Measure should be developed for shipping, then the detailed work should be left to IMO. The worst thing that happen if for the regional bodies such as the EU to the lead.

To repeat, if a political decision is taken to apply an MBM to shipping, the industry's clear preference is for a fuel levy, rather than something that will be very complex to administer, such as an emissions trading scheme, or which create unnecessary market distortion with negative impacts for trade and sustainable development.

[Slide – Thank you]
