



INTERNATIONAL SHIPPING: GLOBAL REGULATION FOR A GLOBAL INDUSTRY

Conclusions from Modal Workshop 4 at the 2009 International Transport Forum Statement by the International Chamber of Shipping (ICS) and the International Maritime Organization (IMO)

The following statement reflects the discussion during Modal Workshop 4, *International Shipping: Global Regulation for a Global Industry*, which took place at the 2009 International Transport Forum in Leipzig, Germany, on 27 May 2009.

Session 1: THE GLOBAL ROLE OF SHIPPING

Following several years of incredibly buoyant shipping markets, for many trades the best in living memory, much of the international shipping industry has fallen prey to the worldwide economic downturn. Shipping is inherently the servant of the economy, so the contraction in trade, following the beginning of the 'credit crunch' in late 2008, has translated into a dramatic and abrupt reduction in demand for shipping.

Initially worst hurt were the containership trades. By the spring of 2009 some 10% of the fleet was already laid up, much of it too modern and expensive to go to recycling yards. However, the dry bulk trades have also been severely affected, particularly by the reduction in demand for raw materials from China, with spot market freight rates for some bulk carriers being a fraction of the peak prices achieved in 2008. By April 2009, rates for crude, product and chemical tankers had also fallen very sharply. In general most shipping markets present a rather bleak picture.

A major concern of ICS national shipowners' associations therefore is to discourage governments from responding to the crisis with protectionist measures, which will only damage world trade further. More particularly, governments must avoid measures that restrict fair and open access to shipping markets. Although most shipping today enjoys relatively liberalised trading conditions compared to the days of national cargo reservation in the 1980s, shipping is unusual in that it is one of the few major industries not yet covered by a global multilateral trade agreement. However, the prospect of a new agreement under the auspices of the World Trade Organization (WTO) looks increasingly uncertain. The industry must therefore be extremely vigilant in

reacting to any moves towards protectionism in maritime trades, especially those using safety and security as a pretext.

The shipping industry does not expect special treatment, or the billions of dollars of support being granted by some governments to the likes of the banking and automobile industries. However, to operate competitively and efficiently in very difficult circumstances, shipping requires the maintenance of a regulatory 'level playing field', and continuation of the certainty now provided by the tonnage tax regimes that apply to shipowners in many countries.

Shipping is notoriously volatile, and its more experienced practitioners are familiar with the cyclical boom and bust nature of maritime freight rates. However, the contraction resulting from the general global downturn could well be exacerbated by the large number of new buildings due to come into service during the next few years, notwithstanding efforts by many shipowners to cancel or renegotiate contracts. Many of these ships were ordered at high prices at the top of the market.

In the face of this two-way pressure, there is likely to be a considerable increase in the number of older vessels that will be sent for dismantling and recycling. In view of the adoption, in May 2009, of a new IMO Convention to address concerns about working and environmental conditions in ship recycling yards, the need for governments to identify facilities that are acceptable for use will become all the more pressing.

As the IMO Secretary-General has forcefully identified, financial pressures on the industry must not be allowed to result in any reduction in standards. Much has been achieved in the last 20 years with regard to safety and environmental performance, and no one is suggesting a moratorium on new regulations that genuinely improve safety, which is always the industry's overriding priority. However, governments need to understand that any immediate regulatory and policy decisions they take must avoid impacting negatively on shipping as it struggles to deal with the current economic situation.

Notwithstanding the current gloom and doom, the longer term outlook for the industry remains very good. The world's population continues to expand, and emerging economies will continue to increase their requirements for the goods and raw materials that shipping transports so safely and efficiently. In the longer term, provided the politicians make sensible decisions, the fact that shipping is the most fuel efficient and carbon friendly form of commercial transport should work in favour of an even greater proportion of world trade being carried by sea.

It is to be hoped that Ministers at the International Transport Forum will deliver a strong statement in support of the maintenance of open shipping markets, and, more generally, promote an early conclusion of the WTO negotiations for a new global trade agreement.

Session 2: ENERGY EFFICIENCY: A PRIORITY IN A TIME OF ECONOMIC DOWNTURN

The 'post Kyoto' climate change regime for the world economy as a whole will be taken to the next stage at a major UN Conference in Copenhagen, COP 15, under the banner of the UN Framework Convention on Climate Change (UNFCCC).

The key point is to acknowledge that – economic downturn or no – the need to reduce carbon emissions is as urgent as ever, and all sectors are having to address it seriously.

It is widely recognised that shipping and aviation greenhouse gas emissions pose particular problems, because both sectors are high-growth industries and neither fits easily with existing allocation methodologies.

The international community has therefore been working towards an agreement on worldwide measures for shipping that will deliver genuine and tangible reductions in the consumption of fossil fuels. It is vitally important that the significance of shipping to global trade is fully understood and that climate change decisions do not unintentionally harm the free flow of trade.

That is also fundamentally why, when you are dealing with a uniquely global and multi-lateral industry like shipping, regulation must be at the global level. The UN's specialist agency for shipping – the International Maritime Organization (IMO) – has a long and remarkable track record for delivering effective legislation for shipping and links well with the international shipping industry.

The industry hopes that UNFCCC will agree that the development of detailed measures for shipping on carbon should be directed by the International Maritime Organization.

In shipping, there has been an endless and continuing quest for efficiency, with the aim of delivering more cargo for less fuel consumption. The amount of CO₂ emitted per tonne-mile of cargo carried by sea has steadily reduced over the last decades. Ships are much more efficient than ever before – and much more efficient than any other transport mode.

To put the current level of carbon emissions from shipping in perspective, an IMO expert group has estimated it at somewhere around 840 million tonnes annually and has assessed shipping's output at around 2.7% of the world total – the level of a large country such as Germany.

Looking forward, new technologies and operational efficiencies will certainly make it possible for shipping to reduce emissions. Current best estimates suggest reductions in the CO₂ emitted per tonne of cargo carried over one kilometre by perhaps 15%-20% in the next 5-15 years.

However, a clear distinction must be drawn between relative reductions in relation to fuel burn per tonne-kilometre, which the industry can and must address and achieve, and absolute reductions in emissions by the shipping sector as a whole, which will need to be assessed in the light of the ever growing demands of world trade. An approach needs to be found which will not restrict whatever level of world trade our society wishes to maintain.

The shipping industry acknowledges the urgency and the need for practical and effective action. Shipping has been left out of the reckoning to date – because of the complexities. But this will not continue and governments will be keen to ensure that all sectors contribute in a real and practical way to helping meet reduction targets.

In shipping, it will be important for industry and governments to aim for a genuinely global regime which makes no distinction by nationality or ship-registration, in order to avoid competitive distortions. Adherence to the long-established IMO concept of ‘no more favourable treatment’ is a crucial principle, even if it may be necessary in some areas to contemplate flexibility in an introductory phase-in period to allow all countries to accept and work within the global system.

In preparation for the coming rounds within IMO and the UNFCCC, the industry must be prepared for some form of additional encouragement in the form of a financial or market-based instrument or ‘MBI’, to bridge the gap between practical reduction measures and political demands.

Such an instrument could, in effect, enable the shipping industry to pay other sectors to make the carbon reductions that we ourselves cannot make at this stage – through an international funding mechanism that would facilitate investment in off-setting systems such as reforestation and perhaps most importantly in research and development into ship design, construction and operation.

The debate – as to whether this could be best achieved through a carbon trading market for shipping or through some form of levy – is fairly evenly balanced at the moment. Until the outcome of that is clear, governments and industry should focus on those elements that would apply to both options and develop these into practical system parameters. These could include an ultimate vision of zero carbon emissions from shipping and the treatment of international shipping – for the measurement and reporting of carbon emissions – like a country.

Any measures to reduce CO₂ from shipping should be global in coverage and regulated by the IMO. Any proposed scheme should be capable of replacing any regional or national systems already in place or being considered.

Any market-based instrument should be straightforward to administer at shipping company level and capable of interacting with other present and future MBIs (eg

trading schemes), in order to maximise the opportunities for carbon abatement and mitigation.

If real action is to be forthcoming, both industry and governments will need to work together to unearth and then resolve all the possible options.

In conclusion, shipping is a global industry requiring global regulation and the avoidance of unilateral rules governing ships which create market distortion. This can only be achieved through the adoption and enacting of the new non-discriminatory global maritime regime to reduce carbon emissions being developed by IMO, which will be presented to the Copenhagen UNFCCC Conference for acceptance as the only viable and equitable solution.
