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SHIPPING MATTERS

Maritime Operators Set Full Speed Ahead for Cleaner Ships

Excluded from the Paris climate agreement, the shipping industry is taking concrete steps to clean up its act

Several ship-to-shore cranes stack shipping containers on-board the container ship Maersk Semarang, while three Ever Green Line refrigerated containers wait to be loaded onto another ship at the Port of Savannah in Savannah, Ga. PHOTO: STEPHEN B. MORTON/ASSOCIATED PRESS

By

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Shipping historically has never been much of a friend to the environment.

Oceangoing vessels have burned heavy oil, the world's dirtiest propulsion fuel, since they switched from coal in the early 20th century, and operators since then have sailed around unclear rules over who enforces climate protection. Ships generally operate in international waters beyond the reach of close regulation, and their flags often are different from the nationality of their owners, leaving oversight and enforcement murky unless vessels foul the environment directly around ports.

This sense that ships effectively have no true home is why the industry was excluded from the 2015 Paris Agreement among countries to cut greenhouse gas emissions. Shipowners instead offered vague promises they would work to cut toxic fumes from ship stacks, in line with slow-moving regulations by the International Maritime Organization, the United Nations' shipping regulator.

Now, while the U.N. and environmentalists are sounding alarms the Paris signatory countries are falling behind schedule on cutting emissions, a move toward cleaner ships has picked up speed over the past three years, affecting everything from the way new vessels are built and what kind of fuel they use to who gets loans to buy them.

"Better late than never," said Lars Robert Pedersen, deputy secretary-general of Bimco, an industry trade body. "Shipping is cleaning up its act, despite sometimes loud opposition from some parties with a big say in the industry, and there is no turning back."

Starting on Jan. 1, 2020, some 60,000 ships will be obliged to reduce sharply their sulfur emissions. Many are preparing to switch to new low-sulfur fuel mixes or blends the energy industry is still developing, a move industry executives say will add some $50 billion in new fuel costs over the next three to four years.

The financial burden, as well as fears that not enough new fuel will be ready in time and that new formulations may not work well in ship engines have prompted calls from some quarters for a delay in implementing the low-sulfur rules.

Shipowners from big seafaring nations such as Greece, which runs roughly 20% of the world's oceangoing commercial fleet, have been especially vocal, and even the White House has raised concerns over the impact the rule will have on oil prices as crude is diverted to maritime businesses.

But the IMO has stood its ground.

"We are moving full speed ahead," IMO Secretary General Kitack Lim told The Wall Street Journal in June. "I understand some of the concerns, but shipping must do what it has to do to protect the climate."

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That is an adamant response to some critics who believed that the good intentions shipping officials expressed after negotiators left maritime businesses out of the Paris accord were just a smokescreen for inaction.

Yet IMO members have gotten even more aggressive, agreeing recently to require operators improve ship fuel efficiency by 30% by 2025 and pledging to slash 2008-level greenhouse gas emissions in half by 2050.

The regulator says shipping is responsible for about 2.5% of global carbon dioxide emissions, an amount comparable to some of the world's biggest polluting countries. If nothing is done, the IMO said, emissions could rise between 25% and 50% by 2050.

The environmental effort is reaching into the broader maritime business as well. Commercial ships generally have a lifespan of 20 to 25 years, so shipbuilders are adjusting with significant changes in hull designs and new features such as hybrid propulsion systems.

"Shipping's decarbonization will require unparalleled innovation," said Soren Toft, chief operating officer of A.P. Moller-Maersk A/S, the world's biggest container shipping operator by container capacity, with a fleet of about 700 vessels. "A modern ship is a highly capital-intensive asset and to deliver on ambitious climate targets, zero-emission vessels will need to enter the fleet by 2030."

Maersk aims for its ships to be carbon neutral by 2050. Rival CMA CGM SA of France recently placed an order for megaships that included some vessels that would be propelled by natural gas.

The ship finance sector also is getting involved.

New lower emission vessels will cost hundreds of millions of dollars and big banks including Citigroup Inc., France's Société Générale SA, Norway's DNB AS A and Netherlands-based ABN AMRO Bank NV recently said they would take climate considerations into account for the first time when extending shipping loans.

The banks, which have a combined shipping portfolio of about $100 billion, or about one-fourth of the global ship-finance market, in June signed an industrial framework known as the Poseidon Principles, which seeks to direct new money for shipping toward environmentally friendly vessels.

“We will say yes for those kind of vessels that contribute to green shipping and no to others that are not needed in the world fleet. Secondhand ship financing will become more difficult,” said Michael Parker, global industry head of shipping and logistics at Citi.

Mr. Parker expects about 90% of all lenders will sign the Poseidon Principles over the next couple of years, including Chinese banks that control about 25% of all ship finance and more than half of all shipbuilding capacity.

“In any credit process we go through today, [the environment has] gone to the very top of the agenda,” said Christos Tsakonas, the head of global shipping at DNB. “You’ll see banks more strict on what vessels they’ll finance. If we don’t regulate ourselves, someone will come regulate us.”

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