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Remarks of John Butler, President and CEO of the World Shipping Council delivered as the Luncheon Keynote Address at AAPA’s Spring Conference in Washington, D.C.

The challenges facing international container carriers, including IMO 2020 fuel standards, greenhouse gas emissions and economic regulation.

Hello everyone. It’s a pleasure to be here today, and I thank AAPA for their kind invitation.

I’ve been asked to give you an update from the carrier perspective on several topics, including the global low sulphur fuel standard that becomes effective on January 1, 2020: greenhouse gas regulation at the IMO; and economic regulation of liner shipping. I will touch briefly on those three issues, and then I would like to share a few observations about some of the joint challenges faced by carriers and ports, and how the various regulatory programs affect those challenges.

The order of the topics in the title for my remarks says a lot about where the focus is in our industry today. We have two major environmental subjects, followed by the topic of economic regulation. And there are several other environmental issues, including ballast water treatment and cold ironing, that I won’t have time to address today. Economic regulation remains important, but ten or even five years ago I expect that the order would have been reversed, with economic regulation coming first. Today environmental issues are clearly at the top of the agenda.
Let me start with the global IMO low sulphur fuel rule that comes into effect on January 1, 2020. We have known for ten years that this rule would come into effect, but human nature being what it is, serious preparations really only got underway in the last several years. In terms of what we all need to know about the rule, it’s pretty simple: the rule will go into effect in nine months, and there is virtually no chance that it will be delayed at the IMO. WSC’s members have been preparing for this new requirement, and carriers are having conversations with bunker suppliers about adequate supplies of compliant fuel and conversations with customers about the increased costs that will come with the switch-over.

On the fuel supply side, we are seeing more and more public announcements by refiners and fuel suppliers about new products that are being brought to market to meet the demand. One thing that is important to keep in mind is that, although the compliance date is January 1, carriers will be switching to new fuels no later than the fourth quarter of this year, based on timing of loading bunkers, so the process is a little less sudden than it might seem.

Switching over to greenhouse gas regulation, the debate at the IMO on reducing vessel CO2 emissions has shifted from a discussion of whether to do something to a discussion of what to do. At the last meeting of the IMO’s Marine Environment Protection Committee, the IMO set out a number of specific numeric objectives for emissions reductions through 2050. The IMO’s long-term objective is to take CO2 emissions from shipping to zero by the end of this century.

Discussions at upcoming IMO meetings will focus on short, medium, and long-term measures for reducing CO2 emissions from shipping. There are lots of ideas being put on the table by a lot of IMO member states. Those ideas include mandatory ship speed reductions as well as schemes that would require existing ships to become more fuel efficient over time, without saying how that would be achieved. Whatever changes are ultimately agreed on will have implications across the entire supply chain.

One thing that is becoming increasingly clear in terms of the CO2 discussions at the IMO is that, if we are going to meet the ambitious of the goals that IMO member countries have agreed to, there will need to be a substantial research and development effort to identify and implement new fuels and new propulsion technologies in the coming years. International shipping has become much more
efficient in recent decades, and the industry continues to build newer and larger ships that are much more efficient than they ones they are replacing. That said, we have already picked a lot of the low-hanging fruit in terms of fuel efficiency, and we will need substantial technological breakthroughs in the coming years if we are going to meet the numbers that have been set. Put differently, while it took some time for the IMO to nail down its greenhouse gas strategy, the really hard work is just starting, and we should not underestimate the size of the challenge.

Turning next to economic regulation, the fact is that liner shipping remains highly regulated in many jurisdictions. We as the World Shipping Council are engaged in discussions around the world about what regulatory structures will provide the most efficient, market-based services to shippers and consumers.

In the U.S the Congress last year completed a number of amendments to the Shipping Act. Those amendments strengthened and clarified the authorities granted to the Federal Maritime Commission and reassured Members of Congress that the Commission has the tools it needs to properly monitor and regulate the industry in today’s market.

We are currently engaged in a review process in the European Union on what they call there the consortia block exemption regulation, or BER. The BER is the regulation that provides carriers with legal certainty when they operate vessel sharing arrangements, or VSAs. VSAs are essential to providing the most comprehensive service offerings to the widest range of markets and to providing those services in the most efficient way. In participating in that review in Europe, which occurs every five years, we have seen that liner shipping costs per TEU have been cut in half over the last 20 years, even as cargo volumes have increased dramatically and fuel costs continue to rise.

The reason that freight rates have declined even as costs have risen and services have expanded is that carriers have continuously increased their efficiency and lowered per-unit costs. Those efficiency gains have come from several sources, but one constant has been the wide-spread sharing of space on ships, which allows vessel usage to be optimized for efficiency.

In the context of the EU review of its consortia regulation, we have just commissioned a study by RBB Economics that looks at what would happen to
efficiency levels and service offerings in the absence of vessel sharing arrangements. That study, which we have just submitted to the European Commission and released publicly, shows conclusively that voyage times, frequency of sailings, and cost levels would all be negatively affected if the vessel sharing model were replaced with a model in which all carriers operated independently. The differences are really quite stark, and the report puts into perspective the importance of having regulatory regimes around the world that explicitly recognize and provide legal certainty for these sorts of vessel sharing arrangements.

Sometimes debates about how liner shipping is regulated can seem arcane or academic, but the fact is that having the right regulatory structures in place is critical to maintaining a functional and efficient international ocean shipping industry. And since shipping is the most international of businesses, we have to get those regulatory structures right in every country where liner vessels call. International liner shipping is in the end a single system, and if that system is to work smoothly, national and regional regulatory approaches have to be more similar than they are different. That need for consistency requires that we as an industry communicate effectively with regulators in individual countries and regions, and it also requires that regulators understand how their national and regional policies can affect the liner shipping services that their economies use to connect with trading partners in other parts of the world.

By way of conclusion, I would like to circle back to the two environmental issues – low sulphur fuel and reducing greenhouse gases – that I started with. At first glance those two issues don’t have much to do with the third issue – the issue of economic regulation. But in fact the three are very closely related, and perhaps in a way that we have not seen up until now.

The relationship among these issues is that they all share the characteristic that the success of these regulatory policies depends on efficiency. Greenhouse gas emissions are directly proportional to fuel burn. And while reducing sulphur content in marine fuel will dramatically reduce particulate and sulphur oxide emissions, burning less fuel means fewer air emissions overall regardless of the fuel used. And the single most discussed element of economic regulation – which is the issue of how to provide legal certainty for vessel sharing arrangements – is
also primarily a discussion about how to make sure that carriers can use their assets in the most efficient way.

One of the most interesting things to me in terms of regulatory developments in the industry is the fact that these environmental and economic regulatory threads have now converged into a question of overall efficiency of the international supply chain. And of course that convergence isn’t limited to the carrier side of the equation. Ports, marine terminal operators, and inland transportation providers are also trying to make a living in a revenue constrained environment at the same time that they recognize the need to reduce their environmental impact.

This is the challenge that the entire international supply chain faces. The solutions will come from innovations in business processes and new technologies, and from having smart, well-qualified people working on these challenges. But at the same time, we have to have regulatory systems that recognize that issues of consumer protection or economic regulation now have impacts on environmental outcomes, and vice versa. If we are going to successfully negotiate the challenges ahead, we are going to have to collectively recognize that all of these objectives are connected, and our regulatory policies are going to have to take that new reality into account.