

Annual Review **2020**

Heroes at Sea



International
Chamber of Shipping

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International Chamber of Shipping

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The International Chamber of Shipping (ICS)

is the principal global trade association for shipowners, concerned with all regulatory, operational and legal issues, as well as employment affairs.

The membership of ICS comprises national shipowners' associations representing all sectors and trades from 37 countries, covering more than 80% of the world merchant fleet.

We acknowledge with thanks the use of photos from the following associations and their member shipping companies:

Bahamas Shipowners' Association
Union of Brazilian Shipowners
Cyprus Shipping Chamber
Danish Shipping
Finnish Shipowners' Association
French Shipowners' Association
German Shipowners' Association
Union of Greek Shipowners
Italian Shipowners' Association
Japanese Shipowners' Association
Royal Association of Netherlands Shipowners
Norwegian Shipowners' Association
Singapore Shipping Association
Swedish Shipowners' Association
Turkish Chamber of Shipping
UK Chamber of Shipping
Cruise Lines International Association





Chairman's Review

Esben Poulsson (Singapore), ICS Chairman



“This Annual Review covers a broad cross section of issues in which ICS is engaged on behalf of the global shipping industry.”

The COVID-19 pandemic means 2020 is a year that will long be remembered. This is certainly true for shipping, which exists to facilitate trade and the maintenance and improvement of global living standards. Regrettably, this is something which too many governments often take for granted, even during this time of continuing crisis when the role of maritime transport in supporting the resilience of national economies is more important than ever.

In spite of the many restrictions imposed by local authorities in response to COVID-19, shipping companies and seafarers have continued to keep trade moving, transporting the energy, food, raw materials and manufactured products on which 21st Century life depends. This constitutes some eleven billion tonnes of cargo a year, or 1.5 tonnes for every person on the planet.

But it is difficult to exaggerate the challenges facing ship operators, in particular with respect to the health and welfare of ships' crews, many of whom, even under normal circumstances, work thousands of miles away from their families for many months at a time.

In September 2020, hundreds of thousands seafarers are still unable to be repatriated, continuing to serve on board their ships for several extra months beyond their contracted tours of duty. This situation, quite simply, is outrageous.

To be clear, this intolerable situation is almost entirely due to the continuing failure of governments to meet their obligations under international law and take the measures needed to facilitate crew changes and the repatriation of seafarers.

Patience throughout the industry is running out. It is now six months since restrictions on movement and travel were imposed by national health authorities and the scale of the crew change crisis first became apparent.

ICS has made every effort to help the shipping industry through this crisis. In addition to the development of detailed guidance to ship operators, in the vacuum created by the suspension of International Maritime Organization (IMO) meetings, ICS co-ordinated the development of a comprehensive Framework of Protocols to facilitate crew changes. In May 2020, these were circulated by the IMO Secretary-General to governments worldwide with a strong recommendation that they should be implemented nationally. But despite a global summit of transport ministers in July 2020, there are still few signs of significant improvement in many nations.

With the risk of fatigue, and the anxiety of being unable to return home, many ships' crews are near breaking point, with potentially serious implications for maritime safety.

Much of this Annual Review necessarily focuses on COVID-19. But the normal work of ICS continues, representing the global industry with its global regulators. This includes work on the reduction of the industry's CO₂ emissions, to which ICS remains totally committed.



Opening of ICS (China) Liaison Office – ICS Chairman meets Hong Kong SAR Chief Executive, Ms Carrie Lam



In December 2019, in co-operation with the industry's other international trade associations, ICS submitted a radical proposal to IMO for the establishment of a US\$ 5 billion global fund to accelerate the research and development of zero-carbon technologies, to be co-ordinated by an International Maritime Research and Development Board. The intention is to enable the shipping industry to decarbonise completely, in line with the ambitious CO₂ reduction targets agreed by IMO.

The fund is to be financed by the industry itself via a mandatory contribution per tonne of marine fuel purchased for consumption. This is a serious and detailed proposal that has taken the global industry three years to develop. All that is required to make this happen is political will from governments.

Despite the suspension of IMO meetings, ICS has also worked hard to host informal discussions among IMO Member States on a new package of CO₂ reduction regulations for the existing fleet, which ICS is optimistic can still be agreed in 2020. This will be important to demonstrate that IMO remains on track to meet the CO₂ efficiency target agreed for 2030.

However, progress at IMO could be seriously undermined if the European Union presses ahead with a unilateral proposal to extend its Emissions Trading System to international shipping, including non-EU ships, with the intention of raising billions of euros to support the EU's post COVID-19 recovery. The EU's trading partners, such as China and the United States, will no doubt view this unwelcome initiative as an extraterritorial 'tax' on trade.

While somewhat overshadowed by COVID-19, a most important development has been the successful global switch to low sulphur fuel on 1 January 2020. The impressive effort by all industry stakeholders to make this monumental changeover a success has largely passed unremarked, but is testament to the effectiveness of IMO as a global regulator.

Among the many other issues covered by this Annual Review, including the production of further new editions of ICS's widely used publications on industry best practice, I was delighted to take part in the opening ceremony, in Hong Kong in November 2019, of the new ICS (China) Liaison Office. When we move into the post pandemic recovery phase, the global industry's relationship with the Government of China will be of the utmost importance.

Finally, I am most grateful for the support I receive from the ICS Board, our expert Committees and our dedicated Secretariat, led by ICS's indefatigable Secretary General, Guy Platten. I am honoured to have been nominated to serve a further two-year term as Chairman.

As we move into ICS's centenary year, which will hopefully be far less challenging than 2020, there is still much work for ICS to do in helping to shape the future of shipping.



Esben Poulsson

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Bahamas



Mr Emanuele Grimaldi
Italy



Mr Mark Martecchini
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The COVID-19 Pandemic



Responding to the Operational Challenge

The arrival of COVID-19 has presented truly enormous challenges for the entire maritime transport sector, an industry responsible for moving about 90% of global trade.

It is hard to exaggerate the impact of the pandemic on international ship operations. At this time of continuing crisis, working with governments to ensure the maintenance of safe and efficient supply chains remains the overriding priority for ICS and its member national shipowners' associations.

As a result of the pandemic, the economic fortunes of large numbers of individual shipping companies have been greatly affected due to the severe contraction in demand for their services and dramatic levels of freight rate volatility. The cruise ship industry, in particular, has faced incredibly difficult challenges, with virtually all operations suspended during the initial stage of the crisis.

Industry co-ordination

As soon as the global scale of the pandemic became clear, ICS took on a leadership role to provide a co-ordinated industry response, particularly with respect to addressing immediate operational challenges. This has involved close liaison with relevant global bodies including the industry's global regulator, IMO, as well as with the International Labour Organization (ILO), the World Health Organization (WHO), the United Nations Conference on Trade and Development (UNCTAD) and the office of the United Nations Secretary-General, utilising the strong relationships which ICS already enjoys with these intergovernmental agencies.

ICS has also worked closely with maritime industry organisations such as the International Association of Ports and Harbors (IAPH), the International Association of Classification Societies (IACS) and most importantly – as the global union representing the interests of some two million seafarers employed by the shipping industry – ICS's social partner, the International Transport Workers' Federation (ITF).



At the outbreak of the crisis, ICS sought to ensure that the need to identify seafarers as ‘key workers’ and the necessity that maritime trade should continue to flow, would be identified as critical priorities by governments around the globe. Supported by high level media communications, ICS lobbied for affirmation of these priorities at a series of emergency G20 Leader Summits on COVID-19 held in March/April 2020.

But words from governments still need to be followed by action, especially with respect to facilitating ships’ crew changes, an issue that is far from being resolved.

Developing recommendations

Because of the closure of the IMO headquarters in March 2020 and the suspension of scheduled meetings of IMO Member States, the development of more detailed guidance to governments on COVID-19 initially proved a major challenge. Working closely with the IMO Secretary-General, as well as with the leaders of international industry associations, ICS endeavoured to fill this temporary vacuum, co-ordinating the rapid development of recommendations that enjoy the full backing of the entire maritime sector, which the IMO Secretary-General could bring to the attention of all IMO Member States as part of a series of special IMO circulars.

“To keep maritime trade moving, ICS has co-ordinated a unified industry response to COVID-19 to ensure rapid development of comprehensive guidance for ship operators and detailed recommendations for dissemination to governments.”

Key ICS-led industry recommendations circulated to governments by IMO

Circular Letter No.4204/Add.6 (27 March 2020)

Preliminary list of recommendations for Governments and relevant national authorities on the facilitation of maritime trade during the COVID-19 pandemic

Circular Letter No.4204/Add.14 (5 May 2020)

Recommended framework of protocols for ensuring safe ship crew changes and travel during the coronavirus (COVID-19) pandemic

Circular Letter No.4204/Add.16 (6 May 2020)

COVID-19 related guidelines for ensuring a safe shipboard interface between ship and shore-based personnel

Circular Letter No.4204/Add.4/Rev.1 (28 May 2020)

ICS Guidance for ship operators for the protection of the health of seafarers

Circular Letter No.4204/Add.23 (1 July 2020)

Recommendations for port and coastal States on the prompt disembarkation of seafarers for medical care ashore during the COVID-19 pandemic



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Industry co-ordination

Throughout the ongoing crisis, ICS has hosted regular online meetings with its global network of member national shipowners' associations, in addition to frequent joint meetings with the leaders of more than 15 other international maritime industry organisations, to keep all informed of global developments and to formulate a common strategy for addressing immediate challenges.

Communications experts in ICS national associations have also met regularly to ensure common presentation of the industry's priorities. The ICS Chairman and Secretary General have given frequent interviews to the mainstream global media on behalf of the shipping industry throughout the pandemic. In particular, widespread media coverage has been given to the crew change crisis, including an ICS co-ordinated global 'shout out' on 1 May 2020, when ships in ports around the world sounded their horns in unison.



But as the crisis continues, the fundamental difficulty remains that regardless of the obligations of governments under existing international maritime regulations adopted by IMO, ILO and WHO, instructions from national political leaders and local health authorities have often taken precedence over

the advice of maritime transport officials. This has served to highlight the vital role played by ICS's member national shipowner's associations which, in co-operation with national seafarers' unions, have been liaising directly with the many different government agencies involved in applying special measures to shipping, to ensure that the impact on ship operations is minimised as far as possible.

Looking ahead

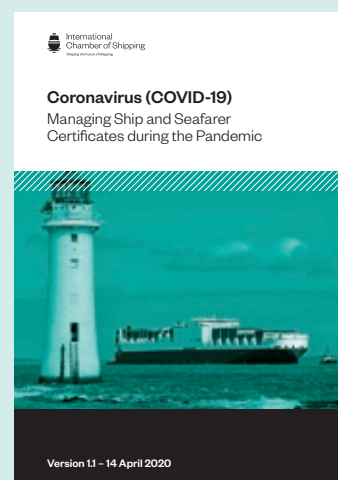
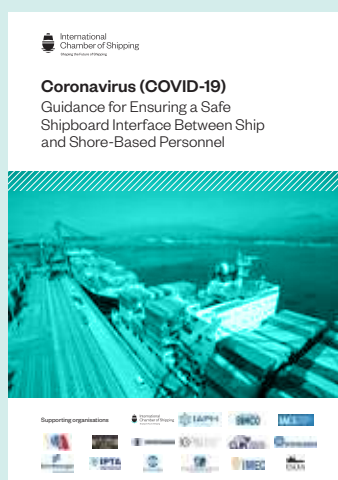
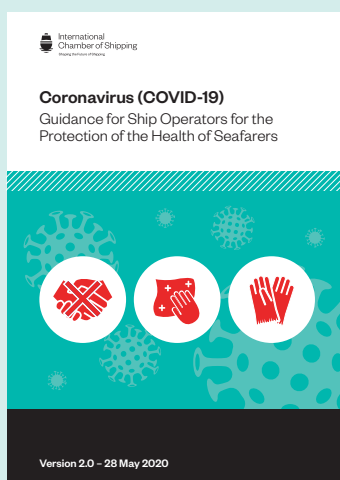
In September 2020, the shipping industry is still very much in the eye of the storm. As discussed below, hundreds of thousands of seafarers have had to extend their tours of duty at sea, and many shipping companies are still unable to conduct crew changes due to the health restrictions put in place by many local authorities. Helping to resolve the global crew change crisis remains a critical issue of the utmost importance.

Unfortunately, despite an improving situation in some countries, COVID-19 infection rates appear to be increasing in many developing nations, and the risk of a 'second wave' of infections towards the end of 2020 means that the current crisis is far from over.

Nevertheless, throughout the pandemic, the vast majority of ports worldwide have remained open to visiting ships for the discharge and loading of cargo, including the energy, raw materials and food (as well as vital medical supplies) on which the global economy depends.

There are still many operational challenges, not least the ongoing crew change crisis, that must be urgently resolved in co-operation with governments, not to mention some profound economic and structural issues that will need to be addressed when the industry eventually emerges into the post pandemic landscape.

ICS has produced a suite of guidance for shipping companies to help them manage the challenges presented by COVID-19



The Crew Change Crisis

The continuing inability of ship operators to conduct crew changes has been the single greatest operational challenge confronting the global shipping industry since the Second World War.

Between March and August 2020 it is estimated that only about 25% of normal crew changes were able to take place, due to restrictions imposed by national health and immigration authorities and the suspension of the majority of international flights. There is a growing recognition that seafarers' tours of duty cannot continue to be extended indefinitely and that the current situation is unsustainable.

Apart from serious humanitarian and crew welfare concerns, and issues of regulatory compliance, there is an increasing risk that fatigue will lead to serious maritime accidents. If this situation continues indefinitely and ships are unable to operate safely in compliance with international rules, large numbers of ships may have to suspend their operations. This will have serious consequences for the maintenance of global supply chains on which all national economies are so dependent during this time of global crisis.

It is hard to be precise about numbers, but at least half a million seafarers have been affected. In August 2020, it was estimated that over 150,000 seafarers required immediate repatriation with as many as 250,000 serving on extended crew contracts who were overdue to return home, in addition to those needing to join their ships in order to work and keep the world fleet moving. Unless governments take necessary actions to facilitate crew changes, the number of crews stranded at sea seems set to further increase.

As well as restrictions placed on the movement of seafarers by national and local authorities, there is also the problem of the continued suspension of the majority of flights between major crew change ports and the principal labour supply countries, especially those located in Asia where the majority of the world's seafarers reside.

On 15 June 2020, the International Transport Worker's Federation (ITF) announced it was unable to agree to a further blanket extension of tours of duty under the contracts it has with the International Maritime Employers' Council (IMEC) which apply to many seafarers from the principal labour supply countries including the Philippines, India and Eastern Europe. Despite continuing good co-operation between ICS and ITF, it is clear that in response to increasing distress among ships' crews, who remain unable to return home, patience among seafarers' unions is running out.

IMO Framework of Protocols

Leading a shipping industry Crew Change Task Force, established early in April 2020, ICS has pursued a strategy with several elements. The first was the development by ICS, with input from the wider industry, of a comprehensive 'Framework of Protocols' for conducting crew changes safely which was circulated to governments via IMO at the beginning of May.

These Protocols set out in detail the measures which shipping companies should take throughout the crew change process, and the documentation needed to support this. The Protocols cover the entire process from before seafarers leave their homes, to travelling via airports and joining a ship in another country – and the same with respect to travel in the other direction. In return for adherence to these Protocols, and recognising the 'key worker' status of seafarers advocated by IMO, governments are expected to facilitate crew changes, notwithstanding any restrictions that might apply to other international travellers.

It should be understood that the '12 steps', as outlined in what have become known as the IMO Protocols, are only a framework which national governments can adapt according to prevailing national circumstances. ICS members have therefore been liaising closely with relevant national authorities to make these Protocols work at local level.

However, while the use and recognition of these IMO Protocols has gained traction worldwide, many national authorities continue to insist on applying quarantine procedures to seafarers or other impractical requirements, such as ships having to remain at berth or anchor until those seafarers being repatriated have departed on their flights, which, given the shortage of flights available, has been highly problematic.



COVID-19

12-Step Guide to the IMO's Recommended Framework of Protocols for Ensuring Safe Ship Crew Changes and Travel

Protocols for Joining a Ship



Protocols for Leaving a Ship and Repatriation



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There is also still much uncertainty about testing requirements, which ICS intends to address in a revised version of the Protocols for submission to IMO in the Autumn.

The situation has been very fluid and it is difficult make generalisations about the extent to which there has been progress towards a solution. Aside from the continuing shortage of scheduled flights, problems with conducting crew changes continue to be acute in much of Asia. Nations such as India and China have largely restricted crew changes, to the extent they have been permitted at all, to seafarers who are their own countries' nationals, though in the case of India there is hope that this may change once it completes its programme of general repatriation flights provided for all Indian citizens.

The major Asian crew change hubs of Hong Kong, Singapore and the Philippines have gradually removed a number of major obstacles to crew changes. However, while there has been some softening of the attitude on the part of many national authorities, it has often been a case of 'two steps forward, one step back' as restrictions are re-imposed following a recurrence of local infections which are often attributed to travellers arriving from overseas. Disappointingly this has sometimes been the case in both Hong Kong and Singapore, despite their status as global maritime centres, although at the end of August 2020 there were some positive signs of increasing flexibility on part of the local authorities.

“To help resolve the crew change crisis, ICS led the development of the IMO Framework of Protocols for conducting safe crew changes which is now being promoted among governments worldwide.”



Visa issues

The situation in Europe partially improved in the summer of 2020 as limited tourism flights were permitted to resume, and the effort made by many EU governments and the United Kingdom towards facilitating crew changes, regardless of the nationality of the seafarers concerned, is to be commended. (Efforts made by the United States and Middle East nations merit special mention too.)

However, obtaining necessary visas is still a major challenge for many non-EU seafarers wishing to travel to and from the EU Schengen Area. This has been due to the limited capacity of EU Member State consulates in the principal labour supply countries, many of which were closed for a prolonged period. Working with the European Community Shipowners' Associations (ECSA) and the European Commission, ICS has been pressing to increase the possibilities for EU States to issue visas to seafarers on arrival or to be granted a temporary waiver from visa requirements altogether.

Restarting crew change flights

With regard to the continuing lack of international flights between major crew change ports and the principal countries of seafarer residence, ICS has worked with the International Maritime Employers' Council and others, in co-operation with the International Air Transport Association (IATA), to establish estimates of the likely demand for crew change flights and identify the airports from where these might be needed.

As it is likely, in the short term at least, that it may only be possible to conduct crew changes via a limited number of airports, ICS has also been exploring the need for some ships to be diverted to ports in proximity to major airports from which flights are available. This has included addressing the complex commercial and insurance implications of doing so, especially in tramp trades.

The role of charterers

In co-operation with the International Group of P&I Clubs, ICS invested considerable effort into developing a model charterparty clause for use in the event that ships might need to deviate to conduct a crew change during the unique circumstances of the pandemic.

The ICS Maritime Law Committee subsequently agreed in May that BIMCO should take this work forward to completion, and BIMCO duly published a model clause in July 2020. ICS is now supporting efforts to promote this and other model clauses with charterers who need to accept their share of responsibility for allowing crew changes to take place in these unprecedented circumstances.

Unfortunately, many bulk charterers have seemingly been reluctant to accommodate even minor deviations by ships to facilitate crew changes, even when the cost is met solely by the shipowner.

The customers of containership companies, which include major global corporations, could also play a greater role in highlighting the need for governments to take action to resolve this serious crisis. Apart from the humanitarian imperative, given the impacts of the inability of ships to conduct crew changes for the maintenance of safe and efficient supply chains, this should really be a matter of enlightened self-interest.

The need for political action

To add further momentum for action by governments, ICS (and the UK Chamber of Shipping) persuaded the Government of the United Kingdom to host a global summit of ministers on the crew change crisis on 9 July 2020. This high level meeting, attended by senior political representatives from a wide range of nations, as well as IMO, ILO, ICS and ITF, made a number of useful pledges. But far more needs to be done to convert these well meaning aspirations into genuine practical action at the highest political level within those ministries directly responsible for national health and immigration policies, in order to address a situation which is increasingly unsustainable.

It is important to emphasise that the infection risk to the wider population presented by cargo ships and crew travel is relatively low, especially given the health protection measures being taken across the industry. Yet many governments around the world still fail to act. Despite the status of seafarers as global 'key workers', the restrictions that apply to the movement of ships' crews are often more onerous than those for tourists.



Joint Statement of the International Maritime Summit on Crew Changes, 9 July 2020

Pledges made by Governments

As a matter of urgency, to:

1. Encourage all IMO States to designate seafarers as “key workers” providing an essential service, to facilitate a safe and unhindered movement for embarking or disembarking a vessel.
2. Consider the legal possibilities for accepting internationally recognised documentation as evidence of their status as key workers, and purpose of their travel and movement for crew changes.
3. Engage, nationally, multilaterally and bilaterally, in discussions about implementation, to the maximum extent possible, as appropriate to the circumstances that may prevail nationally or locally, of the Recommended Framework of Protocols for Ensuring Safe Ship Crew Changes and Travel during the Coronavirus (COVID-19) pandemic circulated to IMO member states as Circular Letter No.4204/Add.14 on 5 May 2020.
4. Review, working in conjunction with our health, immigration and other relevant ministries, agencies and authorities, the necessity of any restrictions that may continue to apply, at national and/or local level, to the movement and travel of seafarers for the purpose of conducting ships’ crew changes. This includes the possibility of allowing exemptions from quarantine or similar restrictions in accordance with relevant international rules or health regulatory guidelines.
5. Consider, in liaison with our relevant ministries and authorities, including those responsible for immigration, temporary measures including (where possible under relevant law) the possibility of waivers, exemptions or other relaxations from any visa or documentary requirements that might normally apply to seafarers.
6. Explore, in co-operation with the International Civil Aviation Organization and the aviation industry, ways of increasing access, as soon as possible, to commercial flights to and from the principal countries of origin of seafarers and the airports in reasonable proximity to those seaports where crew changes are effected.
7. Urge all IMO members to take any necessary measures, within their area of jurisdiction, to ensure seafarers affected by the COVID-19 pandemic enjoy safe crew changes as well as repatriation to their home countries or to their place of ordinary residence.

Agreed by United Kingdom, Denmark, France, Germany, Georgia, Greece, Indonesia, Netherlands, Norway, Philippines, Saudi Arabia, Singapore, United Arab Emirates, United States

The main obstacle to resolving this crisis is that many health border protection authorities still lack a comprehensive understanding of the essential role of seafarers in the flow of global trade. Given the importance of shipping to the global economy, action is therefore urgently needed at the very highest political level. And this means deeds not words. The continuation of the current situation, with hundreds of thousands of seafarers being forced to work beyond their contracts is simply untenable.

Patience throughout the global shipping community is wearing thin. The industry has played its part by developing, and adhering to, the detailed IMO Protocols for conducting crew changes safely. In view of the repeated calls from G20 leaders to keep world trade moving, and from a plethora of United Nations agencies for governments to meet their obligations under the diplomatic Conventions to which they are signatories, the world’s national leaders no longer have any excuses for further inaction.





“At the start of the crisis ICS moved quickly to develop comprehensive guidance for ship operators for the protection of the health of seafarers, which has been distributed free of charge throughout the industry globally.”

Another outstanding challenge is establishing global protocols for COVID-19 tests for seafarers. There is still no global consensus on the efficacy of different tests given the high percentage of false negatives (both in the context of crew travel and prior to embarkation on board ship), or the time and place where they should be conducted, or the requirements of local authorities for their use.

The current thinking is that the aviation industry is probably best placed to establish a longer term consensus with respect to testing for crew travel, and ICS has participated in work undertaken by the International Civil Aviation Organization (ICAO). However, in conjunction with WHO and the International Maritime Health Association, ICS is working to produce more definitive guidance about the testing that is needed to minimise any risk that seafarers are infected when they join their ship, while also providing confidence to governments with respect to facilitating crew changes.



Survey and Certification Issues

The ability of flag state authorities to conduct statutory surveys, and for ships (and seafarers) to be issued with required certification to allow them to continue to trade, emerged as a serious issue at the very start of the pandemic.

Due to the early imposition of health restrictions on workers in many Asian ports and repair yards, shipowners have faced serious difficulties in getting non-safety critical yet mandatory work completed, including the installation of ballast water treatment systems as required by the schedule IMO has agreed for the existing fleet under the IMO Ballast Water Management Convention. The situation improved as China partially reopened, but the issue is now a global one.

As well as working with IMO, which has issued useful guidance to flag states, ICS has liaised closely with the International Association of Classification Societies (IACS) whose members conduct statutory surveys on behalf of many flag administrations as well as class surveys required for insurance purposes.

To provide advice on these complex issues to ship operators, ICS published comprehensive guidance in April 2020 on Managing Ship and Seafarer Certificates During the Pandemic. Out of necessity many ships have been

granted extensions and the ability to delay undergoing surveys. However, ICS has emphasised the need for shipowners to liaise closely with their insurers, and stressed that ship operators are not in any way exempt from their obligations with respect to maintaining safety and environmental performance as required by the relevant IMO Conventions.

The difficulty, however, is that as the pandemic continues, further flag state extensions may be required beyond what is strictly permitted by the relevant IMO Conventions, the requirements of the IMO Ballast Water Management Convention for existing ships to install new treatment systems being a case in point. Liaison has also been necessary with the United States Coast Guard, via the Chamber of Shipping of America, due to the separate ballast water regime that applies in the United States.

Although most flag states have continued to allow extensions to the validity of certificates, port states are entitled to refuse to accept these beyond the period of time permitted by the applicable IMO Convention requirements and are legitimately concerned about the reputational risk of allowing potentially substandard ships to trade. The regional PSC authorities, such as those responsible for the Paris and Tokyo Memorandum of Understandings on Port State Control, have so far been sympathetic to the problem and have advised national port states accordingly, despite some reports of isolated problems.

However, because of the postponement of IMO committee meetings, IMO Member States have been unable to agree formally on a sustainable solution, which becomes ever more pressing as the pandemic continues to make the conduct of many statutory surveys and repair work very difficult.

“ICS has produced comprehensive guidance for ship operators on the complex survey and certification issues created by the pandemic, and has worked closely with IMO and IACS to ensure that ships can continue to trade.”



Resumption of IMO Meetings

Due to the pandemic, IMO was forced to postpone its schedule of Member State meetings from March 2020 onwards. Full IMO committee meetings will resume via video conferencing in September 2020, with a critical meeting of the IMO Marine Environment Committee now scheduled to take place in November 2020.

In representations to the IMO Secretary-General in April 2020, as well as to the IMO Council, ICS made clear its desire for IMO committee meetings to resume as soon as practicable, suggesting that IMO's priority (aside from responding to COVID-19) should be to hold the next round of greenhouse gas (GHG) discussions as soon as possible. This is so that, notwithstanding COVID-19, IMO can still adopt a

package of further regulatory measures for the existing fleet during 2020 to demonstrate it remains on track to deliver the CO₂ reduction targets for shipping included as part of the IMO GHG Strategy agreed in 2018.

In order to expedite progress on GHG reduction measures, IMO held an informal virtual meeting for Member States in July 2020, in which ICS participated. In effect this was an experiment to see if IMO meetings could be conducted by video.

For the medium term, hopefully early 2021, IMO is exploring the possibility of having 'hybrid' committee meetings, perhaps with physical representation being limited to one or two persons per delegation with others participating via video. However, the technical issues involved are considerable given the need to provide simultaneous translation in several languages.

Meanwhile, in order to maintain momentum on GHG measures for the existing fleet, the ICS Secretariat has hosted a series of meetings between key Member States to improve understanding about their respective positions on the complex issues involved, so as to increase the likelihood of agreement being reached quickly when IMO resumes its official meetings. These ICS hosted meetings seem to have been very much appreciated by governments, on all sides of the debate, confirming ICS's reputation as an honest broker, keen for IMO to make progress in spite of the challenges created by the pandemic.



IMO in action in London before COVID-19



Preparing for the Post Pandemic Recovery

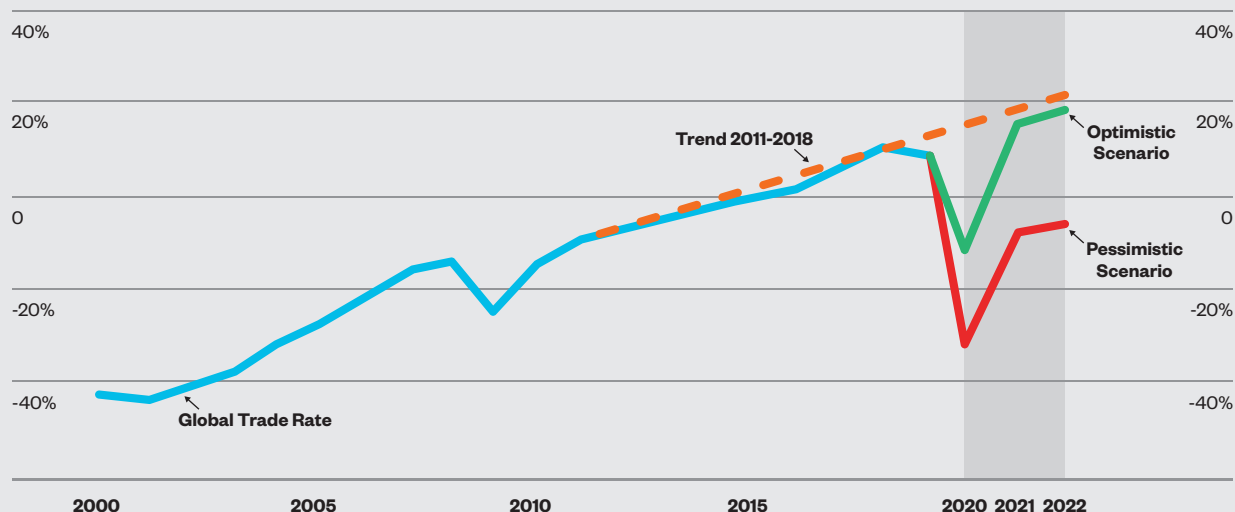
The global economy, which shipping exists to serve, continues to be in the grip of the COVID-19 pandemic. The measures taken by governments in response to this emergency are unprecedented, with much economic activity subject to severe health restrictions resulting in a major contraction of global GDP and trade.

Projections by the World Trade Organization (WTO) of a possible reduction in global trade of as much as 30% by the end of 2020 will hopefully turn out to be unduly pessimistic. Nevertheless, the short term impact on demand for international shipping is severe, and it is possible that the crisis will have significant consequences for the structure of the entire shipping industry for many years ahead.

When the pandemic is over, the demand for maritime trade should be expected to recover, and many estimates concerning the speed of this recovery for the moment are probably conjecture. There are the 'known unknowns', such as whether there will be a vaccine, effective treatments or a second wave of infections. But there are also many other uncertainties. What are the implications for the way in which the global economy is organised? Will the pandemic accelerate or attenuate existing tendencies, such as threats to multilateralism and to a rules based global trading system, or progress towards sustainable development and decarbonisation? The pandemic may yet have many other political or societal consequences, positive or negative, which in turn will impact ship operations in ways which are almost impossible to anticipate.

Growth Rate for Global Trade and WTO Scenarios

Base 2015 = 0



Source: WTO Secretariat





The immediate focus of ICS has been to help the industry navigate through the serious health, crew welfare and operational challenges presented by COVID-19. But ICS and its member national associations are now giving consideration to the wider issues which may confront the industry once the worst of the pandemic is over.

There are a number of potential concerns including: overcapacity if demand for shipping services fails to recover; pressure for government support measures and state-backed loans for shipping (such as those already announced in France, Korea and Chinese Taipei) and their potential to interfere with fair competition; the threat to a rules based global trading system; the proliferation of protectionist measures; and, most importantly, maintaining the authority of IMO as the industry's global regulator.

As a first step, ICS has been requested by its Board to develop a post pandemic 'manifesto' which the industry can collectively promote with governments, working in conjunction with bodies such as the Consultative Shipping Group (CSG), which comprises those maritime administrations which are committed to free trade principles for shipping, as well as the WTO and UNCTAD. While the emphasis will be on trade policy issues and the maintenance of the level playing field in shipping, the manifesto will also reiterate ICS's ongoing commitment to greenhouse gas reduction and the successful delivery of IMO's CO₂ reduction targets, as well as the United Nations Sustainable Development Goals (SDGs) for 2030, consistent with IMO's future work programme.



Decarbonising Shipping



Accelerating R&D of Zero-Carbon Technologies

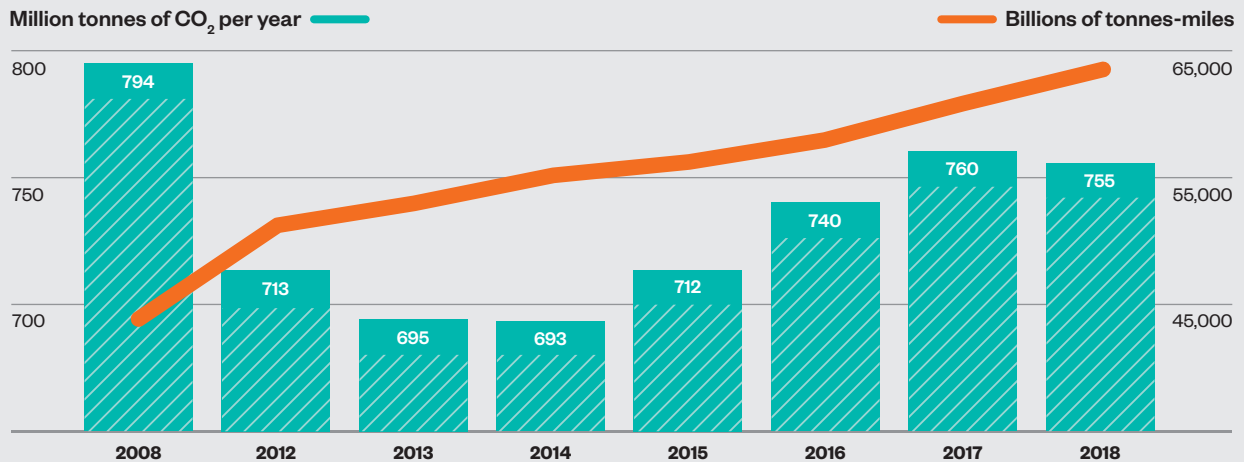
Notwithstanding the disruption caused by COVID-19, including cancellation of the UN Climate Change Conference in 2020, the shipping industry remains committed to the complete decarbonisation of international maritime transport, and the delivery of the ambitious CO₂ reduction targets already agreed by IMO Member States.

The latest IMO Study on the sector's greenhouse gas (GHG) emissions, published in August 2020, has a good story to tell. CO₂ emissions from shipping in 2018 (prior to any contraction in trade caused by COVID-19) were 7% lower than in 2008.

International shipping emissions remain below 2008 levels – the baseline year agreed for the IMO GHG reduction targets set for 2030 and 2050. This is despite a 40% increase in maritime trade during the same ten-year period and represents a carbon efficiency improvement, as an average across the global fleet, of about 30% since 2008 – a significant achievement. This suggests that changes to the level of shipping's GHG emissions have decoupled from the expansion of maritime trade and the positive benefits this brings to economic development.



International Shipping CO₂ Emission Estimates compared to Growth in Maritime Trade (2008 - 2018)



Sources: Fourth IMO GHG Study and UNCTAD based on data from Clarksons Research

Shipping is committed to full decarbonisation

As set out in the ground breaking IMO GHG Strategy adopted in 2018, IMO Member States, with the full support of the industry, are now committed to achieving complete decarbonisation as soon as possible after 2050. This can only be achieved with the introduction of zero-carbon technologies in the 2030s which at the moment do not exist in a scale or form that can be applied to large ocean going ships. The size of the challenge, while not insurmountable, is enormous for an industry which is currently entirely dependent on fossil fuels, and which mostly comprises Small and Medium sized Enterprises.

According to the latest IMO GHG Study, international shipping, which carries around 90% of global trade, is currently still responsible for approximately 2% of the world's annual anthropogenic emissions. To help the world economy achieve the Paris Agreement's climate change goals, ICS recognises that rapid decarbonisation of the shipping sector will therefore be vital.

It is shipping's global regulator, the UN IMO, which has responsibility for regulating the reduction of CO₂ emissions by international shipping, it having been agreed by the United Nations Framework Convention on Climate Change (UNFCCC) that emissions from this sector (as well as those of international aviation) cannot be attributed to individual national economies. ICS attended the UN Climate Change

“ICS has led the development of a radical proposal to establish a US\$ 5 billion fund to accelerate the research and development of zero-carbon technologies for shipping to ensure delivery of the CO₂ emission reduction targets agreed by IMO.”

Conference in Madrid, in December 2019, in order to explain the impressive progress being made by the shipping sector. The next UNFCCC Conference, to be held in Glasgow, has unfortunately been postponed until 2021.

As a result of the historic IMO GHG Strategy agreed in 2018 ('the Paris Agreement for shipping') the direction of travel is clear. The global shipping industry has no intention whatsoever of allowing COVID-19, or its attendant economic challenges, to deflect from its efforts to achieve the IMO targets or to fulfil its responsibility to help meet the 1.5 degree celsius climate change goal that has been set for the global economy by the Paris Agreement.



2050 target can only be met with zero-carbon technologies

The long term GHG reduction target agreed by IMO requires an absolute cut in the sector's total GHG emissions of at least 50% by 2050, regardless of maritime trade growth, with full decarbonisation to follow shortly after. The IMO 2050 target is very ambitious indeed and may therefore require a carbon efficiency improvement of up to 90%, which is simply incompatible with the continuing long term use of fossil fuels by commercial shipping.

ICS's intensive engagement in IMO discussions to further reduce the CO₂ emissions of the existing fleet, and achievement of the carbon efficiency targets agreed for shipping by IMO for 2030, are considered elsewhere. But the primary focus of the industry and ICS is to find the best means of accelerating the introduction of zero-carbon technologies to achieve 100% decarbonisation as soon as possible after 2050, if not before.

Industry proposal to IMO for a global Research & Development Fund

In December 2019, the global maritime transport industry launched a radical proposal to establish the world's first collaborative shipping Research & Development (R&D) programme to help eliminate CO₂ emissions completely from international shipping. The proposal includes core funding from shipping companies across the world of about US\$ 5 billion over a 10-year period.

In a comprehensive submission to IMO, the development of which was led by ICS, the industry proposes to generate this funding from a mandatory contribution by shipping companies of US\$ 2 per tonne of fuel purchased for consumption.

With leadership and co-ordination from ICS, this proposal has been developed jointly, following three years of discussion, by the world's principal international shipowner associations: BIMCO, CLIA, ICS, INTERCARGO, INTERFERRY, IPTA, INTERTANKO and WSC.

Initial IMO Strategy on Reduction of GHG Emissions from Ships

Adopted on 13 April 2018 (key extracts)



Vision

IMO remains committed to reducing GHG emissions from international shipping and, as a matter of urgency, aims to phase them out as soon as possible in this century.

Levels of Ambition

1. Carbon intensity of the ship to decline through implementation of further phases of the energy efficiency design index (EEDI) for new ships

To review with the aim to strengthen the energy efficiency design requirements for ships with the percentage improvement for each phase to be determined for each ship type, as appropriate;

2. Carbon intensity of international shipping to decline

To reduce CO₂ emissions per transport work, as an average across international shipping, by at least 40% by 2030, pursuing efforts towards 70% by 2050, compared to 2008; and

3. GHG emissions from international shipping to peak and decline

To peak GHG emissions from international shipping as soon as possible and to reduce the total annual GHG emissions by at least 50% by 2050 compared to 2008 whilst pursuing efforts towards phasing them out as called for in the Vision as a point on a pathway of CO₂ emissions reduction consistent with the Paris Agreement temperature goals.

The IMO GHG Strategy also includes a list of candidate measures for further CO₂ reduction that are now being actively developed by IMO, including measures for the existing fleet, for agreement in 2020, that can be implemented by 2023.

The industry-wide move to accelerate R&D is absolutely vital to ensure that the ambitious CO₂ reduction targets agreed to by IMO Member States in 2018 are met.

Meeting the IMO GHG reduction goals will require the deployment of new zero-carbon technologies and propulsion systems, such as green hydrogen and ammonia, fuel cells, batteries and synthetic fuels produced from renewable energy sources. These do not yet exist in a form or scale that can be applied to large commercial ships, especially those engaged in transoceanic voyages and which are currently dependent on fossil fuels.

The shipping industry has proposed the establishment of an International Maritime Research and Development Board (IMRB), a non-governmental R&D organisation that would be overseen by IMO Member States.

The IMRB will be financed by shipping companies worldwide via a mandatory R&D contribution of US\$ 2 per tonne of marine fuel purchased for consumption by shipping companies worldwide, which will generate about US\$ 5 billion in core funding over a 10-year period.



Industry proposal for International Maritime Research and Development Fund

Highlights of the industry's proposal include:

- A new non-governmental Research & Development organisation – the International Maritime Research and Development Board (IMRB) – to pave the way for rapid decarbonisation of shipping.
- Core funding from shipping companies across the world of about US\$ 5 billion over a 10-year period.
- To accelerate the development of commercially viable zero-carbon emission ships by the early 2030s.

This US\$ 5 billion in core funding to be generated from the industry contributions, is critical to accelerate the R&D effort required to decarbonise the shipping sector and to catalyse the deployment of commercially viable zero-carbon ships by the early 2030s.

Although the R&D programme and its funding is an initiative of the leading international shipowners' associations, additional stakeholders' participation is welcomed. ICS believes that a global fund can be established quickly, and the shipping industry is confident that other stakeholders will also want to contribute, potentially generating substantial additional funding for R&D for zero-carbon technologies.

In its proposal to the UN IMO, the industry has set out details for governance and funding of the co-ordinated R&D programme, which can be put in place by as soon 2023 via amendments to the existing IMO Convention for the Prevention of Pollution from Ships (MARPOL).

The next meeting of the IMO Marine Environment Protection Committee (MEPC) is now scheduled to give preliminary consideration to the concept in November 2020. In order to compensate for any loss of momentum caused by the postponement of the MEPC meeting scheduled for March, the industry co-sponsors held a major video presentation in June 2020 to explain the proposal, to which representatives of all IMO Member States were invited.



IMO Member States need to demonstrate political will

ICS and the other industry co-sponsors are aware that this proposal will be seen as radical by many IMO governments, as nothing of this scale in shipping, involving billions of dollars of funding, has been established before. While development of further regulations, including consideration of market-based measures, will have their place as the IMO GHG Strategy is further developed, these will not be enough on their own.

It is almost impossible to exaggerate the enormous technical challenges of transitioning the entire global maritime transport sector to zero-carbon propulsion systems, which will require large zero-carbon ships to appear on the market during the 2030s. The industry is therefore convinced that this sincere offer, to provide billions of dollars of funding to accelerate R&D of zero-carbon technologies, must be given proper consideration by governments if the IMO CO₂ reduction targets are to be delivered within the timelines agreed by IMO Member States.

With the assistance of IMO Member States to provide the regulatory framework needed to set up an International Maritime Research and Development Programme, to be financed by mandatory payments from the shipping industry itself, ICS and the other co-sponsors believe that, with the rapid acceleration of R&D that will follow, the complete decarbonisation of the sector is eminently possible within the timelines agreed by the global community.

Assuming that governments are as serious as the industry in wishing to deliver on the IMO CO₂ reduction targets, that have now been agreed by IMO Member States, all that is really required is the political will to make this bold initiative happen.



IMO CO₂ Reduction Measures for the Existing Fleet

In November 2020, the IMO Marine Environment Protection Committee (MEPC) is scheduled to finalise a package of mandatory CO₂ reduction measures that will be enforced across the existing global fleet.

It is of tremendous political importance that IMO reaches agreement during 2020 which can then take effect by 2023. This is to demonstrate that IMO is firmly on track to meet the 2030 CO₂ reduction target which was agreed in 2018 – a 40% efficiency improvement, as an average across the world fleet, compared to 2008. This may prove vital if IMO is to discourage unilateral measures against shipping, not least those envisaged by the European Union.

If, however, in the short time available, government negotiators get the details of the package wrong, this could have profound implications for fair competition and the future structure of the entire global fleet. If, as proposed by some IMO Member States, ships were to have their statutory certificates withdrawn – for example due to ‘failure’ to achieve mandatory operational efficiency targets that are beyond the ship’s control – the commercial interests of many shipping companies could be seriously damaged.

ICS has sought to facilitate agreement among governments

Unfortunately, the challenge of reaching agreement on this IMO package, which is both technically and politically complex, has been made all the more difficult because of the loss, due to COVID-19, of important preparatory meetings during 2020, which were expected to build on the real progress made during the previous round of IMO CO₂ negotiations in November 2019.

Throughout 2020, in the absence of formal IMO meetings, ICS has sought to help facilitate agreement among IMO Member States by hosting a series of informal video meetings. ICS believes that an ambitious and sensible IMO agreement is possible, which could comprise three basic elements.

The first is to continue to reduce the carbon intensity of existing ships through use of an Energy Efficiency Existing Ship Index (EEXI), a goal-based technical measure similar to the Energy Efficiency Design Index (EEDI) which has been mandatory for new ships since 2013. One means of EEXI compliance will be engine power limitation to facilitate speed optimisation, as an alternative to earlier proposals for mandatory speed limits which most governments have already rejected as an impractical solution.

In February 2020, ICS therefore co-sponsored a mature proposal on EEXI from the Government of Japan, which was supported by a wide spectrum of governments including Greece, Norway, Panama and the United Arab Emirates. Informal discussions suggest there is likely to be consensus at IMO in support of the EEXI concept, provided that other parts of the package can also be agreed.

The second element, as originally proposed by ICS in 2019, is the ‘Super SEEMP’ concept, whereby use of the Ship Energy Efficiency Management Plan, already a mandatory requirement, would be subject to rigorous external audit and statutory certification. Similar to the philosophy of the International Code for the Safe Management of Ships and Pollution Prevention (ISM Code) – which has been mandatory throughout the industry for the past 20 years – ships would be required to demonstrate that everything possible has been done, as set out in the SEEMP, to improve operational fuel efficiency.



The third and most controversial element of the package concerns the development of Carbon Intensity Indicators (CII) as a complement to the EEXI and the 'Super SEEMP'. This is where it is proving most difficult for governments to reach agreement, due to the many external factors affecting operational efficiency which are simply beyond the ship's control, such as weather and ocean conditions or the geographical location in which a ship might be trading.

A number of EU governments (with the implicit support of the European Commission which has considerable influence over EU States' positions) insist that the IMO package must also include the adoption of CII. This is something which many other governments might well be willing to accept in the interests of achieving a deal. But several EU States, led by Denmark and Germany, also insist on a punitive approach to the enforcement of CII, whereby the certification required for ships to continue operating could potentially be withdrawn if the agreed CII are not achieved by individual ships.

“ICS has been working tirelessly with IMO Member States to facilitate agreement on an ambitious package of additional CO₂ reduction measures for the existing fleet.”



ICS is therefore supporting a compromise proposal, developed by a coalition of governments including India, Liberia, Panama, Singapore and the United Arab Emirates. This accepts the development of CII, but proposes some form of 'phased implementation' for three years, given that the impact of the CII adopted will be unknown, as will be the possibilities of their creating market distortion due to the inability of ships to control external factors such as weather.

Demonstrating their commitment to the 2030 target, China and Brazil have submitted their own joint proposal to IMO. It seems they may be willing to accept the use of operational CII, as well as the EEXI and audited SEEMP. However, rather than accepting punitive enforcement – whereby a ship might be unable to trade if it does not achieve the operational efficiency goals set for it – China and Brazil have proposed an alternative 'A-E' rating system. Due to the commercial benefits of achieving a higher rating – charterers being more likely to offer business or pay a premium for such ships – this should still provide a real incentive for shipping companies to make significant efficiency improvements that would help the industry, as a whole, to achieve the 2030 IMO target. Such a solution might also be politically acceptable to those non-EU governments which, like much of the industry, have serious questions about the application of CII.

In September 2020, as a result of intensive rounds of informal discussions facilitated by ICS, a number of governments – led by China, Japan and Norway – are expected to make a further joint submission to IMO. This will propose specific regulatory amendments to MARPOL Annex VI for approval by the IMO MEPC, at its next meeting in November 2020, which will seek to synthesise the various proposals that have already been made by governments.





Some EU States insist on a punitive approach

Unfortunately, however, in the lead-up to the critical IMO MEPC meeting in November 2020, many EU States still appear unwilling to move towards a less punitive approach towards implementation of CII. To the growing frustration of many non-EU States, this unwillingness is despite the fact that the CO₂ reduction targets agreed by IMO, to which EU States signed up in 2018, are only applicable to the sector as a whole rather than to every individual ship.

Some have even questioned whether the EU is serious about wishing for IMO to reach an agreement given the growing support in Europe for unilateral measures, such as the extension of the EU Emissions Trading System to international shipping.

Nevertheless, ICS remains confident that an ambitious agreement can be reached when the IMO MEPC reconvenes, provided that governments can maintain open minds and be willing to avoid inflexible positions.

Short term CO₂ reduction measures: the wider context

Despite the political importance of IMO reaching agreement on short term measures for the existing fleet, it should be remembered that the profile of the fleet in 2030 will be very different to that which operates today.

By 2030, the vast majority of the fleet will have been constructed in accordance with the IMO Energy Efficiency Design Index. As a result of a decision taken by IMO in 2019, and scheduled to be confirmed by the MEPC in November 2020, most ships built after 2022 will have to be at least 30% more energy efficient than those constructed before 2013 (the previously agreed implementation date for EEDI Phase 3 being moved forward from 2025). Large containerships delivered after 2022 will actually have to be at least 50% more efficient than those delivered prior to 2013.

In August 2020, IMO published its latest study of shipping's GHG emissions. The Fourth IMO GHG Study states that the carbon intensity of the global fleet as a whole has improved by as much as 30% since 2008. This suggests that the sector is already on track to meet the 40% reduction target for the fleet in 2030 which IMO agreed in 2018, notwithstanding the enormity of this challenge.

There is another important reason why ICS wishes IMO to reach an agreement for the existing fleet as soon as possible. The industry is eager for IMO to move on to the far more challenging task of developing measures that will allow the industry to deliver on the very ambitious target agreed for 2050 – a total cut in GHG emissions by the sector of at least 50% regardless of trade growth. This will only be achieved with the introduction of zero-carbon fuels and technologies and, as proposed by the industry to IMO in December 2019, the immediate establishment of a global research and development programme financed by mandatory contributions from shipping companies.

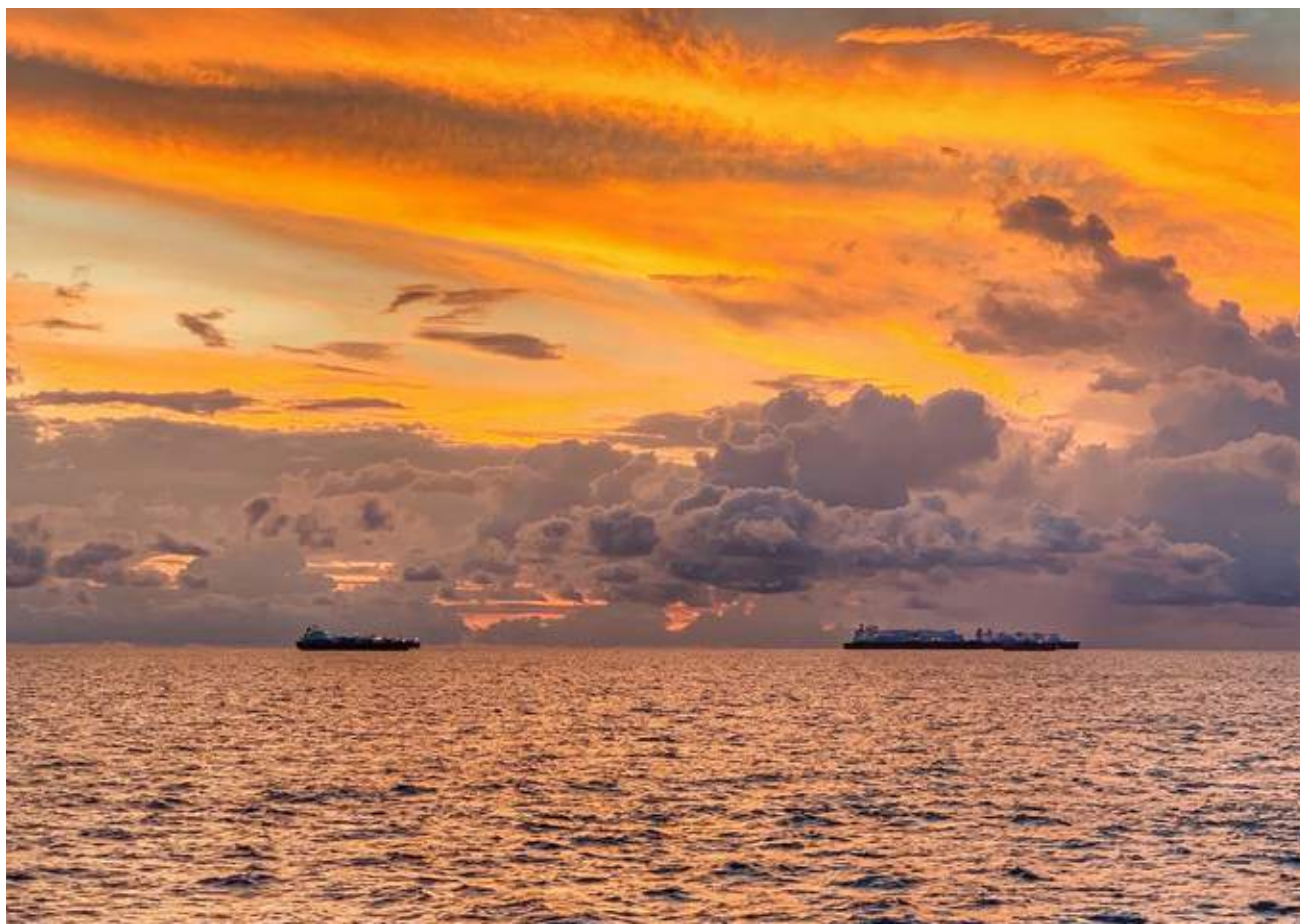
Extending EU Emissions Trading to International Shipping

ICS and its global membership of national shipowners' associations are wholly opposed to the proposal by the European Commission to extend the EU Emissions Trading System (EU-ETS) to international shipping, which is likely to be regarded by non-EU nations as an extraterritorial 'tax' on global trade.

In December 2019, the European Commission announced its European Green Deal and proposed to extend the EU Emissions Trading System (EU-ETS) to shipping. This would include non-EU flag ships trading to EU ports which, together with EU flag ships, would probably have to deal with the market distorting impacts of carbon offsetting and purchasing emission allowances.

Essentially this is an initiative led by the new President of the European Commission, who, with little apparent understanding of the wider international implications, made this a personal manifesto pledge when seeking confirmation for her appointment from the European Parliament in 2019.

Although the European Commission is not expected to publish detailed proposals until the middle of 2021, it is anticipated that the application of the EU-ETS to shipping will be achieved using the existing EU Regulation on the Monitoring, Reporting and Verification (MRV) of ships' CO₂ emissions, as also proposed by the European Parliament's Environment Committee which voted on the issue in July 2020.



“ICS and ECSA have published a comprehensive study on the implications of extending the EU-ETS to shipping to help governments understand the risk of derailing the established process at IMO to eliminate global CO₂ emissions from shipping completely and the threat presented by this unilateral ‘tax’ on global trade.”

An extraterritorial tax on trade to raise funds for EU post-COVID recovery

In view of the progress made by IMO since the adoption of its ground breaking greenhouse gas (GHG) reduction strategy in 2018, ICS's principal concern is that the application of an EU-ETS to shipping would be counterproductive to continuing progress at IMO and the further reduction of the sector's global emissions. The EU's primary interest in supporting this proposal seems to be to use the shipping industry as a source of revenue to support the finances of its Member States or even of the European Commission itself.

This was confirmed by the Summit of EU Member State leaders in July 2020 which acknowledged the Commission's suggestion that the billions of euros per year that would be generated from the purchase of carbon allowances by shipping, including those non-EU shipping companies that move the majority of trade with the EU, could form a significant part of the post COVID EU recovery package that has now been agreed. Non-EU governments will therefore have concerns about this unilateral proposal which they are likely to view as an extraterritorial 'tax' on international trade.



EU-ETS will derail global negotiations on CO₂ reduction at UN IMO

The real concern, unless this proposal is rejected or modified by EU States, is that the incorporation of shipping into the EU-ETS would have profound implications for efficient maritime transport and the future authority of IMO. This could potentially derail the concerted efforts by all IMO Member States, including European nations, to eliminate CO₂ emissions from shipping completely.

The shipping industry is opposed to any regional regulation that risks undermining global negotiations for reducing all CO₂ emissions from shipping worldwide and the comprehensive IMO strategy for achieving this, to which all EU States signed up two years ago. Recent discussions at IMO on further CO₂ reduction measures for the existing fleet have demonstrated that major non-EU economies such as China, Brazil and India are very much committed to the IMO process.

The CO₂ emissions that might be affected, but not necessarily reduced, by the extension of the EU-ETS only represent about 15% of the global shipping sector's total emissions, which remain about 7% lower than in 2008 (the reference date agreed by IMO for its targets) despite a 40% increase in maritime trade during the same period.

Without further action at the global level by IMO there is a serious risk that total emissions of the global sector might deviate from their current downward trajectory.

The European Commission might well argue that the EU-ETS could help to achieve regional emission goals for shipping. But if this undermines global efforts to reduce the sector's total emissions then would the achievement of these regional objectives really be considered a success?

The EU institutions therefore need to consider carefully the extent to which further progress at IMO might be damaged by inclusion of shipping into the EU-ETS.

Emissions from international shipping are not required to be covered by the Nationally Determined Contributions for CO₂ reduction made by EU States under the Paris Agreement on climate change. Extending the EU-ETS to shipping would therefore have little direct impact on the delivery of carbon commitments made by individual EU States.

Nevertheless, inclusion of ships trading internationally into the EU-ETS could set a concerning precedent that may see negotiations at IMO delayed, or even derailed. Many non-EU governments might reasonably ask why they should continue to spend political capital negotiating further global measures if EU Member States are actively pursuing their own unilateral agenda.

Risk of trade disputes

The European Commission proposal – which, it must be emphasised, can still be rejected by EU Member States – also increases the risk of trade disputes with non-EU nations, especially if this proposal is perceived to be no more than a revenue raising exercise, rather than an attempt to reduce emissions from international shipping.

In May 2020, the economic damage resulting from the COVID-19 crisis led the European Commission to advocate a plan that specifically identified the extension of the EU-ETS to shipping and aviation, including the sale of carbon allowances, as a major source of revenue worth billions of euros to support EU recovery. This was again referred to as part of the post-COVID recovery package agreed to by a Summit of EU Member State leaders in July.

However, previous attempts to apply the ETS to international aviation created huge disputes with the EU's trading partners, including China, India and the United States, forcing the EU to back down when faced with trade sanctions including the cancellation of Airbus orders.

The application of the EU-ETS to intra-EU aviation, while generating revenue for EU States, has not resulted in any reduction to emissions from this sector, in contrast to shipping whose absolute GHG emissions have reduced significantly throughout the same period despite an increase in maritime trade.

The EU therefore needs to decide whether using shipping (including non-EU shipping companies) to support its financial requirements is more important than the environmental goal, already agreed by EU Member States, of supporting IMO efforts to decarbonise shipping at the global level.

There is not sufficient space to list all of the negative implications of the EU-ETS. Apart from undermining future progress at IMO, there is a high risk of carbon leakage: increasing CO₂ emissions from shipping outside the scope of the EU-ETS, leading to serious market distortion. To limit the need to purchase allowances, many ships would likely tranship cargo in ports just outside the EU, for example the expanding port of Tangiers, or indeed ports in the United Kingdom which after 2020 may be outside the scope of the EU-ETS.



ECSA/ICS study

In July 2020, to help EU Member States and other stakeholders understand the full implications of extending the EU-ETS to shipping, ICS and the European Community Shipowners' Associations (ECSA) published a joint report commissioned from independent consultants. ICS and its non-EU national associations are also using this report to encourage non-EU governments to ask serious questions of non-EU trading partners.

The vote by the European Parliament Environment Committee, in July 2020, in favour of inclusion of shipping into the EU-ETS is curious. The Parliament has also recommended to continue exempting commercial road transport from the system. Road transport is far less carbon efficient than ships. But like the shipping sector, especially in tramp trades, it is mostly comprised of Small and Medium sized Enterprises (SMEs) for which the EU-ETS was never intended.

The European Commission is expected to prepare a formal assessment of the implications of its own proposal later this year, to which ICS, working closely with ECSA, will seek to provide constructive input. However, applying the EU-ETS to shipping seems most unlikely to help support global decarbonisation efforts as envisaged by IMO's 174 Member States in their historic 2018 agreement.



IMO 2020



The Global Sulphur Cap Arrives in an Uncertain World

1 January 2020 saw full implementation of what was expected to be (prior to COVID-19) the regulatory game changer of the decade – the 0.5% mandatory global cap on the sulphur content of marine fuel.

Unless ships are using alternative compliance options to achieve an equivalent sulphur emission reduction, bunker fuel is now required to have a sulphur content not exceeding 0.5%. This is a substantial reduction from the previous maximum content of 3.5%, and complements existing IMO-approved Emission Control Areas (ECAs), in North West Europe and North America, where fuels with a sulphur content not exceeding 0.1% must continue to be used.

'IMO 2020' – as the low sulphur emission requirement is known – will bring significant benefits to the health of the majority of the world's population, which lives within 200 kilometres of the coastline. Nevertheless, despite the unexpected, and possibly temporary, downward impact of COVID-19 on the cost of compliant fuel, this new global regime may yet have profound implications for the economics of shipping.

Prior to 2020, fuel with a sulphur content below 0.5%, mostly distillate (marine diesel) fuels, were typically about 50% more expensive than the heavy residual fuel oils which most ships have used for the past 40 years. This is significant, as during the typical 25-year life of a merchant ship, the cost of fuel is by far a ship operator's greatest expense, around double the cost of building the ship and servicing the debt on its purchase.

The new low sulphur regime is now being applied to ships worldwide via amendments to Annex VI of the IMO MARPOL Convention, which addresses the prevention of air pollution from shipping. This followed the decision by IMO Member States, in 2018, that implementation should proceed in 2020 rather than be delayed due to concerns about sufficient availability of compliant low sulphur fuels. This was a decision which the industry, as represented by ICS, fully supported.



Carriage ban

In the years and months preceding January 2020, a significant part of ICS's resources was dedicated to helping the implementation of IMO 2020 proceed as smoothly as possible. This has involved close liaison between ICS and other key stakeholders, especially oil refiners and bunker suppliers, as well as IMO Member States which are responsible for enforcement.

The COVID-19 pandemic notwithstanding, compliance with IMO 2020 is now subject to enforcement by the world's Port State Control (PSC) authorities. On 1 March 2020, the ability of PSC to enforce this new regime, and so ensure a level playing field and fair competition, was further augmented – as requested by industry associations, led by ICS – by the implementation of a global prohibition on the carriage in ship's bunker tanks of any non-compliant fuel.

Impact of COVID-19

Throughout most of 2019, the typical cost of residual fuels with a sulphur content exceeding 0.5% was around US\$ 400 a tonne, while in January 2020 shipowners witnessed a spike in prices for compliant low sulphur fuel to as much as US\$ 700. But at the end of April, once the economic impact of COVID-19 had gone global, the price of low sulphur fuel fell to under US\$ 200. By August 2020 the average cost of compliant fuel had returned to around US\$ 350 (similar to the cost of residual fuel in 2019) with the increase in demand created by the sulphur cap still seemingly mitigated by the fall in the cost of the crude oil needed to produce it.

In response to a collapse in demand for crude oil, and the initial failure of OPEC and Russia to agree measures to hold up prices, in April 2020 Saudi Arabia responded by flooding the market, at one point causing the cost of oil to fall nominally below zero, as storage facilities ran out. (The oil tanker sector was a short term beneficiary as some market

“Working with IMO, ICS has produced comprehensive guidance for ship operators to help ensure smooth implementation of the mandatory global sulphur emissions cap which came into full effect in January 2020.”

freight rates increased by almost 800% as traders sought to transport and stockpile as much cheap oil as possible.) By August 2020, however, a modicum of stability had returned and the price of crude had recovered to around US\$ 45 a barrel, although still much lower than at the start of the year.

Before the appearance of COVID-19, it was anticipated that the price differential between residual fuels with a sulphur content above 0.5% and compliant low sulphur fuels would remain substantial, even if they narrowed after the start of 2020. This differential is important, because fuels which exceed the sulphur cap can still be used by a significant

Costs of compliant VLSFO fuel

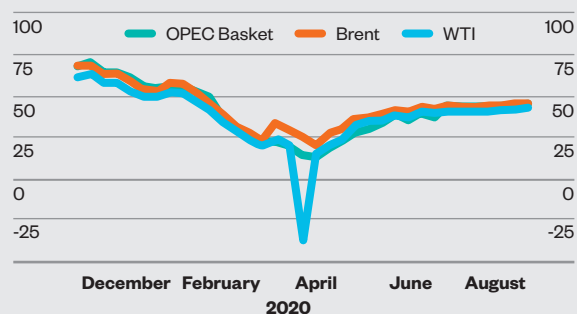
US\$ per tonne



Source: Ship & Bunker Global 20 Ports Average

Dramatic dip in crude prices in 2020

US\$ per barrel



Source: Statista



minority of ships that have elected to install Exhaust Gas Cleaning Systems as an alternative means of compliance. While these disparities were volatile during the first two months of 2020, they were at first broadly in line with what had been expected. By August 2020, however, the price differential had become relatively small, depending on the bunker port, at about US\$ 50 (compared to US\$ 150 – 200 in much of 2019).

However, it must be emphasised that the new low sulphur fuel landscape has not yet settled down, complicated further by COVID-19.

Operational challenges

In the months immediately prior to 2020, there were serious concerns among many ship operators about the likely availability of compliant low sulphur fuels in every port worldwide, a particular challenge for ships in 'tramp' trades, where the destination of the next port of call might not be known far in advance of the ship's arrival.

When 2020 arrived, as many had anticipated, there were several instances of non-availability of compliant fuels in certain ports, as well as reports about fuel quality issues with respect to some of the new 0.5% blends that have entered the market.

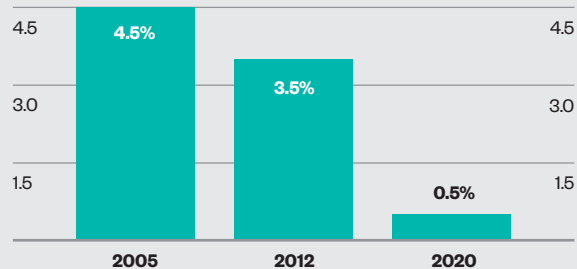
However, these probably need to be viewed as teething problems given the truly massive global scale of this global changeover. While some ships, as permitted by MARPOL, may have had to operate using Fuel Oil Non Availability Reports (FONAR), there have been few reports of any deliberate non-compliance.

Most importantly, the implementation process has required shipping companies to address many practical operational challenges, including the reality that many ships have needed to carry and use more than one type of compliant fuel in order to operate globally. Moreover, in the months preceding 1 January 2020, IMO made it clear that there would be no further transition period to allow for the burning of any non-compliant fuel remaining on board ships. This introduced additional challenges such as the potential incompatibility between different available grades of fuel, which can have significant implications for the safety of the ship as well as its commercial operation.

To assist with these challenges, ICS produced comprehensive Guidelines for Shipping Companies and Crews on Preparing for Compliance with the IMO 2020 Global Sulphur Cap, which were distributed free of charge throughout the global industry. In July 2019, these were further updated to take into account the latest guidance on implementation produced by IMO, including those concerning safety issues which were addressed by the IMO Maritime Safety Committee, at ICS's request, in June 2019.

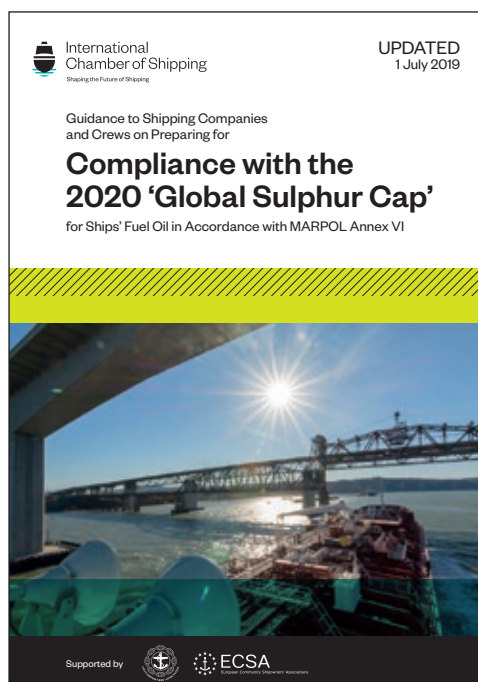
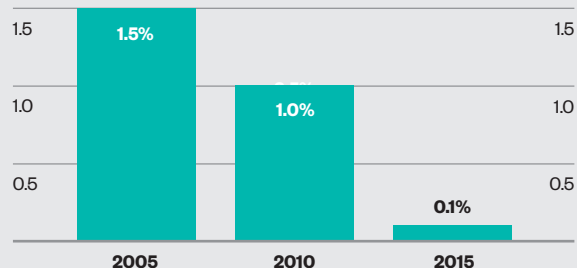
Global Sulphur Cap

Sulphur content of fuel permitted outside Emission Control Areas



IMO Agreement to Reduce Atmospheric Pollution from Ships

Sulphur content of fuel permitted inside Emission Control Areas



As recommended by IMO, the ICS Guidelines stressed the importance of shipping companies preparing ship specific implementation plans for each of their vessels, taking into account the indicative format which was developed by IMO with significant input from ICS, as well as maintaining corresponding records on board to demonstrate how the plan has been followed. As a consequence of this ICS initiative, ships and their crews should now be in a better position to demonstrate to Port State Control officers that they have acted in good faith and done everything possible that could be reasonably expected to achieve full compliance, in the interest of encouraging a common sense approach to enforcement.

A resounding environmental success

Prior to the arrival of COVID-19, the majority of ship operators had done everything possible to prepare for compliance with IMO 2020, taking full account of industry guidance, such as that produced by ICS.

With the additional complications created by COVID-19, and their unexpected impact on oil prices, it is currently very difficult to assess the long term economic consequences of the new regime on the future structure of the industry. For those interested in the incentive that market-based measures might provide towards decarbonisation, this includes its own uncertainty about the impact on fuel efficiency of the increased bunker prices that were expected from IMO 2020, which due to COVID-19 have not yet come to pass.

However, it must be recognised that in terms of achieving its environmental objectives of reducing atmospheric pollution, the global implementation of IMO 2020 so far appears to be a great success, and a credit to IMO and the industry it regulates.

Operational challenges with IMO 2020 – the experience so far

Between February and May 2020, ICS, BIMCO, INTERCARGO and INTERTANKO conducted an industry wide survey concerning potential operational problems associated with IMO 2020 implementation. These included increased sludge discharge, clogging of fuel pipes, preheaters, fuel separators and fuel filters, fuel pumps getting stuck, problems with fuel injection and poor ignition of fuel oil.

The survey also looked at other issues including incomplete combustion, and the appearance of wax and increased wear and tear of cylinder liners. These are serious issues that can potentially lead to loss of propulsion and/or blackout (power failure).

The survey results indicated global challenges due to fuel characteristics being off specification, and that the most common operational problems experienced were increased sludge deposits, and the appearance of wax, after switching to compliant fuel oils.



The Deployment of Exhaust Gas Cleaning Systems

A sometimes controversial aspect of IMO's low sulphur emission regime has been the possibility permitted by MARPOL Annex VI for shipping companies to deploy alternative compliance options.

These include the installation of Exhaust Gas Cleaning Systems (or 'scrubbers') at a cost of up to US\$ 5 million per ship, whereby sulphur is removed from the exhaust of marine engines or boilers. This allows ships that have been fitted with these expensive systems to continue burning heavy residual fuels which, prior to 2020 at least, were expected to be considerably less expensive than the low sulphur fuels which most ships are now required to burn.

This flexible approach to compliance was something to which IMO Member States agreed when the current low sulphur regime was adopted in 2009, consistent with the 'goal based' approach to regulation which has been embraced by IMO since the 2000s.

Nevertheless, apart from the ongoing discussion at IMO about the environmental efficacy of scrubbers, some parts of the industry have been concerned about the possible emergence of a 'two-tier' market, with many smaller private companies unable to enjoy the same level of access as large or publically listed companies to the considerable capital needed to invest in 'scrubbers' and their potential for significantly lower fuel costs.

The economic rationale for fitting Exhaust Gas Cleaning Systems is dependent on the maintenance of a significant price differential between fuels with a sulphur content above or below 0.5%. With the fall in crude oil prices during the first part of 2020, and the significant narrowing of this price differential, the 'payback period' for investing in scrubbers may have to be extended considerably. But with so much uncertainty surrounding post COVID-19 fuel prices, the commercial advantages of 'scrubbers' remain unclear for those still taking decisions about whether or not to install them.



Open loop or closed loop systems

Scrubbers may be of the ‘open loop’ type where sea water used for scrubbing is treated and discharged back to sea, or of the ‘closed loop’ variety where fresh water treated with chemicals is used for scrubbing with only a small quantity of the treated wash water being discharged into the sea after a certain time period of operation.

IMO adopted the first version of its Guidelines for Exhaust Gas Cleaning Systems (EGCS) back in 2005 which, among other things, address potential concerns about wash water. There have been many subsequent revisions to these guidelines, and the latest iteration adopted in 2015 is currently in the process of a further revision by IMO.

Unilateral action by Port States

Despite the adoption of these IMO Guidelines, worries about the possible environmental impacts of scrubbers have led to an increasing incidence of unilateral action by several IMO Member States to ban wash water discharges from scrubbers operating in the open loop mode within their

“ICS is working to ensure that any controls placed by port states on the use of scrubbers by ships are harmonized within an evidence-based IMO framework.”

territorial waters. Notwithstanding the sovereign right of port states to enforce provisions at variance to MARPOL, ICS is concerned about the apparent lack of detailed technical justification for such measures.

Also of concern to ICS is the absence of global consistency of standards within a growing number of individual ports, which may result in ships fitted with scrubbers, as permitted by MARPOL, being unfairly penalised for being unaware of little known local requirements. ICS has therefore compiled a list of ports around the world that are understood to have prohibited discharges from open loop systems which is available via ICS national associations.

IMO discussions

In 2019, in response to a submission by EU Member States, the IMO MEPC agreed a new work output for the evaluation and development of harmonised rules and guidance on the discharge of liquid effluents from EGCS.

ICS supports the concept of a harmonised approach, but only provided that any subsequent control measures will be based on sound technical evidence. Most importantly, given the huge investments that many shipping companies are now making in scrubbers, the overarching IMO principle of ‘grandfathering’ arrangements for existing ships must be maintained. This to ensure that early adopters of new technologies which are permitted under MARPOL are not unfairly penalised in the event that IMO’s current position regarding their use is changed in the future.

Discussions on this issue are expected to resume at the MEPC meeting in November 2020.



Other Key Issues in 2020



Engaging with China

In November 2019, ICS formally opened its new ICS (China) Liaison Office, in Hong Kong SAR.

The opening, during Hong Kong Shipping Week, was attended by the ICS Chairman and Secretary General as well as the Chinese Vice Minister for Transport, and was preceded by a dinner hosted by the Hong Kong SAR Chief Executive, Carrie Lam.

The new ICS Liaison Office reflects the great importance which ICS members attach to good relations with the Government of China and other major stakeholders within the Chinese shipping industry, including the China Shipowners' Association (CSA).

China is expected to emerge as the world's leading maritime power during the next 10 years, in terms of the tonnage it controls, its shipbuilding capacity and its increasing influence at global regulatory bodies such as IMO.

“Reflecting the importance of good relations with China, ICS has opened a new liaison office in Hong Kong.”

China's economy is on the verge of becoming the largest in the world. With regard to maritime imports/exports, it is already the most important due to its impact on global demand for maritime trade.

With respect to ICS's core objectives, maintaining China's strong support for a global system of maritime governance is seen as a critical issue during the immediate years ahead. The impact of Chinese domestic regulations on non-Chinese ships trading to China is also of increasing importance to ICS members.

The immediate function of the new ICS office will be to increase mutual co-operation and understanding between the Government of China and ICS with respect to important longer term regulatory issues being considered at the global level.

In particular, such issues include the delivery of the ambitious IMO Strategy for the reduction of GHG emissions by international shipping, and the maintenance of maritime free trade principles and a rules based global trading system.



Opening ceremony for ICS (China) Liaison Office

Piracy in West Africa

Whilst the attention of the world has been diverted by COVID-19, piracy and armed attacks against ships' crews remain a serious problem, requiring a concerted response by the international community at the highest level.

ICS is particularly concerned by the deteriorating security situation in the Gulf of Guinea where there has been a sharp increase in the number of attacks on ships' crews, many extremely violent, currently accounting for some 90% of maritime kidnappings worldwide.

Whereas the majority of attacks against ships off West Africa in recent years had taken place in territorial waters, making intervention by foreign military vessels politically problematic, many vessels are now being attacked and boarded by pirates well outside territorial limits.

Previously, many of these attacks had been principally motivated by the intention to steal cargo. Increasingly, however, seafarers are now routinely being kidnapped and taken into Nigeria where they are then held for ransom in the most appalling and terrifying conditions. Most ship types have been targeted, including containerships and bulk carriers, as well as tankers and offshore support vessels.

These outrages have continued in 2020 and the statistics are stark. According to the International Chamber of Commerce's International Maritime Bureau (IMB), in the first six months of 2020 at least 49 crew were kidnapped for ransom in the Gulf of Guinea and held captive on land for up to six weeks. 32 seafarers were kidnapped between March and June 2020. These attacks are now taking place further out from shore, with about two thirds of the vessels affected being attacked on the High Seas from between 20 to 130 nautical miles off the Gulf of Guinea coastline.

Moreover, the number of unsuccessful attacks against shipping by speed boats, often using automatic firearms and causing great fear and anxiety among civilian ships' crews, is higher still, with many of these incidents passing unreported.



This is despite the establishment of the MDAT-GOG reporting service, operated from Europe by the French and UK military navies, which administers a Voluntary Reporting Area (VRA) scheme under which all merchant ships are encouraged to report position information while operating in the VRA.

ICS is working closely with other international industry associations, including the Oil Companies International Marine Forum (OCIMF), to increase regional and international activity to fight piracy in the region. In October 2019, ICS attended the Global Maritime Security Conference in Abuja, Nigeria and a keynote speech was delivered by the ICS Secretary General.

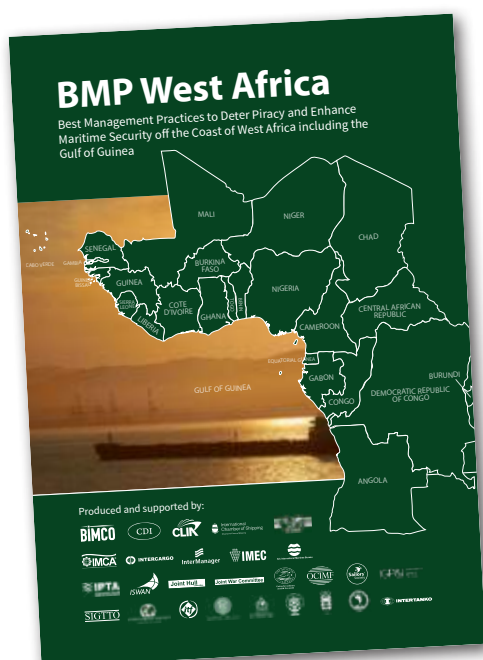
Importantly, this was followed by a virtual joint industry meeting with the Nigerian maritime administration (NIMASA) in May 2020, which included representatives of BIMCO, INTERCARGO, INTERTANKO and OCIMF, as well as the Nigerian navy and the Nigerian Shipowners' Association. This meeting was considered a significant step, and a further joint industry meeting with the Nigerian authorities was held in July 2020, at which additional security measures were proposed for implementation by 2021. However, there appear to be misunderstandings about the rights of the Nigerian navy (the largest in the region) to intercept pirates within the 200 mile limit outside the territorial waters of neighbouring states.

Nigeria has been strongly encouraged to upscale its response to the unacceptable level of piracy activity emanating from its shores, and there is increasing frustration throughout the industry at the continuing absence of tangible results. But the situation is very different to that which prevailed a decade ago in Somalia, which was a failed state, and where other military navies were present.



Further co-operation between industry and governments in the Gulf of Guinea region will be essential if progress is to be made. However, in the absence of further progress, by the Nigerian authorities in particular, there will be increasing pressure from the ship operators which ICS represents for more draconian measures.

Meanwhile, with support from IMO, ICS continues to promote adherence by shipping companies to the guidance contained in the latest version of the Best Management Practices (BMP West Africa), developed by ICS with other international associations, which includes details of new mechanisms for reporting and recording attacks that have been established for the region.



“Nigeria has been strongly encouraged by ICS to upscale its response to the unacceptable level of piracy emanating from its shores.”



Migrants in the Mediterranean

Despite the lack of media attention due to COVID-19, the migrant rescue at sea crisis in the Mediterranean is far from over, with tens of thousands of migrants still attempting to make the dangerous sea crossing from Africa to Europe in overcrowded and unseaworthy craft.

Shockingly, according to the office of the United Nations High Commissioner for Refugees (UNHCR) a further 1,300 migrants lost their lives during 2019, and hundreds more have already perished during the first months of 2020. This is also now a problem in the world's busiest sea lane, the English Channel, where hundreds of illegal migrants attempted to cross from France to the United Kingdom in small rubber boats during the summer of 2020.

Under the IMO Safety of Life at Sea Convention (SOLAS), ships have a legal obligation to come to the assistance of anyone in distress at sea. The principal obligation of shipowners is humanitarian, and ICS continues to promote the use of the industry Guidelines for Large Scale Rescue Operations, whose development was led by ICS as a direct response to the terrible situation in the Mediterranean. However, the primary interest of ICS is that port states will continue to adhere to their legal obligation, under international law, to provide prompt and predictable disembarkation of rescued people as soon as possible.

Increasingly there have been incidents where governments have denied entry to ships that have undertaken rescues. In August 2020, for example, a tanker had to anchor off the coast of Malta for more than four weeks after rescuing 27 people, including a child and a pregnant woman, with authorities in Malta and Tunisia denying the vessel entry.



“ICS’s primary concern is to ensure that governments continue to provide prompt and predictable disembarkation for large numbers of migrants rescued at sea by merchant ships.”

Since the crisis first escalated in the Mediterranean five years ago, governments such as Italy and Greece have permitted, to their great credit, the prompt disembarkation from merchant ships of over 80,000 rescued people. But the crisis now seems to be taking an ever more political direction. Tensions due to concerns about migration have been increasing across Europe.

As attitudes in Europe towards illegal immigration harden, exacerbated by concerns about COVID-19, the shipping industry remains concerned about the possibility of prompt disembarkation of rescued persons being refused. In the meantime, until the root causes are resolved (conflict in the Middle East coupled with instability in many parts of Africa) large numbers of migrants can be expected to continue their perilous attempts to enter Europe by sea.

Despite increased efforts to clamp down on their activities, the main cause of the continuing large number of migrant deaths is the murderous practice by criminal smuggling gangs of sending hundreds of people to sea at the same time. This makes it extremely difficult for rescuers to save them all. The dynamic in the Mediterranean has evolved, and there has been a significant reduction in the number of migrant rescues being carried out directly by merchant shipping. Nevertheless, merchant ships are still routinely diverted by Rescue Co-ordination Centres (ROCs) to assist.

The situation is very fluid given the continuing civil conflict in Libya. However, the European Union, and Italy in particular, has worked closely with the Libyan authorities to establish a functional coastguard, and has provided both equipment and training to facilitate this.

Within its territorial waters, the Libyan coastguard has itself now rescued, and returned to Libya, a significant proportion of migrants seeking to make the crossing. This new policy, however, is controversial due to the conditions that returning migrants face in Libya.

If ships are directed to disembark rescued people in North Africa, this clearly creates a potential for conflict between the crew and desperate and frustrated people who might

object to being returned. Given the number of persons picked up by merchant ships in a single large scale rescue operation, the crew of the rescuing ship can easily be outnumbered and overwhelmed. It is therefore vital that coastal states’ Search and Rescue (SAR) authorities co-ordinate and provide for disembarkation in a place of safety, both for the sake of those rescued and for the seafarers involved in the rescue.

It should be remembered that the merchant seafarers on board ships that continue to be involved in these incidents are civilians. They can be severely affected by the traumatic situations they have to face, having complied with their legal and humanitarian obligations.

ICS continues to liaise with a variety of international fora whenever migration issues affecting shipping are considered, including the Office of the United Nations High Commissioner for Refugees (UNHCR) and the International Organization for Migration (IOM), in addition to IMO.



A Review of the STCW Convention

Shipping is a global industry and therefore requires a global regime for governing the competence standards and certification requirements for the approximately two million seafarers employed throughout the world merchant fleet.

This is because the majority of seafarers serve on ships with a flag state that is different to the country responsible for overseeing their training and issuing certificates of competence. This global regime is provided by the IMO Convention on Standards of Training, Certification and Watchkeeping for Seafarers (STCW) which has now been in place for over 40 years.

But as we enter the third decade of the 21st Century, ICS has been considering the question of how the current IMO STCW regime can remain fit for purpose.

In 2019, the ICS Board endorsed a recommendation by the ICS Manning and Training Sub-Committee that ICS should request IMO to conduct a comprehensive review of the STCW regime. This is something which has not been undertaken since the early 1990s prior to the radical rewrite of the STCW Convention that was adopted by IMO Member States in 1995.

The STCW Convention and its accompanying STCW Code were most recently reviewed prior to the adoption of the 'Manila Amendments' in 2010, with the transitional period for implementation of the many adjustments agreed by governments coming to an end in 2017. However, while the piecemeal changes agreed in 2010 were extensive, they fell somewhat short of a comprehensive revision, being more akin to a wide ranging 'tidying up' exercise.

Unfortunately, it is still commonplace for employers to need to provide additional training and assessments prior to the deployment of many officers who have been issued with



STCW certification by Parties to the STCW Convention. This raises questions as to whether the Convention, as currently drafted, continues to meet the requirements of the industry in the 2020s.

ICS members have concluded that a fully revised STCW regime would allow the industry to adapt much more effectively to fast moving technological developments, including increased automation. A revised Convention could provide a structure with sufficient flexibility to meet the demands of a rapidly evolving world fleet, and could permit a more modular approach to competency accumulation and certification than is possible under the current regime. The arrival of new technology, with respect to navigation, engineering and propulsion systems (including the use of alternative fuels) is already changing the functions that seafarers perform on board ship and the competencies and training which they now require.



Most importantly, ICS believes that a comprehensive revision of the STCW Convention should seek to improve transparency and the robustness of implementation oversight with regard to the obligations of IMO Member States that are responsible for the quality of their national training and certification systems. In particular, this includes ensuring strict adherence by individual training institutes to delivering IMO competence standards, and a tightening of the approval process by governments of training colleges, especially those engaged in operational level ships' officer training.

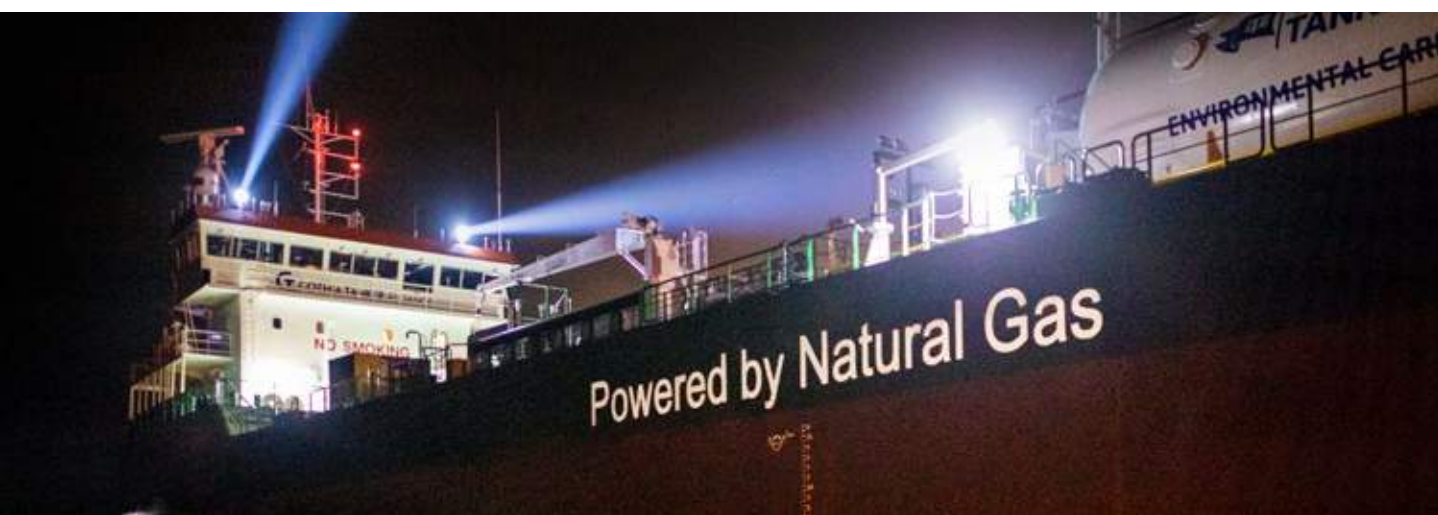
“ICS is contributing to a full review of the global regime for the training and certification of seafarers, following the request which ICS has made to IMO on behalf of maritime employers.”



In 2019, ICS presented a detailed paper to the IMO Sub Committee on Human Element, Training and Watchkeeping (HTW) setting out the concerns of maritime employers with regard to the current STCW regime, which was well received by IMO Member States. The IMO Maritime Safety Committee, in June 2019, then agreed that the HTW Sub Committee should take forward the concept of a full review of the STCW Convention at its next meeting in 2020. Unfortunately, due to COVID-19, this discussion has since been postponed until 2021.

In the early 1990s, IMO responded positively to industry requests to address serious concerns about training standards in many of the newly emerging seafarer supply countries, many of which now have world class training institutions. With the involvement of all industry stakeholders, ICS believes that the time is now right to consider the next comprehensive revision of STCW, similar in scale and ambition to that completed by IMO Member States back in 1995.

Meanwhile, in conjunction with BIMCO, ICS has embarked on its latest 5-year study of the global supply and demand for seafarers, the Seafarer Workforce Report 2020, for completion and publication in the first part of 2021.



ILO Minimum Wage

The vast majority of ships' support level ratings are recruited from developing nations, and the shipping industry is probably unique in that, under the auspices of the International Labour Organization (ILO), it has a recommended global minimum wage for seafarers.

By definition, the ILO wage is only a minimum. Most ratings from developing countries that serve on internationally trading ships receive significantly higher wages than those recommended by ILO. The current ILO Minimum Wage is substantially higher than that paid for comparative work ashore in developing countries. Moreover, the total wage enjoyed by Able Seafarers is significantly higher once overtime hours and other mandatory payments, such as leave entitlements, are taken into account.

The ILO minimum is reviewed periodically by the ILO Joint Maritime Commission (JMC), a bipartite ILO body comprising employers' representatives co-ordinated by ICS and seafarers' union representatives co-ordinated by the International Transport Workers' Federation (ITF).



International Labour Organization, Geneva

“ICS negotiates the ILO Minimum Wage for seafarers on behalf of maritime employers globally, with its social partner ITF.”

On 1 January 2020, the current level of the ILO Minimum Wage for the rating grade of Able Seafarer, formally known as Able Seaman (AB), increased to US\$ 625 per month. It should be emphasised that this only covers basic wages and excludes substantial overtime payments and other mandatory entitlements.

A further increase to US\$ 641 per month will take effect on 1 January 2021, in line with the agreement reached in Geneva, in 2018, which agreed a 4.5% increase to the ILO minimum which applied at that time.

ICS is strongly committed to the principle of the ILO Minimum Wage which is referenced in the ILO Maritime Labour Convention. While it is still only recommendatory, and is not directly relevant to seafarer grades other than Able Seafarers (officers receiving significantly higher wages) the ILO Minimum Wage has a strong moral authority and is often referred to by national courts. It is particularly important for employers in some developing countries and may also be relevant to collective bargaining negotiations, including those which take place in the International Bargaining Forum (IBF), as well as those conducted by several ICS national associations on behalf of their member companies.

The ILO Minimum Wage is next scheduled to be reviewed by the Joint Maritime Commission at a meeting in Geneva in April 2021. This will be held in conjunction with next Special Tripartite Committee (STC) on the ILO Maritime Labour Convention, involving seafarers' unions and governments, at which ICS will also be co-ordinating the positions of global maritime employers.



Developments in Maritime Safety

A significant part of ICS resources is dedicated to representing the global industry on a range of complex technical issues covered by the IMO Maritime Safety Committee (MSC) of IMO's 174 Member States, and its numerous technical Sub Committees and Correspondence Groups.

In the first six months of 2020, ICS was party to over 20 submissions to IMO, mostly on safety related issues, which can be found on the ICS website.

Resumption of IMO Maritime Safety Committee

The IMO Maritime Safety Committee (MSC) meeting scheduled for May 2020 was postponed due to COVID-19, but has now been rescheduled as a virtual meeting in November 2020.

Key agenda items include: the ongoing regulatory scoping exercise for the use of Maritime Autonomous Surface Ships (MASS); development of further measures to enhance the safety of ships relating to the use of fuel oil; new goal based ship construction standards; and measures to improve domestic ferry safety.

Some additional specific safety issues include IMO work on Interim Guidelines for Determining Minimum Propulsion Power to Maintain the Manoeuvrability of Ships in Adverse Conditions (in the context of IMO work on CO₂ emission reduction). ICS submitted a document to the MEPC meeting, which will now be held in November 2020, to help IMO to finalise these minimum power guidelines, either by completing work started by the EU funded SHOPERA study or alternatively by retaining the current interim guidelines as the final and definitive guidelines.





“ICS continues to lead representation of shipowner interests on a wide range of detailed technical issues in preparation for the resumption of IMO Committee meetings in Autumn 2020.”

to the world fleet would be around US\$ 500 million. ICS has therefore co-sponsored a submission to IMO rejecting the proposal from ECC.

Meanwhile, in response to a proposed revision to the Vessel Traffic Services (VTS) Guidance from the International Association of Marine Aids to Navigation and Lighthouse Authorities (IALA), ICS made a submission to the IMO NCSR Sub Committee, which met in February 2020, addressing safety concerns around voluntary VTS outside of territorial waters.

With regard to anchoring equipment, ICS is participating in a Joint Industry Working Group which is addressing mismatches between the design criteria utilised and the reality of the operations being undertaken, which raises a significant safety concern.

With respect to rules governing Life-Saving Appliances (LSA), a number of proposed changes to LSA were considered by the IMO Sub Committee on Safety Systems and Equipment (SSE) which met in March 2020. All of these issues have been discussed by the Industry Lifeboat Group (ILG), which continues to be chaired by ICS.

Navigational safety

With respect to navigational safety issues, ICS participated in the development of a proposal to revise IMO Guidance on Places of Refuge for Ships in Need of Assistance which was submitted to the IMO Sub Committee on Navigation, Communications and Search and Rescue (NCSR) in February 2020.

Other important issues include the introduction of 5G. The Electronic Communications Committee (ECC) – which develops electronic communications policies at the European level – wishes to agree to the sale of bandwidth which includes that currently used by the Global Maritime Distress and Safety System (GMDSS), which could interfere with use of GMDSS in proximity to shore base stations. The ECC is proposing that all vessels replace equipment to mitigate any interference. However, new type-approved equipment does not currently exist and the collective cost

Cargo safety

In response to a concerning spate of containership fires, an ICS Container Panel working group has been established and, in conjunction with other industry associations and governments, ICS has made submissions to IMO in support of a holistic approach to the issue, rather than simply amending current SOLAS regulations on fire-fighting equipment.

ICS continues to be actively engaged at the IMO Sub Committee on the Carriage of Cargoes and Containers. This includes work to amend the definition of Group A cargoes in the International Maritime Solid Bulk Cargoes Code (MSBC Code) to include phenomena other than liquefaction; ammonium nitrate based fertilizer reclassification (a topical issue following the tragic onshore explosion which destroyed much of Beirut in August 2020); amendments to the Code of Safe Practice for Cargo Stowage and Securing with regard to weather dependent lashing; and changes to container inspections with respect to the misdeclaration of cargoes.



Ballast Water Convention

The shipping industry has entered an important stage in the implementation of the IMO Ballast Water Management (BWM) Convention.

This is because existing ships, constructed before 8 September 2017, are now required to install expensive new treatment systems at the time of their first International Oil Pollution Prevention (IOPP) renewal survey conducted on or after 8 September 2019.

By 2024, at an estimated collective cost to the industry of as much as US\$ 80 billion, some 40,000 ships are expected to have to install new treatment systems if they wish to continue trading.

The purpose of the BWM Convention is to address the problem of invasive marine organisms which, if inadvertently transported in ships' ballast water tanks, can have damaging impacts on local ecosystems. The industry has always supported the objectives of the Convention, having implemented voluntary measures since the 1990s. Industry support notwithstanding, the BWM Convention has proved to be one of the most complex and controversial pieces of technical regulation ever developed by IMO.

Apart from the economic cost (typically US\$ 1 to US\$ 5 million per ship), meeting the Convention's requirements presents today's ship operators with a serious challenge because of the predicted lack of shipyard and manufacturing capacity needed to retrofit the new treatment systems on so many vessels, a problem compounded in 2020 by the closure of many yards due to the COVID-19 pandemic. Even in normal circumstances, decisions about retrofitting are all the more difficult if the ships are approaching the end of their typical 25-year life. Many shipowners are therefore now making important financial choices about whether or not to install the new equipment or, because of the potentially prohibitive cost, send older ships for early recycling.

The principal reason for IMO's decision to delay implementation of the BWM Convention for existing ships, until after September 2019, was that the type-approval standards adopted for the complex new treatment systems were unable to ensure that the equipment would actually meet the Convention's treatment standards and be acceptable to all Port State Control authorities worldwide. Following a major industry campaign, led by ICS over several years, IMO incorporated more robust type-approval standards into a new mandatory Code for Approval of Ballast Water Management Systems, which was finally adopted in 2018.

However, only systems installed after October 2020 are legally required to have been approved in accordance with the new IMO Code. Shipping companies have therefore been strongly advised by ICS only to consider treatment systems for installation that have been certified in accordance with the revised IMO type-approval standards if they are being fitted before this date.

Meanwhile, ICS made a submission to the IMO Sub Committee on Pollution Prevention and Response, held in February 2020, proposing amendments to existing IMO Guidance on commissioning testing of Ballast Water Management Systems. This is to ensure that the regime for ballast water sampling and indicative analysis, as part of biological efficacy testing of newly installed systems on ships, is fit for purpose. The ICS proposals received considerable support from governments, and amendments to the Guidance should be considered for approval by the IMO Marine Environment Protection Committee (MEPC) in November 2020.

“ICS has continued to make proposals to IMO to ensure that newly installed ballast water treatment systems will be fit for purpose.”



Black Carbon

Black carbon refers to solid particles emitted during incomplete combustion of fuel, and can contribute to climate change in two ways.

In the atmosphere it absorbs sunlight and reemits the energy as heat, and when deposited on ice or snow in the Arctic it is believed to reduce surface reflectivity causing it to absorb more sunlight, potentially accelerating melting of the polar ice cap.

Addressing emissions of black carbon by ships is therefore a priority at IMO, and ICS acknowledges the importance of the issue. However, the topic is a complex one, not least because of the difficulty in determining the definition of black carbon. Moreover, while some environmental policy makers often place emphasis on the possible impact of the small amount of shipping that trades in the Arctic, black carbon can travel very large distances. The possible contribution of shipping to the problem therefore has to be seen in the context of the far greater production of black carbon by other industries, especially coal powered power stations generating electricity.

As a result of the significant effort invested by IMO in considering the impact on the Arctic of black carbon emissions from shipping, knowledge and understanding of black carbon and the extent of shipping's possible contribution to the problem is increasing.



That said, it should be recognised that emissions of black carbon are subject to a range of variables and it remains a complicated subject. For example, a switch to distillate fuel may reduce emissions of black carbon for some engines, particularly those provided with electronic fuel systems and particulate filters. However, in engines with mechanical fuel systems a switch to distillates may be ineffective or even result in increased black carbon emissions, particularly at lower loads. Any assessment of the effectiveness and appropriateness of possible black carbon control techniques must therefore be qualified by stating limiting conditions and the influence of other factors. These include engine design, fuel type and engine load.

“ICS is heavily engaged in IMO discussions concerning atmospheric emissions from ships such as black carbon.”

The matter is complicated further when it is remembered that although black carbon is a type of particulate matter (PM), only a small percentage of PM is actually black carbon. It is important not to conflate black carbon with PM as the two terms are not synonymous.

Significant work is still required to agree a robust measurement methodology for black carbon emissions, which will be a prerequisite for the development of any future control measures by IMO when the Marine Environment Protection Committee resumes discussions in 2020.



UN Law of the Sea Implementing Agreement

IMO is a UN Specialized Agency and its authority as shipping's global regulator is ultimately derived from the United Nations Convention on the Law of the Sea (UNCLOS), which provides the fundamental legal framework for the use and protection of the world's oceans.



Over the past 60 years, a highly successful regulatory framework for maritime safety and pollution prevention has been developed under IMO's auspices. There are around 80,000 commercial ships engaged in international trade, which must all adhere to IMO regulations throughout each and every voyage, including the MARPOL Convention for pollution prevention. The system ensures that a shipowner's activities are never beyond the national jurisdiction of the ship's flag state, even when vessels are operating on the High Seas beyond the territorial waters or Exclusive Economic Zones of coastal states.

As well as being overseen by a rigorous system of flag state enforcement, compliance with IMO regulations is also subject to oversight by a sophisticated regime of Port State Control inspection, co-ordinated via regional agreements within the global IMO framework. But regulatory arrangements for other ocean industries are not so well developed as those enjoyed by commercial shipping.

After several years of discussions in response to growing concern about the degradation of the world's oceans, a high level Diplomatic Conference was convened by the United Nations, in New York, in 2018. The objective is to adopt an implementing agreement that will allow, within the existing UNCLOS framework, the development of future regulations for the protection and sustainable use of Biodiversity in sea areas Beyond National Jurisdiction (BBNJ), in other words regulation applicable to the High Seas.



ICS has represented the world's shipowners throughout these important negotiations at the United Nations headquarters in New York. This progress towards further protection of the world's oceans is welcome, and ICS fully supports the objectives of the new instrument. But ICS has sought to ensure that there will not be any unintended consequences with respect, for example, to the principle of freedom of navigation, or for the authority of IMO and the shipping industry's well established global regulatory system.

The scope of the proposed UN new instrument is wide, with governments negotiating on the basis of a package of concerns which they wish to see addressed. These include the use of marine genetic resources, environmental impact assessments, and area based management tools – such as Marine Protected Areas (MPAs), as well as capacity building and the transfer of marine technology. Governments are also seeking to promote greater coherence in ocean governance, in which many different regulatory bodies currently have a stake, and to cover the full range of present and potential future uses of the ocean that may affect its biodiversity.

“ICS is representing shipowners at the United Nations negotiations on a new UNCLOS agreement that could have profound consequences for the future regulation of shipping”

With such an ambitious reach, when the latest draft text of the agreement was published, in November 2019, it was perhaps no surprise that diverse and sometimes conflicting options remained open for discussion. Moreover, some options that could result in conflict or duplication with the mandate of IMO, particularly with respect to the future designation of MPAs and environmental impact assessments, are still on the table.

ICS has therefore continued to seek absolute clarity that the new UN agreement is not intended to regulate activities that are already within the mandate of other specialised UN agencies or relevant legal instruments. Whatever is decided, it is most important that the detail and appropriateness of any measures that might be developed for application to shipping, for example within MPAs on the High Seas, should be determined by IMO, due to its experience and expertise in implementing such measures.

Prior to the final negotiating session authorised by the UN General Assembly, which was scheduled to take place in March 2020, much more work clearly needed to be done to achieve consensus among governments. However, this final session was postponed due COVID-19. Nevertheless, in the months before March there appeared to be growing political momentum among key players, such as the European Union, to reach an agreement that could accommodate different views. ICS therefore anticipates that high priority will be given to holding the final session of the UN Diplomatic Conference as soon as practicable.



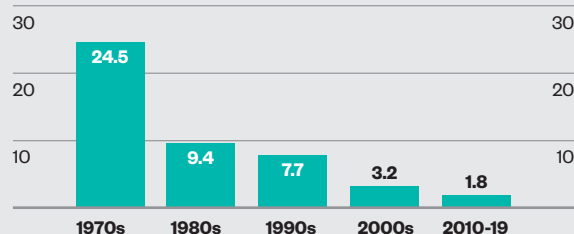
Defending the Global Pollution Liability Regime

Ships often operate in difficult sea conditions which present a high degree of physical risk, and despite tremendous improvements to the industry's safety performance, it has not yet been possible to eradicate maritime casualties completely.

Over the past decade, there have been, on average, two serious oil spills (over 700 tonnes) each year worldwide. This is still two too many, but there were some 30 such spills per annum in the 1970s when the volume of maritime trade was a fraction of that carried in 2020. Major incidents today are much less frequent due to improved ship designs and strict implementation of safety management systems on board, supported by a comprehensive framework of IMO regulation. Nevertheless, oil spills from ships can still have devastating consequences for those affected. Over the past 50 years, a very successful global system has therefore been developed by IMO Member States to provide compensation for oil pollution damage.

Reduction in Major Oil Spills

Average number of major oil spills per year (over 700 tonnes)



Source: ITOPF

The IMO Civil Liability (CLC) and Fund Conventions (as well as other IMO liability Conventions) have been remarkably effective in providing those affected by oil spills with prompt compensation without protracted legal wrangling.

Importantly, the shipowner's contribution is paid regardless of fault, and on the very rare occasions that claims have exceeded the shipowner's liability under CLC, additional compensation is provided by the International Oil Pollution Compensation Fund (IOPCF) financed by oil importers. The quid pro quo for shipowners' acceptance of strict liability is that this is limited to a level that allows the shipping industry to obtain access to the necessary cover through its third party liability insurers, principally members of the International Group of P&I Clubs.



In countries that have signed up to the 2003 IMO Supplementary Fund Protocol, over US \$1 billion is available to cover the cost of clean-up and to compensate those affected by any single cargo spill.

In recent years, however, the stability of this impressive global system has been severely threatened by decisions of national courts and domestic legislation that are inconsistent with the fundamental principles of the IMO CLC and Fund Conventions.

This has included cases where the shipowner has been denied the right to limit liability for politically motivated reasons. Cumulatively, such decisions cause increasing uncertainty and disturb the delicate balance of interests on which the international compensation regime is based. Therefore, in co-operation with the International Group of P&I Clubs (IG), ICS has been vocal in stressing the importance of ensuring the consistent interpretation of the IMO liability and compensation Conventions.

In 2019, a proposal submitted by Greece and the Marshall Islands, co-sponsored by ICS and the IG, to develop a Unified Interpretation of the test for breaking the shipowner's right to limit liability under the IMO Conventions, received overwhelming support from governments at the IMO Legal Committee.

“ICS has been striving to maintain the vital principle of limitation of shipowners' liability in the event of serious pollution incidents.”

Work began immediately in a Correspondence Group of interested IMO Member States, co-ordinated by ICS and the IG. Extensive research conducted by the P&I Clubs clearly established that the intentions and objectives of the drafters of the Conventions, at the time of adoption, was that the test for limitation of liability should be virtually unbreakable, and that this concept was adopted by IMO Member States as part of a package that included higher limits of liability than were previously available, and which were linked to the insurability of the risk at a reasonable cost.

The results of this intersessional work were detailed in a submission to the IMO Legal Committee meeting scheduled for March 2020, co-sponsored by Canada, Greece, Italy, Malta, Poland, ICS and the IG. The new submission recommended that a draft Unified Interpretation should be developed for presentation to the subsequent Legal Committee meeting, and that it should be based on the principles established when the IMO Conventions were adopted.

While the March 2020 Legal Committee was postponed due to COVID-19, this matter will be high on the agenda once Legal Committee meetings resume. An interpretive tool developed by IMO should be extremely helpful to national courts and those tasked with drafting national legislation, to provide a better understanding of the intended application of the IMO Conventions. It is hoped that this will lead to greater uniformity and certainty and, most importantly, will ensure the long term future sustainability of the international compensation regime and the overall benefits that this will provide to any future claimants.



Fair Treatment of Seafarers in Suspected Drug Trafficking Incidents

In 2019, a new edition of the ICS Guidelines for Owners and Masters on Prevention of Drug Trafficking and Drug Abuse on board ships was published. It has already sold over 12,000 copies, demonstrating how seriously this matter is taken by shipping companies.

An enormous amount of work, over many years, has been undertaken by the shipping industry, in co-operation with intergovernmental organisations, to prevent and combat this criminal activity. However, drug trafficking is a huge criminal enterprise and, unfortunately, commercial shipping can unwittingly play a role in the transportation of illicit drugs to the places where they are consumed.

In May 2020, ICS, together with the International Group of P&I Clubs and other international industry organisations, issued an alert concerning the risk of crew arrest and ship detention in Mexico, in the event of the discovery of illegal narcotics on board. This drew attention to a series of recent cases where ships have been detained upon arrival in Mexican ports. This included the case of the 'UBC Savannah', where the ship's Master has been held in custody since July 2019.

According to the Mexican Federal Code of Criminal Procedure, anyone accused of drugs related offenses must remain in

prison for the duration of the pre-trial period, regardless of the possibility of innocence.

The damage caused to Mexico by drug trafficking, and the need to combat and deter this criminal activity using the full force of the law, is fully understood. However, there is a serious concern about the apparent indiscriminate application of the Code and the disproportionate approach often taken by public prosecutors in cases of ship and seafarer detentions. In some cases, seafarers have been arrested when illegal narcotics have been discovered on board and reported in advance, at the earliest opportunity, to the local authorities at the port of arrival in Mexico by the crew themselves.

This concern has been communicated to the Mexican Government by ICS and the other industry organisations which have engaged with relevant authorities in seeking the release of both the Master of the 'UBC Savannah' and other ships that are currently detained. In August 2020, a trial date for the Master was expected to be set imminently. More positively, the Mexican Government has established a task force with a view to expediting investigations following the discovery of illegal narcotics on board ships. ICS and other international industry organisations have offered their assistance.

In light of the cases in Mexico, and similar incidents elsewhere, ICS has also supported an initiative at IMO, led by Ukraine, for an IMO/ILO joint working group to be established. This would consider the development of guidelines to ensure the fair treatment of seafarers in the event they are detained on suspicion of involvement in crimes. This will be considered when meetings of the IMO Legal Committee resume.

“ICS is pushing to ensure that seafarers are treated fairly whenever ships may be unwittingly utilised for drug smuggling.”



Insurance Matters

The ICS Insurance Committee's raison d'être is to liaise with the London commercial hull insurance and war risks markets.

Liaison with other major insurance markets, in Europe and Asia, is also maintained, not least through regular contact with the International Union of Marine Insurance (IUMI), which represents the global marine insurance industry.

ICS engagement with marine insurers is of great importance. This ongoing dialogue, which has been maintained over many years, irrespective of the state of the market, provides a useful forum for consultation and discussion, and is valued by insurers and by ICS.

While discussion of issues of scope of cover and how marine insurers assess risk is of particular importance to both parties, in recent years the commercial insurance sector has shown increased interest in engaging at IMO and in other, more political, intergovernmental debates. Topics recently on the agenda for discussion with ICS have therefore included matters as wide ranging as environmental, social and governance risks in marine underwriting, assessment of risk for the London Market Joint War Committee's Excluded Areas, and the insurance implications of the IMO 2020 sulphur cap.

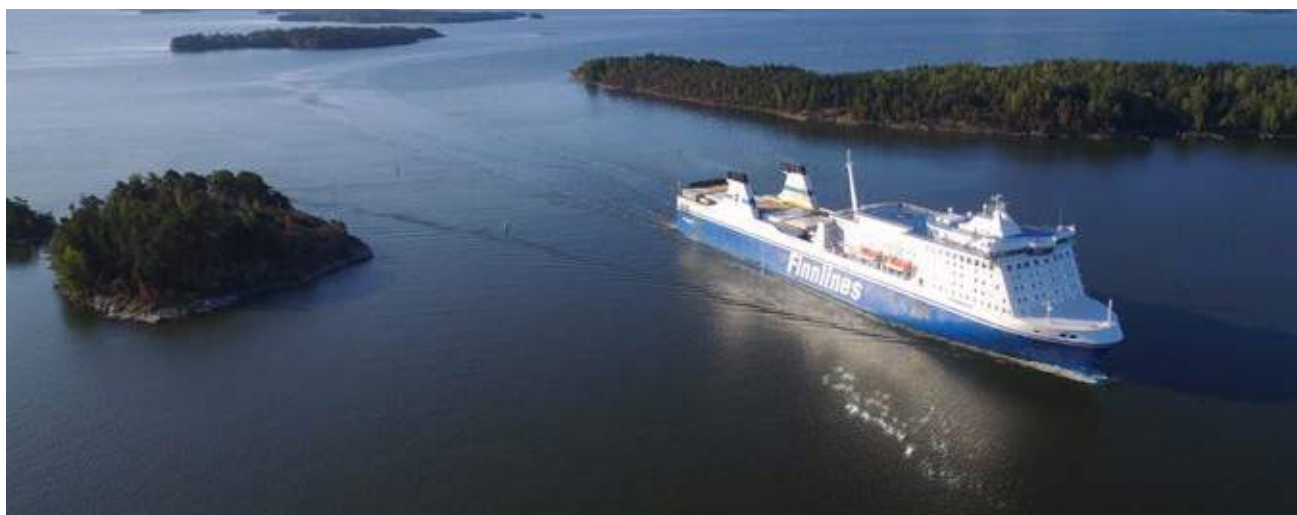
The ICS Insurance Committee also informs ICS positions with regard to salvage matters and recently confirmed its

“ICS continues to liaise with marine insurers in the collective interest of shipowners.”

support for a new iteration of the Lloyd's Open Form (LOF), and accompanying arbitration clauses, which were launched in January 2020.

ICS remains a staunch supporter of LOF which, with its standard agreed terms, avoids the need to negotiate in emergency situations. ICS believes it is also in shipowners' interests for salvors to be encouraged to accept LOF, and for the salvage industry to remain viable and competitive. Accordingly, it is considered important that LOF remains the default contract for use in genuine emergency situations when time is of the essence so that the provision of salvage services is not delayed.

In 2020, ICS and OCIMF will be publishing a new edition of their guidance to Masters on Peril and Salvage at Sea, which will highlight the use of LOF.



OECD Digital Taxation Initiative

In March 2019, the Organization for Economic Co-operation and Development (OECD) launched a major public consultation on the development a multilateral digital taxation framework for global application (i.e. not just by OECD nations).

This ambitious project, involving 137 countries and jurisdictions, could change the entire international tax system and has potentially serious implications for international shipping.

Initially, the main focus of the initiative was to reach a global agreement for taxing highly digitalised multinational companies, such as Amazon, Google and Apple. However, divergent views among the countries involved led to the scope of the initiative being extended significantly, potentially to cover all internationally operating businesses. This includes the shipping industry, where it has previously always been accepted practice that shipping companies engaged in international trade should only be taxed in their home state, as enshrined in the 'shipping article' (Article 8) of the existing OECD and United Nations Model Tax Conventions.

Two main pillars have been identified as a basis for the new OECD agreement:

- Pillar 1 seeks to introduce a framework to determine where tax should be paid and on what basis. This includes what portion of profits should be taxed in those jurisdictions where customers are located.
- Pillar 2 seeks to develop a system to ensure that companies or industries to which the tax applies, should pay a minimum level of tax.





'Digital' taxation is a somewhat misleading term as these radical plans are not restricted to digital services. Pillar 1, in particular, could potentially apply to all multinational companies with "consumer-facing businesses". However, industry wide exemptions from both pillars remain a possibility, on a case by case basis, subject to agreement among the nations involved.

ICS, alongside a number of other industry associations, has therefore been leading discussions with the OECD on behalf of the global shipping industry, making the case for an exemption or 'carve out' under both pillars. This included a productive meeting with senior officials within the OECD Secretariat, in Paris, in October 2019. Following this meeting, ICS co-ordinated the provision of detailed information about how international shipping operates, to address various technical questions made by the OECD in response to the industry's request for a carve out.

Positively, in January 2020, the OECD released a statement indicating that shipping (and aviation) might be exempted under Pillar 1, based on the longstanding practice that exclusive taxing rights over international shipping and airline profits are assigned to the country of residence. More complex technical discussions between the industry and the OECD have also been ongoing regarding Pillar Two, and no final decisions have been made with respect to exemptions under either pillar.

“ICS has been working to achieve a 'carve out' for shipping from the OECD's proposed global digital tax regime, which threatens the established principle that shipping companies should only be taxed in their home country.”

A final agreement had been expected in July 2020, but the COVID-19 outbreak and divergent views among the nations involved – including strong resistance by the United States due to the disproportionate impact of Pillar 1 on US companies – means that key political decisions about the OECD blueprint are not expected until October 2020 at the earliest. In the meantime, ICS national shipowner associations have been encouraged to liaise with national tax and finance authorities participating in the OECD negotiations.



Competition Law Developments

Co-operative shipping agreements between liner shipping companies have existed for over a century. The majority of major trading nations continue to acknowledge the importance of containership operators being permitted to share cargo through Vessel Sharing Agreements (VSA), increasing their service offerings and maximising efficiency in terms of frequency, reliability, quality and price.

Despite low freight rates over the past two decades, these service improvements have been passed on to customers of the maritime transport network, which has expanded exponentially in recent years to accommodate growing demand for international trade.

General competition/anti-trust laws, which are becoming increasingly mature in Asian jurisdictions, have the potential to restrict these co-operative arrangements, but repeated and comprehensive assessments by many national competition authorities have continued to recognise that the substantial economic benefits of permitting exemptions to the shipping industry far outweigh any perceived disadvantages. In addition to cost efficiencies, these exemptions are also an important component of the liner shipping industry's efforts to reduce CO₂ emissions through the shared use of transport assets and infrastructure.

It is therefore vital that regulatory frameworks governing competition for shipping are clearly defined, and ICS has a longstanding commitment to promote the maintenance of the status quo for anti-trust exemptions throughout the world with respect to co-operative agreements, including VSAs.



“ICS continues to advocate the benefits of maintaining Vessel Sharing Agreements with competition authorities throughout the world.”

Over the past two years, the main focus of ICS and industry partners, including the European Community Shipowners' Associations (ECSA) and the World Shipping Council (WSC), has been the provision of input into the European Commission's review of the EU Block Exemption Regulation (BER) for liner shipping consortia. The BER has worked very well for the past 25 years, setting out clear rules that can be practically applied without extensive legal analysis, so that carriers can focus on identifying the most efficient transportation solutions without the cost and delay associated with legal self-assessments of routine operational arrangements. The industry has therefore welcomed the European Commission's decision, in March 2020, to extend the EU BER until April 2024.

Meanwhile, in Asia in 2019, the Malaysia Competition Commission (MyCC) issued its third Block Exemption Order (BEO) for liner shipping agreements. MyCC had initially approved this in 2014. The new order, in effect since July 2019 is now set to expire in July 2022. Meanwhile, the longstanding block exemption for liner shipping in Singapore has served as a model for neighbouring countries. It is therefore hoped that the current agreement, set to expire in December 2020, will be extended, and ICS expects to make a submission on this issue.



A large number of comprehensive reviews by national competition authorities in recent years have served to reaffirm the value of VSAs. This includes reviews in Hong Kong (China), India (due to expire in 2021), Japan, Malaysia, South Korea, New Zealand, Canada, the United States and the EU. In August 2019, the New Zealand Commerce Commission extended the validity of VSAs indefinitely.

Over five years ago, the Australian Government launched a 'root and branch' review of its competition laws. This concluded in 2015, with a Review Panel recommendation to repeal liner shipping exemptions and replace them with an exemption process for consortia alone. At the end of 2019, the Australian Competition and Consumer Commission initiated a related public consultation and the industry hopes that the status quo can be retained. Carrier agreements are currently exempt in Australia, under Part X of the Competition and Consumer Act. Due to the COVID-19 outbreak, this consultation has been temporarily paused, but is expected to resume during 2020.



Canal Tolls

The Panama and Suez Canals are of great commercial importance to the shipping industry. They are critical to reducing voyage times and fuel costs, as well as the sector's CO₂ emissions.

These advantages come at a price, however, in the form of canal tolls, which for large shipping companies can amount to tens of millions of dollars per year. ICS therefore places much importance on maintaining dialogue with both the Panama Canal Authority (ACP) and the Suez Canal Authority (SCA), both of which are legitimately attached to profit maximisation to support their respective nations' economies.

In February 2020, at very short notice, the ACP implemented an additional 'freshwater charge' of US\$ 10,000 for ships over 125 feet transiting the Canal. The new charge is intended to address historic low water levels at the Panama Canal's main water source, Gatun Lake, although no clear plan for implementation of the funds has yet been presented by ACP. This new cost was supplemented by a variable surcharge, potentially increasing transit costs for some ships by as much as 15%. Only two months later, on 1 April 2020, a substantial increase in toll rates came into effect, resulting in a further additional cost increase for some ships of up to 17%. All of these charges combined meant that some ships faced transit cost hikes of over 30% by April 2020. As ICS stressed in representations to ACP, this placed increased strain on the industry, as well as the wider global economy, at an already difficult time, and without sufficient warning for the industry to prepare.

During the first part of 2020, when there was a dramatic fall in bunker prices, an increasing number of ships opted to bypass these international canals, despite longer voyages, primarily for reasons of cost efficiency. Several ships opted for routes around the Cape of Good Hope, circumventing the Suez Canal altogether.

In response to these developments, and the COVID-19 outbreak, both the ACP and SCA announced temporary relief measures to maintain revenues, which, due to the

“ICS continues to liaise on behalf of the industry with the Panama and Suez Canal Authorities.”

collapse of tourism during the pandemic, is now Egypt's largest source of foreign income. The SCA introduced some reductions in transit fees for containerships going through the Suez Canal between 1 May to 30 June 2020, by providing rebates ranging from 17% to 75% (depending on the direction of travel). While the ACP did not provide any cost reduction measures, in April 2020, it altered the Panama Canal reservation system to allow ships to pre-pay their bookings before transit.



Promoting Best Practice – ICS Publications

In addition to representing the industry, the production of publications on regulatory developments and best practices is a vital part of ICS activity, which ICS has sought to expand during the past two years.

Many ICS publications are used by ships throughout the world fleet, and are often listed as carriage requirements under national legislation.

In the Autumn of 2019, ICS published a new edition of its Guidelines on the Application of the IMO International Safety Management (ISM) Code, following on, earlier in 2019, from the publication of a new edition of the ICS Guidelines on the Application of the ILO Maritime Labour Convention.

In June 2020, with the Oil Companies International Marine Forum (OCIMF), ICS published a new edition of the International Tanker Safety Guide for Oil Tankers and Terminals (ISGOTT), a major project that has taken two years to undertake. ICS also intends to complete the revision of the ICS Tanker Safety Guide (Chemicals) for publication, if possible, by the end of 2020/early 2021.

In the Summer of 2020, ICS also published a new ICS Engine Room Procedures Guide, as a companion to the long established ICS Bridge Procedure Guide.

Among other projects due for completion in 2020 are a new edition of existing guidance on Peril and Salvage at Sea (in conjunction with OCIMF) and new a ICS Training Record Book for ships' cooks.

The ISF Watchkeeper seafarers' work hour record software, which is produced jointly with IT Energy, continues to prove popular. Major upgrades are planned during 2020/2021 to ensure that the product remains the best available to help ship operators demonstrate compliance with complex IMO and ILO work hour regulations and record keeping requirements.

ICS (and IT Energy) also intend to launch ISF Watchkeeper for Yachts during 2020. A further special edition for fishing vessels is also planned.

In addition to publications for sale, which are available from maritime booksellers worldwide – as well as via a new ordering facility on the ICS website – ICS produces a large number of resources for ship operators which can be downloaded free of charge from the ICS website. This includes a range of free publications providing guidance to the industry on issues related to COVID-19.



“The production of publications on regulatory developments and best practices is a vital part of ICS activity.”



Internal Affairs

The membership of ICS currently includes national shipowners' associations from 37 countries and territories, with the following new members joining in 2019/2020: the Malaysian Shipowners' Association; the UAE Shipping Association; and the Malta International Shipowners' Association.

The Secretariat and staff of ICS, under the leadership of the ICS Secretary General, Guy Platten, continues to be provided by Maritime International Secretariat Services Limited (MARISEC), which is wholly owned by ICS.

In November 2019, ICS opened its new ICS (China) Liaison Office, based in the offices of the Hong Kong Shipowners Association, and appointed Mr Edward Liu as ICS's Principal Representative.

In September 2019, Mr Gregor Stevens joined ICS as a Marine Adviser, working primarily on navigational safety issues. In June 2020, Ms Georgia Spencer-Rowland also joined ICS, in London, as the new Policy Officer focusing on trade issues.

In September 2020, after seven years of service, Mr Stewart Inglis, who has predominantly worked on labour and training issues, will be leaving ICS, with the Secretariat's best wishes, to work for a major shipping company on regulatory affairs.

The 2019 Annual General Meeting was generously hosted in Tórshavn, from 11-13 June, by Shipowners of the Faroe Islands.

Esben Poulsson (Singapore) has continued to serve as ICS Chairman and has been unanimously recommended by the Board for re-election at the next ICS AGM on 15 September 2020. Due to COVID-19, the 2020 AGM will be a virtual meeting, with the meeting that had originally been scheduled to be hosted by the Filipino Shipowners' Association, in Manila, now to be held in June 2021.



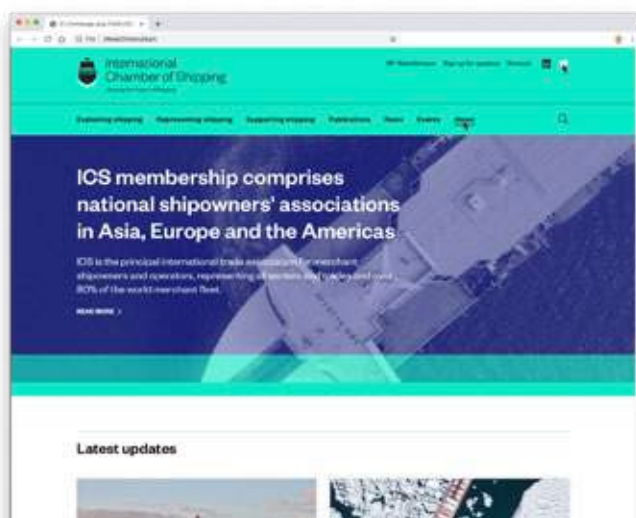
2019 Annual General Meeting in the Faroe Islands

In addition to receiving support from the ICS Board, the Chairman has been assisted during 2019/2020 by the four ICS Vice Chairmen: John Adams (Bahamas), Emanuele Grimaldi (Italy), Mark Martecchini (Liberia) and Lasse Kristoffersen (Norway).

2020 has been a challenging year due to COVID-19, and the instruction from the UK Government, in March 2020, for most office staff to work from home. However, with the introduction of a new IT system in 2019, the transition to remote working, including video conferencing with members and governments, has been relatively seamless. The ICS office was partially re-opened in July 2020.

ICS will be celebrating its centenary year in 2021. This will coincide next year with an exciting move from ICS's current home, in the Baltic Exchange, to new headquarters in London.

In the Autumn of 2020, ICS will be launching a brand new website, which will continue to found at www.ics-shipping.org



ICS Board of Directors 2020



CHAIRMAN

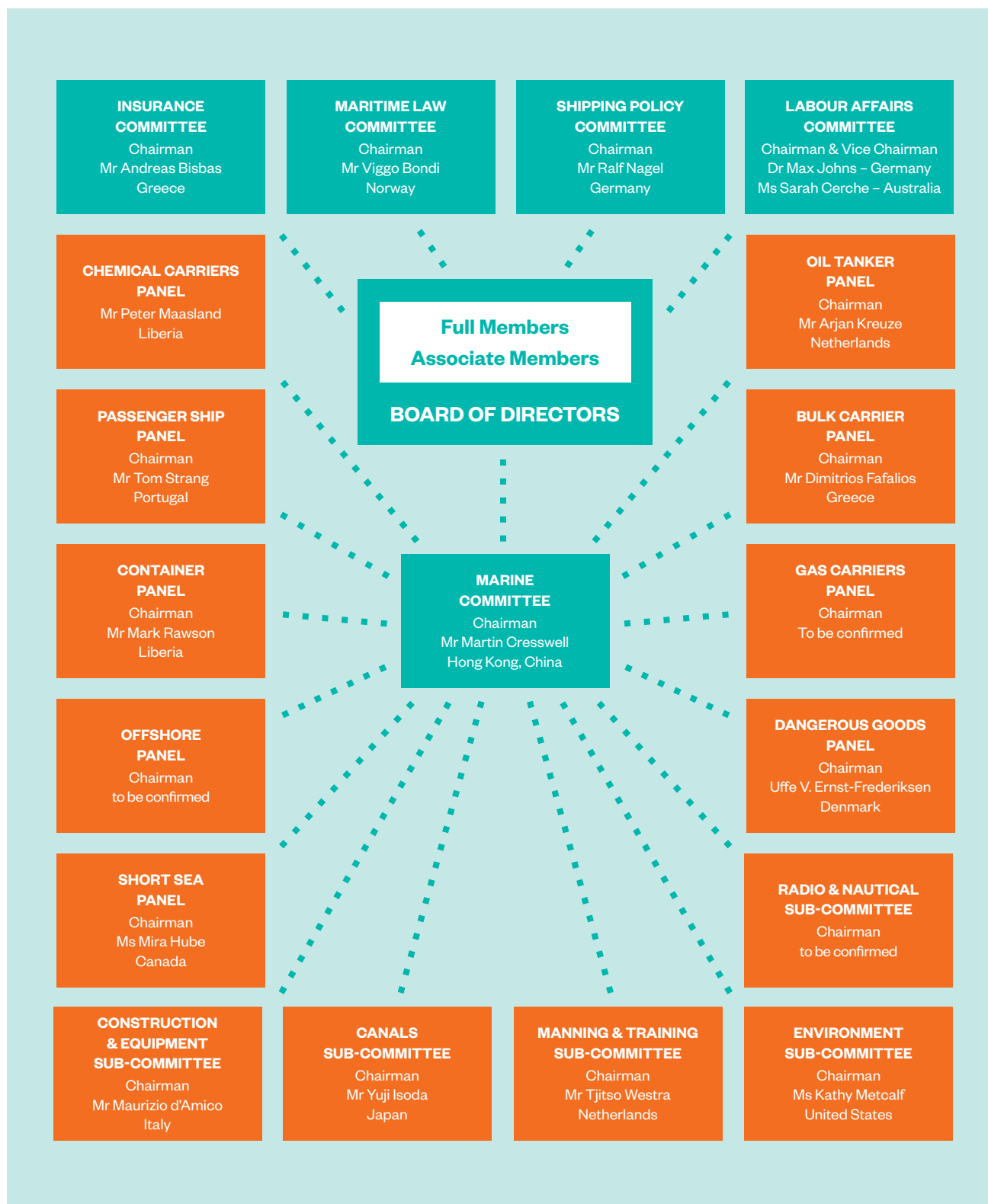
Mr Esben Poulsson

AUSTRALIA	Mr David Parmeter	MEXICO	Mr Luis Ocejo
BAHAMAS	Mr John Adams*	NETHERLANDS	Mrs Karin Orsel
BELGIUM	Mr Ludwig Criel	NORWAY	Mr Lasse Kristoffersen*
CANADA	Mr Gregg Ruhl	PHILIPPINES	Mr Gerardo Borromeo
CYPRUS	Mr Themis Papadopoulos	PORTUGAL	Mr Duarte Rodrigues
DENMARK	Ms Henriette H Thygesen	RUSSIA	Mr Alexey Ostapenko
FAROE ISLANDS	Mr Jens Meinhard Rasmussen	SINGAPORE	Ms Caroline Yang
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FRANCE	Mr Jean-Emmanuel Sauvée	SWEDEN	Mr Ragnar Johansson
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GREECE	Mr John C Lyras	TURKEY	Mr Metin Düzgıt
HONG KONG, CHINA	Mr Robert Ho	UNITED KINGDOM	Mr Kenneth MacLeod
IRELAND	Mr Andrew Sheen	UNITED STATES	Mr Cole Cosgrove
ITALY	Mr Emanuele Grimaldi*		
JAPAN	Mr Svein Steimler		
LIBERIA	Mr Mark Martecchini*		

* Vice Chairmen



ICS Committee Structure



ICS Membership



FULL MEMBERS

AUSTRALIA	Maritime Industry Australia Limited
BAHAMAS	Bahamas Shipowners' Association
BELGIUM	Royal Belgian Shipowners' Association
BRAZIL	Union of Brazilian Shipowners *
CANADA	Canadian Chamber of Marine Commerce
CYPRUS	Cyprus Shipping Chamber
DENMARK	Danish Shipping
FAROE ISLANDS	Shipowners of the Faroe Islands
FINLAND	Finnish Shipowners' Association
FRANCE	French Shipowners' Association
GERMANY	German Shipowners' Association
GREECE	Union of Greek Shipowners
HONG KONG, CHINA	Hong Kong Shipowners Association
IRELAND	Irish Chamber of Shipping
ITALY	Italian Shipowners' Association
JAPAN	Japanese Shipowners' Association
KOREA	Korea Shipowners' Association
KUWAIT	Kuwait Oil Tanker Co.
LIBERIA	Liberian Shipowners' Council
MALAYSIA	Malaysian Shipowners' Association
MEXICO	Grupo TMM S.A.
NETHERLANDS	Royal Association of Netherlands Shipowners
NORWAY	Norwegian Shipowners' Association
PHILIPPINES	Filipino Shipowners' Association
PORTUGAL	Portuguese Shipowners' Association
RUSSIA	Russian Chamber of Shipping
SINGAPORE	Singapore Shipping Association
SPAIN	Spanish Shipowners' Association
SWEDEN	Swedish Shipowners' Association § Swedish Shipowners' Employer Association *
SWITZERLAND	Swiss Shipowners' Association
TURKEY	Turkish Chamber of Shipping
UNITED ARAB EMIRATES	UAE Shipping Association
UNITED KINGDOM	UK Chamber of Shipping
UNITED STATES	Chamber of Shipping of America

ASSOCIATE MEMBERS

Abu Dhabi National Tanker Co. §
 Chamber of Shipping of British Columbia §
 Cruise Lines International Association
 European Dredging Association
 Interferry §
 International Maritime Employers' Council
 Malta International Shipowners' Association
 Monaco Chamber of Shipping
 Nigerian Chamber of Shipping
 Sail Training International
 Shipping Australia Limited §
 World Shipping Council §

REGIONAL PARTNERS

Asian Shipowners' Association
 European Community Shipowners' Associations

§ Trade Association Only

* Employers' Organisation Only



Heroes at Sea



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