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10th EDITION


June 04, 2013

Shipping Faces Half Trillion Dollar Environment Costs

ICS Chairman, Masamichi Morooka, Told Nor-Shipping

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Speaking to delegates at the opening of the Nor-Shipping event in Oslo today, the Chairman of the International Chamber of Shipping (ICS), Masamichi Morooka, said that impending new legislation to protect the environment potentially presented an additional industry-wide cost of more than half a trillion US dollars between 2015 and 2025. This is around 50 billion dollars of additional capital and operating cost in every single year for a 10 year period and beyond.

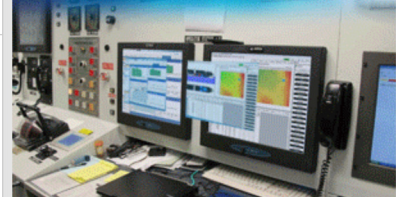
“As many companies struggle to survive during the difficult years ahead, we must persuade governments to avoid placing yet more straws that risk breaking the shipowner’s back – and the straws to which I refer are the impending costs of environmental legislation,” said Mr Morooka.

Much of these costs will result from the switch to low sulphur distillate fuel, assuming that a 0.5% global sulphur cap comes into effect in 2020, in addition to the 0.1% sulphur requirements that are expected to be enforced in Emission Control Areas in North West Europe and North America from 2015. However, the costs of installing new ballast water treatment equipment will also be significant, as will the potential contribution that shipping might have to make to the UNFCCC Green Climate Fund.

“The imminent switch to vastly more expensive, low sulphur distillate fuel is a very serious concern which is compounded by worries about the adequacy of supply and the dangers of modal shift,” said Mr Morooka.

Assumptions: Ballast water treatment equipment – average \$2M per ship with IMO agreeing five year implementation of BWM Convention, assuming entry into force in 2015; differential between distillate and residual fuel of only \$300 per tonne with global consumption remaining at 300M tonnes per year (in reality both figures are expected to be higher by 2025) and IMO confirming that global sulphur cap will apply from 2020; UNFCCC replacement to Kyoto Protocol coming into effect in 2020, with shipping contribution to GCF in line with IMF/World Bank proposals. Potential costs of proposed Tier III NOX Emission Control Areas, plus other anticipated requirements, have been excluded.

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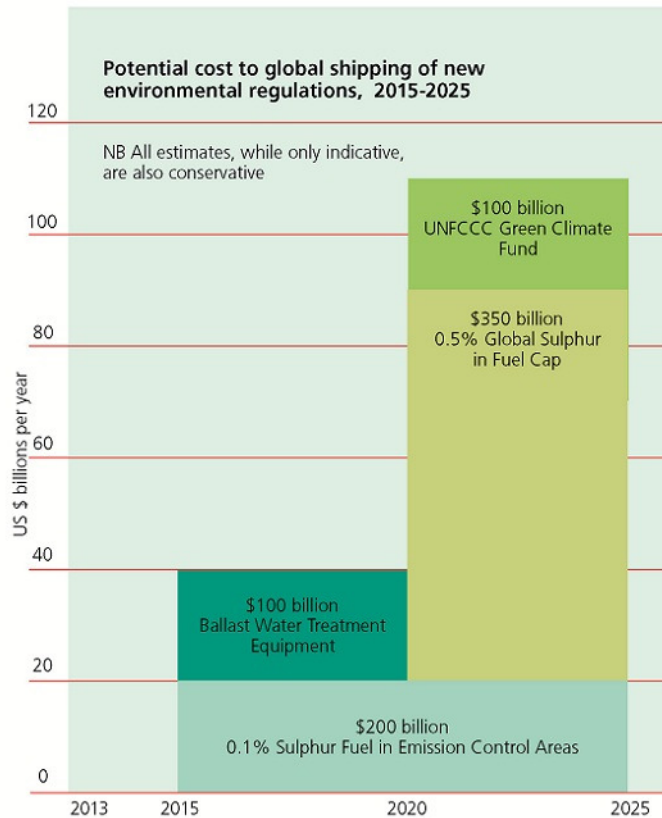
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He explained that the key message that ICS was communicating to regulators was the need for greater focus to be given to the economic sustainability of shipping, backed up by evidence of years of continuous improvement of shipping's environmental performance. "Many of the expensive environmental regulations that are about to enter into force were conceived in a different world, at a time when shipping markets were booming and finance for retrofitting had not dried up," he told Nor-Shipping delegates.

ICS stresses that the protection of the environment must always remain a priority for the industry, but the prevailing economic situation requires that a degree of pragmatism is applied to enforcement as a plethora of new environmental regulations is implemented. "Unless this is understood, there is a danger of creating real barriers to investment in our industry as we hopefully move closer to recovery," said Mr Morooka.

More generally, asked to look ahead for the next two to five years, Mr Morooka said he remained positive and optimistic: "We are shipowners after all!" But he predicted it was probably unlikely that, for most sectors and trades, much will have fundamentally changed before 2015 or 2016.

"However, the decisions taken now, both by shipowners and regulators, will determine whether we are at the end of the beginning of our difficulties, or whether, as I hope, we are at the beginning of the end."

Unless something very unexpected happens, the ICS Chairman felt it was unlikely that a lasting recovery in freight rates would begin in earnest in the immediate future. However, he believed that market forces would find a solution, which would almost certainly involve large numbers of ships going to the recycling yards much earlier than their owners had originally planned.

In order to avoid prolonging the downturn, he said it was important that shipowners take sensible and considered decisions about ordering new tonnage. Noting that shipyards have similar over capacity problems and are offering cut price ships, he remarked: "What might be in the rational interest of an individual shipowner might not always be good for the collective health of the industry as a whole."

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