

Is the sea freight industry prepared for carbon pricing?

Olaf Merk, Administrator Ports and Shipping at The International Transport Forum (ITF) a policy development and research division of the OECD has released a policy brief which pushes for a price on carbon for the international sea freight industry of \$25 / tonne of CO₂.

This challenging policy call comes in advance of COP21, which will be held in Paris in December 2015. Here, participants from business, governments, finance, the UN and NGOs will meet to discuss global climate change objectives with the intention of drafting a binding agreement to keep global warming below 2 degrees Celsius.

SO WHY IS A CARBON PRICE ON SEA FREIGHT BEING SEEN AS A SOLUTION?

In 2012 the sea freight industry contributed around 0.8 Billion tonnes of CO₂, representing 2.2% of global emissions. Yet it's forecast that by 2050 sea freight emissions could equate to as much as 14% of total global emissions.

If the shipping sector wants to meet the 2 degree target, it would have to cut emissions to 0.4 billion tonnes by 2050 - half of the 2012 level - and achieve zero carbon emissions by 2080.

At this point that seems unlikely, hence the call for a carbon pricing scheme for sea freight as a mechanism to deliver change.

The inevitable outcome then is that it won't be shipping lines or ship owners that carry the carbon price, but the shippers. The question then is how much will be passed on, and how will the industry calculate the cost?

HOW WOULD CARBON PRICING AFFECT SHIPPING COMPANIES & SHIPPERS?

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Using the leading industry solution for freight carbon emissions calculation (EcoTransIT) we have provided some indicative CO₂ values for common port movements out of Melbourne:

MELBOURNE TO SHANGHAI
= \$31.75 PER TEU*

MELBOURNE TO SINGAPORE
= \$24.00 PER TEU*

** Note these values would vary dependent on cargo payload, equipment type and routing*

THE FACTS:

- ☁ In 2012 the sea freight industry contributed around 0.8B tonnes of CO₂, representing 2.2% of global emissions
- ☁ By 2050 sea freight emissions will increase by between 50 and 250%, representing as much as 14% of the total global emissions
- ☁ To meet a 2 degree target the shipping industry must cut emissions by 0.4B tonnes by 2050 - half of the 2012 level - and achieve zero carbon emissions by 2080
- ☁ Regulating vessels has been historically difficult as ship owners seek to have vessels flagged in developing countries where they can avoid regulation and cost
- ☁ Industry has achieved a 29% (average) decrease on sea emissions since 2009
- ☁ Sulphur content in fuel has dropped from 1.5% in 2005 to 0.1% in 2015 (in emissions control areas)

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WHAT IS THE LIKELIHOOD OF CARBON
PRICING BEING INTRODUCED?

The discussion of carbon pricing in sea freight is not a new one, but it seems that the influencers are intent on seeing serious change within the industry, spurred by the inadequacies of the current pathway that will dramatically under deliver against the global objective to meet the 2 degree target.

And while other strategies have been adopted in an attempt to reduce emissions, including slow steaming, higher ship utilisation, Energy Efficiency Design Index (EEDI) and Ship Energy Efficiency Management Plans (SEEMP), these are not getting the required results and will not be sufficient to achieve the longer term objectives.

In his policy outline Merk states “the International Chamber of Shipping (ICS) has recently expressed its preference for a bunker levy, which the ICS argues would limit administrative burdens for the shipping sector.”

Whilst this might be a preferred solution to the shipping sector, we need to question whether it would provide the right outcome for shippers, as historically the introduction of fuel levies and bunker factors have been difficult to monitor and calculate for those burdened with the cost (shippers). They would also fail to deal with the direct issue at hand, and would create complexity in aligning revenue generated from such a levy back to carbon contributions and distributing funds via the Green Climate Fund (or otherwise).

As such, all indications are that the industry is going to have to broaden its approach to minimise emissions, and that looks very likely to be a combination of additional solutions including a market-based mechanism (carbon price).

It's important that shippers start to prepare themselves and understand how this could potentially impact their freight cost, while at the same time also start to consider strategies that could minimise emissions - and therefore costs. Supply chain emissions for freight are largely unknown to most companies and this leaves them highly exposed to these global and local policy changes.