Clean Shipping Conference - 4 March 2014
Baltic Transport Week - Gdansk

Opening Address Patrick Verhoeven
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(Check Against Delivery)

Ladies and Gentlemen,

Ever since its first edition, Baltic Transport Week has been paying considerable attention to sulphur emissions of shipping. That is not surprising, given that the Baltic Sea forms one of the key zones in the European Sulphur Emission Control Area (SECA), where low sulphur fuel norms will become applicable as of 1 January next year.

Over the past years, there is probably no other environmental issue in shipping that has been debated as much as sulphur emissions, although it is certainly not the only ecological challenge our industry is facing.

In my statement this morning I essentially want to share some personal observations with you on where we stand today, and, on what can still be done at this late stage to help the shipping sector meet the sulphur norms in the European SECA. I would also like to share some thoughts with you about the lessons we can learn from the sulphur file when dealing with other environmental requirements.

Let us first compare the compliance options. As you probably know by now, these are essentially threefold: switching to low-sulphur fuel, using alternative fuels such as LNG or methanol, or installing an abatement technique. All of them have advantages and disadvantages.

When we look at the 2015 deadline, it seems clear that most operators will go for the first option and switch to low-sulphur gasoil, especially those not operating in the SECA all the time. Retrofitting existing vessels is relatively straightforward, and many crews already have the operational experience of switching fuels. The main issues here are fuel availability and, especially, price. Currently there is already a major price difference between heavy fuel oil and marine gasoil, and this price gap may well become bigger in the near future.

The use of alternative fuels, such as LNG, has the main advantage that it will not only help reducing SO2 emissions, but is also good for the reduction of other emissions, such as CO2 and NOx. But LNG seems a more suitable alternative to meet the global sulphur norm in 2020 or 2025. Retrofitting existing vessels is forbiddingly expensive, making LNG typically a solution for newbuilds. The first LNG-fuelled ships are coming on the market now, but it

will still take a while before they will be a common sight. For the LNG market to develop, bunkering infrastructure is needed in ports. In that respect, it is positive that the European Commission has proposed a clear obligation on core network ports in the Trans-European Transport Network (TEN-T) to have adequate bunkering facilities in place by 2020. This obligation also ties in neatly with TEN-T funding opportunities. We therefore cannot understand that Member States want to water down the Commission's proposal and we urge them to reconsider their position. More work is also needed on safety regulations in ports. We especially have to get rid of the false impression that LNG would be unsafe. And also here the question arises how the LNG price will develop in the future, compared to that of heavy fuel oil.

Finally, there are the abatement techniques, with scrubbers being the most well-known type. Opinions appear to be very divergent about their cost-effectiveness and operational performance. It is clear that scrubbers do not come cheap and equipping existing vessels with them entails a number of operational questions that are not to be underestimated. There are also some regulatory issues to be settled, notably regarding the treatment of wastewater in ports.

In the end, every shipping company will have to make its own choices, based on its fleet, its main area of operation and overall business model. It is evident that this is not a simple matter, given that uncertainties are still abundant and that commercial financing cannot be easily obtained in present market conditions.

Let us turn to the expected economic implications. Numerous studies have been produced on this question, close to fifteen if I am not mistaken, of which a substantial majority points at significant negative consequences for shipowners, ports and regional industries.

The business case for certain shipping routes in the SECA area is already marginal, and the slightest cost increase could mean the end of profitability. Many shipping companies will therefore not be able to absorb these extra costs and will have to charge them to the user, the shipper. The question is then what shippers will do. Will they be prepared to pay the extra costs or shift to other, cheaper, transport alternatives? There is a lot of talk about shippers demanding 'green' transport, but are they also willing to pay for it?

Continued monitoring of economic impact and modal backshift is important and even a legal obligation under the EU Sulphur Directive. I am therefore pleased that last week, in the context of the European Sustainable Shipping Forum (ESSF), we were able to agree on the establishment of a European monitoring tool, which could become operational this summer. Of course, we must carefully distinguish the impact on different routes, as it will not be the same everywhere. A monitoring exercise should in our view also look at compliant fuel availability.

Monitoring economic impact is one thing, but the ultimate question remaining is what we can still do at this late stage, to smoothen the introduction of the SECA rules in Northern Europe?

I think there are three priority elements to settle: financial support options, legal certainty and a fair level playing field.

When we talk about financial support, we should look beyond mere pilot projects and feasibility studies. We need to obtain concrete support for reconversion projects and newbuilds. Whilst national funding is in theory possible under the EU environmental state aid guidelines, the experience from Finland - the only country in the EU that has applied the guidelines so far in the SECA context - shows that there is a time constraint involved, which will make it difficult for other Member States to follow suit at this late stage. As regards European funding, the TEN-T budget would seem an obvious source, but TEN-T is essentially about infrastructure and functions through Member State applications. So, this is fine to get support for LNG bunkering facilities in ports, but what about reconverting ships? The available financial support options at national and EU level need to be clarified urgently. And we also need to find ways to mobilise more private funding, which is easier said than done.

Then there is the point of legal certainty. I already mentioned the applicable rules and regulations in ports concerning treatment of scrubber wastewater and LNG bunkering operations. And there are some other problems, for instance regarding the specific abatement procedure to mix marine fuel and boil-off gas. These questions need to be cleared up now.

Finally, with the implementation date approaching fast, there is a lot of talk about monitoring and enforcing compliance. I would make a plea for a *fair* level playing field. What does that mean? It means first of all that the early adopters, those operators that completed all the investments and are ready to meet the sulphur norms on 1 January 2015, are not penalised against those that think it is cheaper to do nothing. But it equally means that those that can demonstrate that that they made the necessary commitments to meet the norms, but may not be entirely ready by the time the deadline elapses for technical or other good reasons, are given a compliance path within a limited and conditional timeframe. The United States seem to allow this flexibility within the North American ECA, and we should have the same flexibility in Europe.

All these and other issues are being discussed in the context of the ESSF, but the sense of urgency in getting clear answers on the priority issues cannot be underlined enough.

Ladies and gentlemen,

The reduction of sulphur emissions is today no doubt the biggest environmental challenge for ship operations in Northern Europe. But, as I

mentioned earlier, it is certainly not the only one. Think of other ship emissions, such as measures on CO2 - that will inevitably come in one way or the other - and the introduction of NOx reduction targets. But also think of forthcoming rules on ballast water management.

What can we learn from the sulphur file in this respect?

First, and we continuously hammer on this, the shipping industry needs international rules! We care a lot about the primacy of IMO, but it is apparently possible for IMO Member States to introduce far-reaching regional measures that are not even based on impact assessments. Is this not undermining the role of IMO as the global policy-maker for shipping? The European Union of course has an outspoken tendency towards regional measures as well, with the nasty habit of topping up international agreements. But at least you have a system of impact assessments in place there.

Second, talking about these impact assessments, we have to make sure they take into account the bigger picture. Potential environmental benefits need to be outweighed against the socio-economic costs they generate and against unwanted environmental side-effects, think of the modal backshift effects everyone expects in the sulphur case.

Finally, I am convinced we should be a lot less defensive as shipping industry. First, our environmental track record isn't as bad as some people want to make the public believe. Second, considering the uniquely positive role we play for society at large, providing so much of what people consume and use in their daily lives at such a low cost, I think we are doing quite well in terms of overall sustainability. But we are not telling that story to policy-makers, let alone to the public at large. Instead, we often hide in a defensive cocoon whenever regulatory measures come our way. We can and should do a lot better than that!

Ladies and gentlemen,

Let me conclude on a philosophical note. Future generations will probably look back at this period in shipping history in the way that we look back at the times when shipping switched from sail to steam. We are going through a similar transition process right now, with all the difficulties that it brings along. But, unlike our ancestors of the Industrial Revolution era, we are now faced with changes that are largely driven by ecological regulation. That does not have to be a bad thing. Provided we get it right – policy-makers and industry.

I wish you a fruitful conference and I thank you very much for your attention.