International Chamber of Shipping

LEADERSHIP INSIGHTS

Issue no: 06 | October 2021

Energy shipper Andreas Sohmen-Pao tackles decarbonisation

An artist's impression of Cadeler's newly-ordered installation vessels, which will be the largest in the industry (image: Cadeler)

DECISION MAKER: **ANDREAS SOHMEN-PAO**

Decarbonising the industry from the inside

Tanker boss Andreas Sohmen-Pao takes central role in tackling shipping's carbon problem

When the Singapore government decided in early 2020 to focus on maritime decarbonisation, it turned to Andreas Sohmen-Pao, Chairman of Singapore-based BW Group to co-chair an international advisory panel (IAP) on decarbonisation. He was tasked to develop a strategy, alongside President and CEO of Sembcorp Marine Wong Weng Sun and 28 other senior executives from shipbuilders, owners, academia, class and other sectors from around the globe.

It was set up in July 2020 by the Singapore Maritime Foundation (SMF) – which Sohmen-Pao also chairs – and in April this year, published its report: *Decarbonisation Pathways for the Global Maritime Industry*.

It sets out nine pathways towards decarbonisation, with action plans for each one, including a proposal for a 'decarbonisation centre' in Singapore. Singapore's Maritime and Port Authority (MPA) embraced the idea, immediately announcing a S$120M decarbonisation fund, half of which would come from state funds and the rest from six industry partners including BW and Sembcorp Maritime.

This was followed in July by the formation of a Global Centre for Maritime Decarbonisation (GCMD) which will "facilitate decarbonisation technology development", the MPA announced.

Carbon-centred business

Its governing board is headed by Sohmen-Pao, putting him at the heart of local and global decarbonisation efforts. Yet in his day job, his business model is centred on a carbon energy-based economy. "Delivering energy for the world today, and finding solutions for tomorrow", its website declares and the vast majority of its 400-strong fleet are fuelled by and carry hydrocarbon oils or gasses.

How does such an operation and its head fit into a global project and a worldwide determination to decarbonise?

"That's a very good question", Sohmen-Pao said when *ICS Leadership Insights* put it to him. "The transition is going to take time" and will not be straightforward, he believes. Although the world is becoming more energy-efficient, its population is growing and getting more wealthy, which is driving energy demand up. "Historically, the world has never reduced its consumption of any form of energy", he said.

By that analysis, energy demand will continue to increase rapidly so reductions in hydrocarbon demand must be achieved by increases in renewable energy production that outstrip growth in energy demand. This will happen, but it will take time, he believes. "There may be a slow trajectory where [hydrocarbon demand] is flat or slowly declining", he predicted.

These hydrocarbons are not only needed to produce energy, he pointed out. They are used extensively as raw materials in manufacturing essential products so their use cannot be ended "with a flick of a switch", he said, "so ships [transporting hydrocarbons] will still be needed for a while".

But "none of that is to say that we shouldn't be fighting very hard to find alternatives", he insisted, and – as the company's website states – 'finding solutions for tomorrow'.

That is more than a marketing slogan, he said. It emerged from "an active and continuing debate within our team

***BW Leo*, the world's first VLGC to be converted to dual-fuel LPG (image: BW)**

Emissions reduction must be good for business

Alternative fuels must make business sense, believes Andreas Sohmen-Pao, Chairman of Singapore-based BW Group. "The key question is availability and price. It doesn't matter how good the ship looks on paper, if you can't get the fuel, then it's not much use. And if it costs three times as much, you're going to run out of money pretty quickly." He singled out carbon-free ammonia as one such fuel that has yet to prove itself as a viable option in the immediate term.

Like most similar vessels, BW's LNG carriers all use the gas for fuel, but a conversion programme is well underway for its LPG carriers – the first VLGCs to be converted to dual-fuel LPG – with four retrofitted to dual-fuel operation in Q2 this year, bringing the total to eight out of a total programme of 15.

Non-gas tankers are also included in its dual-fuel project; for example, BW group company Hafnia recently ordered four Aframax Tankers that will use LNG when they are delivered in 2023 and 2024 for long-term charters to Total.

... about where we want to be on this spectrum". At one end are those who believe that all carbon-based forms of energy should be switched off immediately and at the other end are climate change deniers who want to carry on with business-as-usual. These are both extreme views and "our philosophy is very much against extremism. But between those two bookends ... there is a middle ground where we can try to get the best of both worlds".

Neither of those extremes is appealing: "we feel that if one stops delivering energy the world needs today, humanity will be much worse off". Equally, "if we don't transition, ... humanity will be much worse off. Therefore, we have to be able to do both at the same time."

This approach "colours everything we do, because we want to provide what humanity needs today but keep pushing to do it in a in a more environmentally-friendly manner".

Green investments

A glance at the group's structure shows some of its environmental initiatives. Perhaps the most striking is BW Solar, in Canada, which was set up in January 2020. As a land-based venture, it marks a departure for the group and has grown rapidly. "We have about 1.5GW of solar pipeline now in North America and Canada in various stages of development," he said.

Further interest in electrical energy is shown in its investment in battery maker Corvus, where the BW Group is the largest shareholder with a 22.14% stake and a seat on the board. At the time of writing, further investments are planned in the battery sector.

BW Group is also involved in wind power, with Sohmen-Pao chairman of the Norwegian wind turbine installation company Cadeler. It operates two wind turbine installation vessels but ordered two more in June – which will be the world's largest – to "meet the demand ... for greater installation capacity", Cadeler's CEO Mikkel Gleerup said when the orders were announced. And in February this year, BW took a 51% share in the floating wind power specialist Ideol, now renamed BW Ideol.

Sohmen-Pao described this strategy as "walking outwards ... into new areas that are not energy ... or shipping in the most traditional sense". He is on a mission to learn. "Can you really be in energy if you have no clue what's happening in solar?" he wondered. And the same goes for wind, batteries and biofuel: "By taking a small position in some of these different sectors, we get a deeper understanding of how the whole fits together."

Scrubbers 'can work'

In the global debate about exhaust scrubbing, "we're in the middle ground where we don't particularly like it as a solution but it can work and it's applicable in some cases", Andreas Sohmen-Pao said. BW's largest ships have been fitted with scrubbers but the smaller ones use low-sulphur fuel. Either option delivers low-sulphur emissions; "you have to hope that you made the right decision; we went for a balanced approach."

What they do not reduce are greenhouse gas (GHG) emissions. "The debate has moved on" from sulphur emissions, he said, so for an owner focused only on whether to fit a scrubber or not, "there's a real risk that [they have not] future-proofed the ship at all".

> "Can you really be in energy if you have no clue what's happening in solar?"

But these investments are also good business opportunities, Sohmen-Pao said, "because there is a very strong tailwind for the development of these technologies". They also offer the potential "to create leveraged outcomes on what you invest", he said, unlike only addressing emissions by buying carbon credits, which is "like buying indulgences for your sins", he said.

These may not be core activities, but they are relevant to BW's 'delivering energy for the world' mantra and to its broader shipping interests. Caleder's wind turbines, for example, use similar offshore floating technology as BW Offshore, with its FPSOs and FSOs. BW is installing battery systems on some of its vessels and the experience gained from onshore solar farms "may well have a maritime relevance at some point", Sohmen-Pao said.

He is also a keen advocate of imposing a carbon levy on fuels to encourage reductions in greenhouse gas (GHG) emission, as set out in a paper published by BW and others in 2019. It concludes that "a transparent carbon levy scheme … charged on CO_2 emissions … allows businesses to invest in abatement measures under conditions of greater certainty". Its ambition is echoed in an ICS proposal, presented to IMO in September that proposes investing the funds raised into R&D programmes and bunkering infrastructure to develop alternative fuels.

It will not be easy to implement, he admitted. "Governments don't like the idea of levies or taxes that are extraterritorial", he said, but he remains hopeful that they will eventually realise the consequences of not taking action. "I'm not saying that it's going to happen tomorrow, or that it's easy, but my hope is that nations wake up to the need to solve this problem."

A solution would benefit more than just individual operators, or Singapore, or the shipping industry or IMO and its members: "Don't get stuck thinking only 'what does it mean for me?'" he urged. Instead, decision makers must ask themselves "what does it mean for the planet?"

The BW Group has branched out into land-based solar energy (image: BW Solar)

ICS sets out plans for global carbon levy

ICS has put forward a comprehensive proposal for a global levy on carbon emissions from ships, in what would be a first for any industrial sector.

A submission, co-sponsored by INTERCARGO, was sent to the IMO on Friday 3 September, calling for an internationally accepted market-based measure to accelerate the uptake and deployment of zero carbon fuels. The levy would be based on mandatory contributions by ships trading globally, exceeding 5,000gt, for each tonne of CO_2 emitted.

The proposed levy would take mandatory contributions from ships above 5,000gt (image: Shutterstock)

The money would go into an 'IMO Climate Fund' which, as well as closing the price gap between zero-carbon and conventional fuels, would be used to deploy bunkering infrastructure required in ports throughout the world to supply alternative fuels, ensuring consistency in the industry's green transition for both developed and developing economies.

The fund would calculate the climate contributions to be made by ships, collect the contributions, and give evidence they have been made. For expediency, the proposed fund would utilise the mechanism already submitted by governments for a separate US$5 billion R&D Fund to accelerate the development of zero-carbon technologies, which the UN's IMO is scheduled to approve at a critical MEPC 77 meeting in November.

Guy Platten, Secretary General of ICS, commented: "We need to be able to put zero emission ships in the water by 2030 without challenging price and safety issues. If IMO lends its backing to our proposal, then we may yet be able to change this and deploy technologies economically and equitably."

Transport chiefs' joint plea to end travel bans

ICS has joined forces with the International Air Transport Association (IATA), the International Road Transport Union (IRU) and the International Transport Workers' Federation (ITF) to make an urgent plea to the world's heads of government during the UN General Assembly to restore freedom of movement to transport workers. An announcement was due at 1500 BST on 29 September, as this issue was published. For the latest updates click here.

Major names sign on for COP26 conference

Industry titans and foreign ministers will attend shipping's upcoming 'Shaping the Future of Shipping' conference at COP26, on Saturday 6 November.

Confirmed attendees include Sturla Henriksen, Special Advisor to the UN Global Compact; Bernard Looney, CEO of BP, Juan Carlos Jobet, the Chilean Minister for Energy and Mines; and Rolf Haben Jansen, CEO of Hapag Lloyd. The conference's lead sponsor is the Mediterranean Shipping Company (MSC). For more details click here.

100th anniversary and COVID guidance launch during LISW

ICS launched new COVID-19 guidance to protect seafarers and shipowners on the first day of London International Shipping Week 2021 (LISW) in September. The free resources, created in collaboration with 10 different maritime organisations, include guidance on vaccinations, manning agents, mental health issues and shore leave.

Later that Monday, ICS celebrated its 100th anniversary and opened its new office. IMO Secretary General Kitack Lim expressed IMO's "deep appreciation" for the role of ICS in the organisation's work, adding: "The immense input, expertise and collaboration by ICS, representing shipowners and operators, is invaluable to the organisation."

EU agencies' report sparks debate over regional rules

Industry figures and environmentalists sparked a debate on regional versus global environmental regulations during a seminar to launch the European Maritime Transport Environment Report, published in September jointly by the European Maritime Safety Agency (EMSA) and the European Environment Agency (EEA).

It mentions many EU environmental regulations – both in force and proposed (see box, page 9) – and Claes Berglund, President of the European Community Shipowners Associations (ECSA) was "concerned [about] some of the elements in all these suggestions" and called for "a closer discussion to find more and, in some parts, better solutions".

He acknowledged that "sometimes there is a reason [for] regional regulations" but said that "IMO is the preferred body for all regulations".

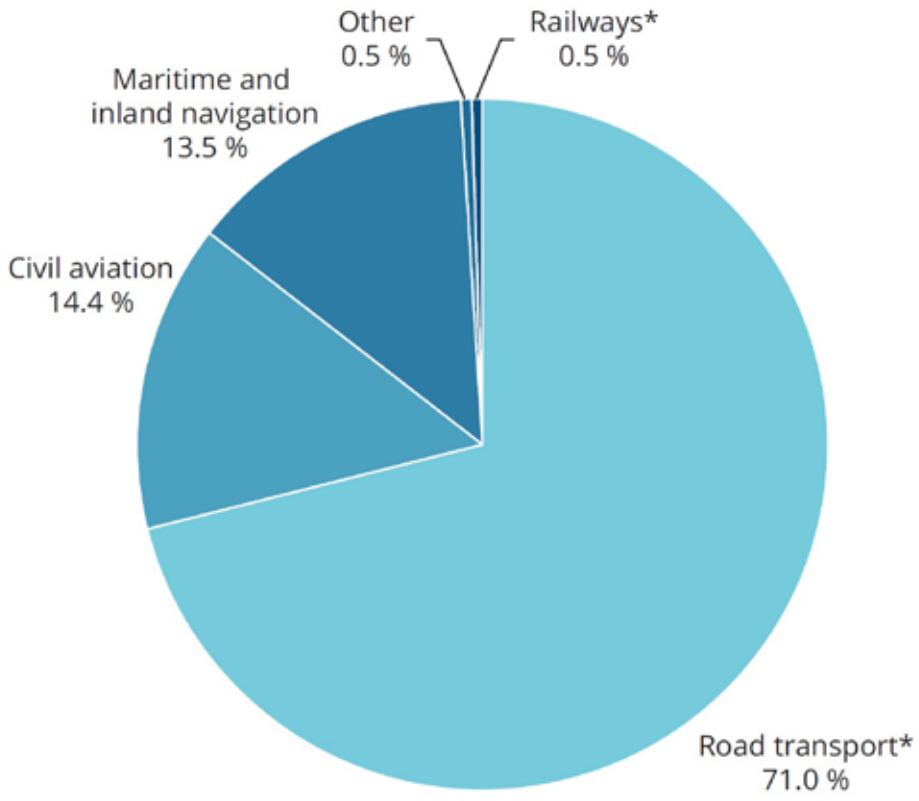
In reply, Dr Monica Verbeek, Executive Director of Seas At Risk – an organisation whose members are environmental NGOs from across Europe – said that IMO's regulations have "a low common denominator [and] low ambition", citing its Carbon Intensity Index as an example, which she said would require ships to reduce their carbon intensity by only 1.5% annually.

That "is not at all in line with the Paris Agreement", she said, which she believes would require at least a 7% annual reduction of carbon intensity. "Why should the EU not take the lead and require all ships coming to its ports to have this 7% reduction?" she said, drawing a parallel with the US OPA '90 regulations that unilaterally imposed double hulls for tankers calling at US ports.

She further suggested that society should aim to reduce its total consumption because "then we do not need growth in shipping", but EMSA Executive Director Maja Markovčić Kostelac appeared to distance herself from that view, almost immediately responding that "growth, if sustainable, is a positive".

EEA Executive Director Hans Bruyninckx said that "breakthrough innovative investments" are needed to "open pathways towards 2050", rather than the present approach in shipping and other industries that have "invested a lot in making existing systems more efficient". He said that marginal efficiency gains become "more

Share of total EU transport GHG emissions by mode (2018 data)



Excluding indirect emissions from electricity consumption (source: EEA)

> Breakthrough innovative investments [are needed to] open pathways towards 2050
>
> **Hans Bruyninckx**

marginal and difficult [and] increasingly more expensive", predicting that "they will not lead to the objectives that we have set for 2050".

EMSA and EEA's report "reveals for the first time the full extent of the impact of the EU maritime transport sector on the environment", the two organisations said in a statement to mark its publication. It does so, they said, by bringing together reviews not only of shipping's emissions but also its influence on invasive species and underwater noise.

The report says that shipping "has a negative impact on the environment and contributes to global warming, affecting the health of EU citizens and the state of marine and coastal ecosystems" and warns that "some of these impacts are currently forecast to increase, partly due to the expected growth in global maritime transport, unless further action is taken".

In addition, it says, there is "a clear need for future research and development programmes to cover the knowledge gaps around the sector's environmental footprint and sustainability" but does not offer more specific further actions.

In concluding remarks at the seminar, the EU's Commissioner for Transport Adina Vălean highlighted one proposed EU regulation – the Regulation of the European Parliament and of the Council on the use of renewable and low-carbon fuels in maritime transport and amending Directive 2009/16/EC – describing it as "the first legislative initiative of its kind" and saying that it will "kickstart the uptake of sustainable alternative fuels, and zero emission technologies in this sector".

It can be "a springboard for more ambitious actions at IMO", she added, "because EU action alone will not suffice to transform the global sector".

EU regulations and the environment

Since the late 1990s, "the EU has been consistently introducing stricter rules for both ships trading in EU waters and ships registered under the flag of an EU Member state", the European Maritime Transport Environment Report states.

These, it says, "have contributed to reducing sulphur oxides and carbon dioxide emissions and oil and other sources of ship pollution, banned harmful chemicals used on ships' hulls to prevent fouling, required the safe disposal of waste in ports and enforced environmentally sound ship recycling".

It lists some examples, "such as the Marine Strategy Framework Directive, the Water Framework Directive and the Habitats Directive ... aiming to uphold good environmental status standards and to reduce air and other pollution in coastal communities and ports".

The report also mentions some proposed new regulations and amendments. In a 'welcome' message included in the report, Virginijus Sinkevičius — European Commissioner for the Environment, Oceans and Fisheries – and Adina Vălean — European Commissioner for Transport – say that its findings are "already providing us with a strong rationale for two important EU proposals aimed at supporting maritime transport to confront its challenges: FuelEU Maritime ... and the integration of shipping into the EU's Emissions Trading System".

Other proposals mentioned in the text include a new Port Reception Facilities Directive, a European Climate Law and one based on the European Commission's 2030 climate target plan to raise the EU's ambition on reducing GHG emissions to at least 55% below 1990 levels by 2030.

"This target has been translated into a legal obligation as part of the proposal for a Climate Law (EC, 2020b) (EC, 2020c) endorsed by the European Council in December 2020 (EC, 2020d)", the report notes.

Congestion prompts rethink of overburdened supply chains

With Christmas coming, big retailers are turning to chartered tonnage and airfreight to secure their deliveries

Home Depot, Walmart, IKEA, John Lewis: all are big retailers who are reported to be chartering ship capacity or investing in their own containers to beat the cargo bottlenecks as Christmas approaches. In August, a US-based retail news service, Retail Dive, asked some senior executives in retail how they were responding to supply chain delays and reported solutions including airfreight and alternative permanent sources of supply.

But chartering ships tackles only half the problem, according to George Griffiths, Editor of *Global Container Freight Market* at S&P Global Platts. “The other half is that you sit in a queue outside Los Angeles and Long Beach within sight of the port for weeks.”

These queues stood at about 60 ships in mid-September, he told *ICS Leadership Insights*, despite both Los Angeles and Long Beach ports reporting record cargo

Major retailers are taking action to secure supplies as Christmas approaches (image: Walmart)

> The disruption is symptomatic of decades-long federal underinvestment
>
> **Chris Connor**

handling rates over the past year. The problem, Griffiths said, stems from intermodal delays for onward transport. "It's not an easy fix", he said. But shortly after that conversation, both ports announced on 17 September that they would "improve freight movement and reduce delays through the ports" by expanding the hours during which trucks can pick up and return containers.

That, of course, assumes truck drivers are available. In August, Bloomberg reported that "a shortage of truckers across the US has become so severe that companies are trying to bring in drivers from abroad like seemingly never before".

Such is the importance of supply chain disruption in the US that, in June, President Biden set up a task force "to address supply and demand mismatches that emerged in several sectors" of the US economy. But only in late August was a 'port envoy' added to the team: John Porcari, formerly Deputy Secretary and Chief Operating Officer of the Department of Transportation in the Obama administration.

His appointment marked "an especially important step forward in alleviating these disruptions that are impacting consumers, workers, and businesses alike", said President Biden's top economic adviser, Brian Deese, at the time. Just a few weeks later Porcari thanked the directors and workers at Los Angeles and Long Beach ports for their initiative to "meet the challenge of moving extraordinary cargo volumes during a global pandemic".

Long-term underinvestment

Chris Connor, President and CEO of the American Association of Port Authorities

Obituary: just-in-time delivery

"Just-in-time delivery is pretty much a dead concept", believes George Griffiths, Editor of *Global Container Freight Market* at S&P Global Platts. With deliveries to shops and factories taking weeks to arrive, the logic behind just-in-time retail or manufacturing strategies "has now gone, simply because of the degree of supply side issues", he said.

Some of that has been caused by port delays – such as the COVID-related closure of Yantian port in China in late May and early June, during which its daily handling rate fell from 300,000 containers to just 500, resulting in millions of boxes out of position as ships diverted to other ports in the region. "How do you then play catch-up?" he wondered.

For much of the time during the pandemic, demand for goods fell, with shops closed and many people working from home. That led to fewer people working in ports and warehouses, he said, "so when demand came back, nobody really saw it coming".

This led to delays in unloading ships, taking containers inland for emptying and returning them to the port. Previously, that would take a few days; "now that's taking in some instances [up to] six weeks", contributing to the lack of containers available for exporters and to the cost increases seen over the past year, with the cost of shipping a container from Asia to Europe up to 12 times what it was a year ago.

These high rates are likely to last at least into Q1 or 2022, he said based on announcements by Hapag Lloyd and CMA CGM in mid-September that they are freezing rates. Hapag Lloyd made this commitment "for the time being" while CMA CGM has said this will last until 1 February, which happens to be Chinese New Year – a moment that Griffiths suggested could mark an industry-wide review of rates.

Griffiths said that the general consensus is that rates will fall but not to 2019 levels – at least in the short term. He cited one shipper who had told him that by the middle of next year, rates will be 'cheap', by which the shipper meant $6,000/FEU, Asia-Europe.

That is cheap compared to current rates of around $18,000, but in contrast to pre-pandemic rates, "that's nearly 2.5 times the previous all-time high" of $2,600, Griffiths said.

(AAPA), knows the impact of cargo delays personally, "as I await furniture for my home", he told *ICS Leadership Insights*. But the problem has not just been caused by recent global events; "the disruption is symptomatic of decades-long federal underinvestment in all modes of transportation infrastructure", he said.

This has been "exacerbated by COVID-related changes in consumer spending, workforce shortages linked to COVID and extended unemployment benefits", he added. But he insisted that "port and terminal management, working closely with labour, have worked tirelessly throughout the pandemic to keep goods moving, and now are focused on collaborating to drive improved port productivity".

For the longer term, he welcomed the US government's plans for infrastructure funding for ports. "AAPA has been advocating for such funding to support port expansion projects that would go a long way in handling the ever-growing demand", he said.

In many parts of the world, JIT has been replaced by 'just-in-case', said Dr Patrick Verhoeven, Managing Director of the International Association of Ports & Harbors (IAPH). This "has resulted in retailers stockpiling goods in inventory due to the supply chain disruption", he told *ICS Leadership Insights*.

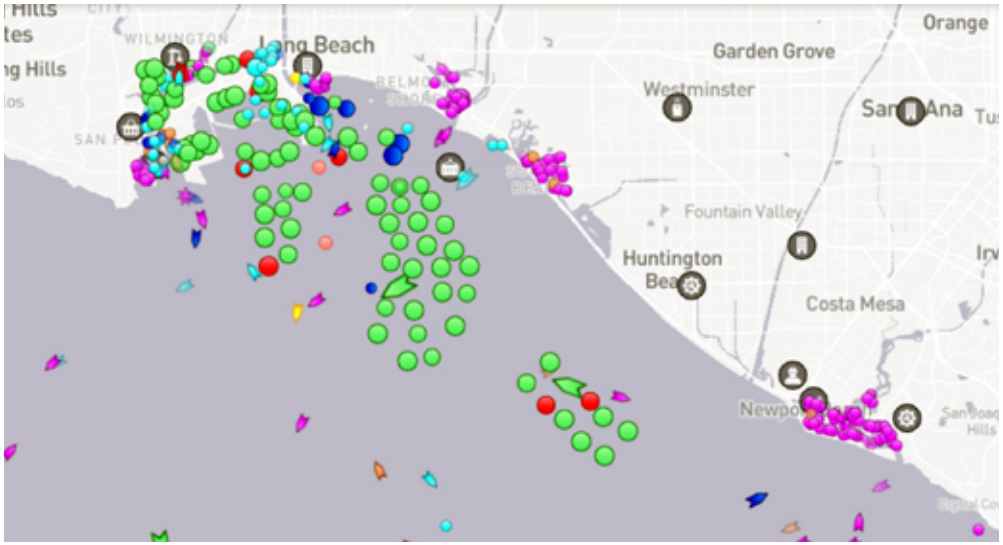
In May, IAPH published a detailed analysis of the impact of COVID on world ports, based on a year-long programme of recording what IAPH called 'barometer' readings gathered by regular polling of its member ports. Those revealed – the report concluded – that ports "need to adopt a supply-chain perspective" to develop "resilience-building capabilities [that] go well beyond the ship-port interface".

The taskforce behind the report has now been recalled to address port congestion, Dr Verhoeven said in mid-September, with a mission to offer "specific actions … through the IAPH Risk and Resilience committee in the coming month".

IAPH believes that digitalisation can play a part in this process and issued a call to action in June 2020 to accelerate its application in the maritime transport chain. This was backed in December with a guidance paper co-authored with the World Bank, which includes a specific roadmap for ports based on experience of IAPH's more advanced member ports.

Industry response

That experience suggests shipping has already responded to congestion on the major trade routes, Dr Verhoeven said, reporting an "increased focus on



Many container ships were queueing in San Pedro Bay for a berth in Long Beach or Los Angeles on 18 September. Some had arrived more than three weeks earlier (image: MarineTraffic)

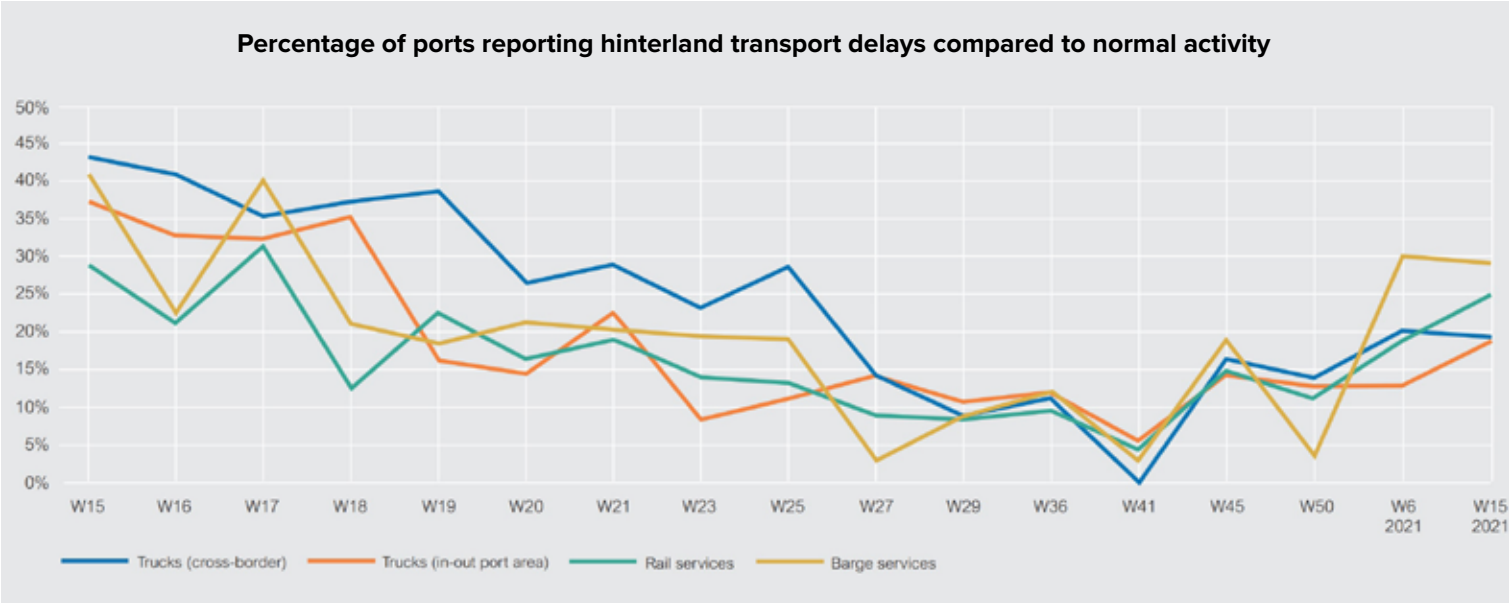
regional movements, particularly in the inter-Asian trades, which will also increase with the application of the Regional Comprehensive Economic Partnership (RCEP) which will be the world's largest single market bloc, covering around a third of global trade".

But he does not see this as a sign of a long-term change. "From the data and feedback we are getting from our members, we have not seen any distinct shift in changing cargo trade patterns to indicate that manufacturing is becoming less global", he said.

This may be the case now, but some analysts predict longer-term moves in that direction. An article in the *Harvard Business Review* said that "the US-China trade war and the supply and demand shocks brought on by the COVID-19 crisis are forcing manufacturers everywhere to reassess their supply chains".

It was written by Willy Shih, Professor of Management Practice in Business Administration at the Harvard Business School, who predicted that "manufacturers worldwide are going to be under greater political and competitive pressures to increase their domestic production, grow employment in their home countries ... and rethink their use of lean manufacturing strategies that involve minimising the amount of inventory held in their global supply chains."

Whether that will be effective is not yet clear. In March this year, the European Parliament published a study by its Committee on International Trade, called *Post Covid-19 value chains: options for reshoring production back to Europe in a globalised economy*. After 70 pages of analysis, including four case studies, one of its conclusions is that "it is impossible to judge whether reshoring success stories remain isolated cases or are signs of a broader, future trend".



A study by IAPH covering a year starting early April 2020 found significant numbers worldwide affected by hinterland transport delays. Note: the horizontal timeline is not uniform (source: IAPH/World Ports Sustainability Programme)

Shipping: Indonesia's strength and weakness

World's largest archipelago relies on shipping but domestic safety concerns remain

Tanjung Priok port – home to Hutchison's Jakarta International Container Terminal – is expanding as part of the government's focus on developing maritime connectivity (image: Indonesia Port Corp)

Indonesia is a country like no other. Spanning three time zones and consisting of 17,508 islands – of which about 6,000 are inhabited by its 200M population – it is the world's largest archipelago and relies heavily on its ferry services for its transport, travel and trade.

Its ferry fleet has been steadily growing and stood at 412 in 2019, according to the latest statistics available, but there are frequent accidents, including a fire in May this year on the ferry *KM Karya Indah*, from which a number of passengers jumped into the sea.

Reports of the number of people involved varies, but this news item quotes Indonesia's Directorate General of Sea as saying that all 181 passengers and 14 crew were rescued. Not every incident has such an outcome (see box, page 16).

On the international stage, however, joint efforts by the Indonesian Government, the Indonesian Classification Bureau (BKI) and shipping companies that are members of the Indonesian National Shipowners Association (INSA) have resulted in Indonesia achieving White List status with the Tokyo MOU for port state control for the first time.

In a statement, INSA Chair Carmelita Hartoto – who is also CEO of Andhika Shipping Lines – paid tribute to this tripartite initiative, describing the result as "a national achievement that we should appreciate and be grateful for". She said that the national flag's new standing – which is valid until 30 June 2022 – would "increase international confidence in the safety and security of Indonesian shipping" and she hoped that "we can maintain this achievement in the following years".

Then-Director General of Sea Transportation, Agus Purnomo, said that fulfilling safety standards and compliance with IMO conventions by Indonesian-flagged ships "succeeded in bringing Indonesia into the White List".

Some of the responsibility for maintaining this recognition falls on BKI which has a cooperation agreement with Indonesia's Ministry of Transportation to conduct surveys and issue statutory certification to Indonesian-flagged vessels. The agreement was first established in 2017 and is subject to annual renewal.

COVID response

Not every ferry-related news item this year has been prompted by an accident. One, the 14,500gt *KM Umsini*, became a pioneer for a plan to convert passenger ferries for use as COVID-isolation centres for patients with mild symptoms. Indonesia faced one of Asia's worst COVID-19 epidemics, according to a Reuters report

in August about the project, which said that the pandemic had affected nearly 9M people in South Sulawesi province, where the ship was berthed in Makassar port.

In the shipping sector itself, a joint initiative by the Indonesian government and INSA has enabled shipping sector workers to be vaccinated at the Tanjung Priok Port in North Jakarta and at Jakarta's old Sunda Kelapa Port. A further centre was set up at a Jakarta bus terminal.

Indonesia's President, Joko Widodo, along with two ministers and a regional official, visited the ports and terminal on 10 June and acknowledged the risk of contracting COVID in such locations, due to their high mobility of people and goods.

In an INSA statement about the President's visit, Hartoto welcomed the government's action to provide vaccinations for seafarers and shipping workers, which she said stemmed from an approach by INSA to the Ministry of Transportation on 6 May.

But on the same day as the visit, she issued a warning that, alongside vaccines, Indonesian shipping needed fiscal support "to be able to survive" and called for a catalogue of tax concessions and reforms that she said were "very much needed ... to restore companies' cash flows after being shaken by the COVID-19 storm".

Strategic projects at Tanjung Priok affected by COVID

- Kijing Terminal Phase I;
- North Kalibaru Terminal Phase I;
- Sorong Terminal;
- Cikarang Bekasi Laut; and
- Eastern Access, New Priok.

Despite her plea, at the time of writing in late September, no specific shipping-related COVID-support measures had been granted. She told *ICS Leadership Insights* that all the taxes she had listed do not apply to international or foreign-trading national shipping but "up to now those taxes are still applicable for domestic shipping. We need a waiver for them."

Port expansion

Infrastructure investment is at the heart of Indonesia's National Long-Term Development Plan, which started in 2005 and is divided into four five-year periods. Over that time, ports have seen some significant investments.

These include expansion at Patimban, where the first phase of an ambitious expansion plan opened in December. When complete in 2027, it will be the largest port in Indonesia.

Indonesian ferries provide vital links throughout its thousands of inhabited islands (image: Shutterstock/ Rinddyseftyan)

It is currently dwarfed by nearby Tanjung Priok, which is undertaking its own expansion plans, although these have been impacted by the COVID pandemic, its 2020 Annual Report explains, listing five projects that have been affected (see box, page 15). That report also puts its investment into perspective, referring to "the government's focus on developing maritime connectivity" and mentioning its own plans as being part of "the regional development plan for seven main ports". This includes collaboration between them, which "can help improve Indonesia's position as a key player in the global market and its expectation to become the world's 10th largest exporter by 2045", the report notes.

That collaboration is starting earlier than the report's authors expected: on 2 September Indonesia's State-Owned Enterprises (SOEs) Ministry announced the merger of all four state port operators into one organisation, to be called Pelindo, with effect from 1 October.

According to Indonesia Shipping Gazette, the new company will effectively merge the other operators into Tanjung Priok's holding company, Pelindo II, and it quoted its General Manager Guna Mulyana saying: "We are ready ... to go with the merger mission. But the port will run normal and as usual."

Domestic shipping safety is a concern

Indonesia has an unfortunate reputation for fatal ferry accidents, including one in June this year when the ferry *KMP Yunicee* sank while docking. According to Singapore's Straits Times at the time – quoting the news agency AFP – it had 53 passengers and crew aboard and at least six were dead.

That news item also referenced earlier accidents, including one in 2019 in which 21 people died when an overloaded ferry sank in rough seas and one in 2018, when 160 people drowned as a ferry sank in a lake on Sumatra island.

In August, a local blog updated the *KMP Yunicee* death toll to at least 11 and reported that three people had been arrested in connection with the accident.

In 2020, the Centre for Strategic and International Studies (CSIS) Indonesia published a report, *Maritime safety in Indonesia: Mapping the challenges and opportunities*, which was based on interviews in 2019 with, among others, port operators, harbourmasters, industry representatives and government officials in four major port cities.

> "Only through a complete overhaul ... could a rigorous implementation of maritime safety be carried out"
>
> **CSIS report**

It identified three levels of maritime safety challenges in Indonesia – political, strategic and societal – and said that "only through a complete overhaul of all the challenges faced within these three levels could a rigorous implementation of maritime safety be carried out in Indonesia".

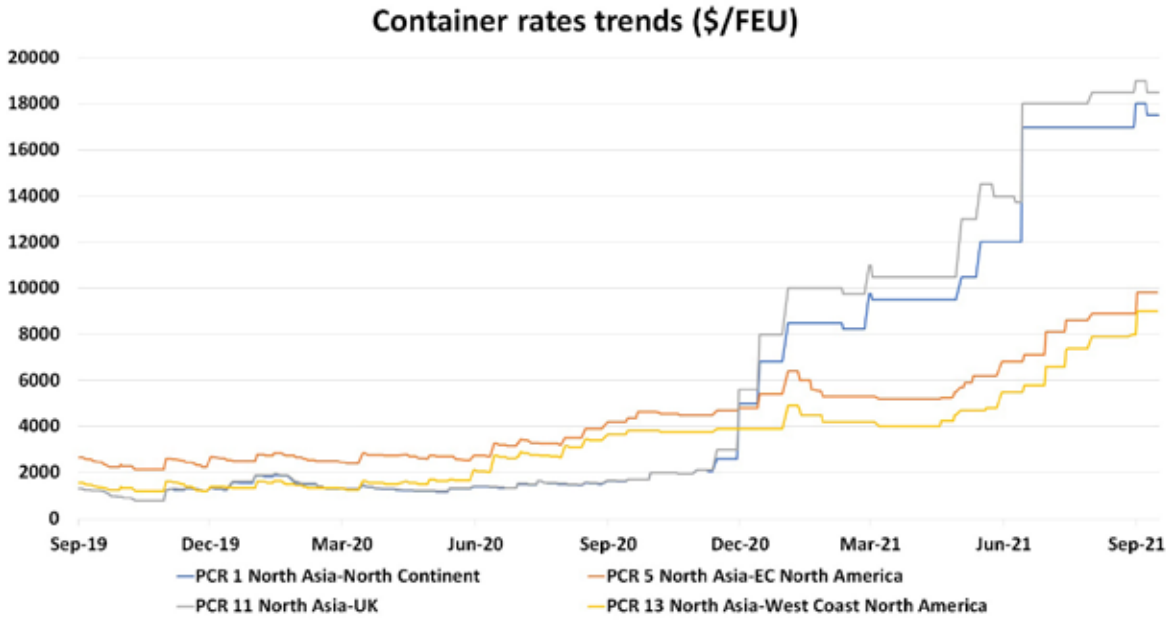
But last year "saw a major overhaul of Indonesia's shipping law regime", according to an assessment prepared by the Jakarta-based shipping law adviser, SSEK Legal Consultants. Although the package of measures does not appear to address safety specifically, some of its components "[take] into account the various national and international provisions on safety and environmental protections at sea", the summary said.

One particular change affects issuing certificates related to safety, security and seaworthiness. These were previously issued by multiple institutions but are now issued by the central government or an institution appointed by it.

In future, Indonesia – and other nations that rely on extensive ferry networks – will benefit from an initiative by IMO's Maritime Safety Committee (MSC) to develop Model Regulations on Domestic Ferry Safety (MRDFS). MSC 104 will establish a Working Group on Domestic Ferry Safety this month (October) to continue work on draft MRDFS that were submitted to MSC 102 in October 2020.

If IMO's programme stays on track, they will be adopted at MSC 105 in April 2022 with an explanatory manual approved during MSC 107, due to be held in the first half of 2023.

Liner operators profit from rocketing rates as demand returns



Source: S&P Global Platts, 20 September 2021

Liner operators have done well from the sharp rise in container rates over the past year, with AP Moller-Maersk reporting record quarterly profits for Q2 this year, thanks to impressive results from its Ocean business. “The outlook for Q3 is strong and we expect that the current momentum in Ocean will continue into Q4”, said its CEO Søren Skou.

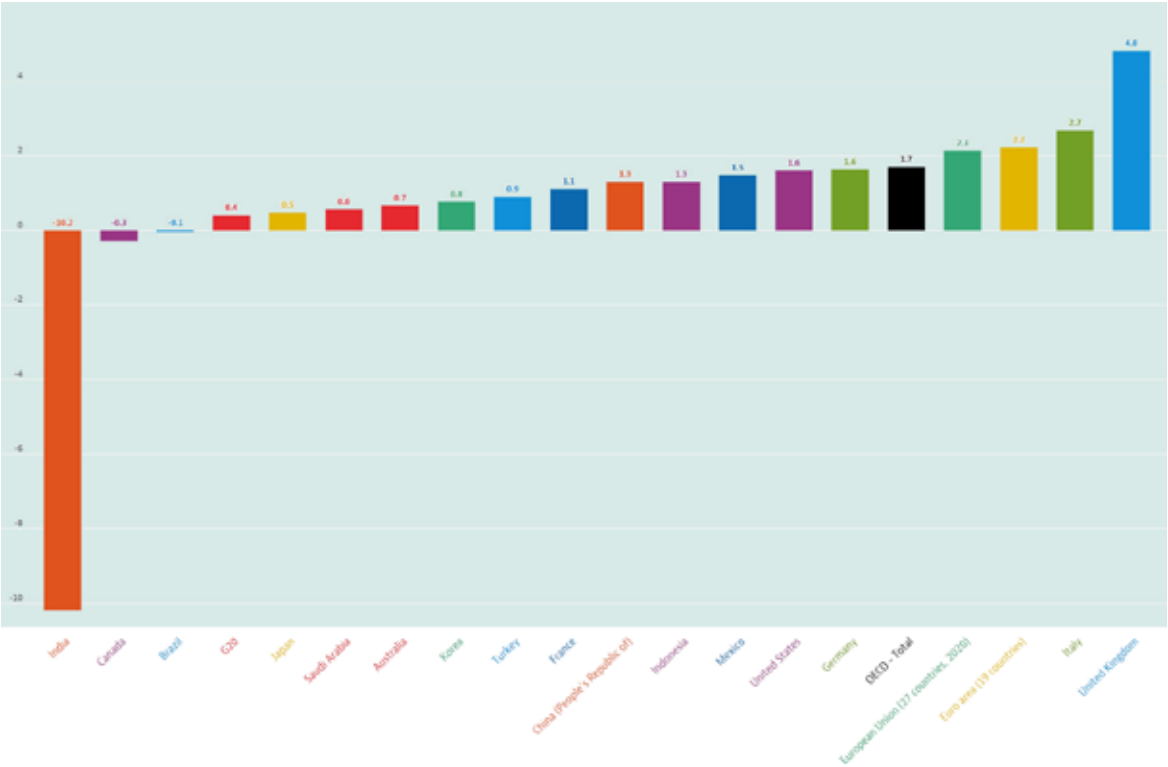
Container rates have particularly increased on the North Asia – Europe routes, according to data from S&P Global Platts. One factor behind the rise is increased demand compared to 2020, yet when compared to 2019, demand is only up a few percentage points, George Griffiths, Editor of *Global Container Freight Market* at S&P Global Platts, told *ICS Leadership Insights*.

He blamed supply-side issues, not only for the currently high rates but also for the stable rates in early 2020 when demand was low. Shipping companies operating in alliances “pulled supply” at that time to maintain rates.

Now, “carriers have a much stronger incentive to pull supply and keep freight rates high”, he said. “They are in a position of strength and they have that incentive to keep [rates] as strong as they can.”

● See also Analysis, page 10

Wide variation in G20 GDP growth in Q2



Source: OECD

Overall growth in Q2 this year across all G20 nations was 0.4%, down from 0.9% in Q1, but there were large differences among the nations, according to OECD data published in mid-September. India's GDP, for example, contracted by 10.2% after 2.3% growth in Q1. At the other end of the spectrum, the UK's GDP grew by 4.8%, following a contraction of 1.6% in Q1.

Other nations showing a reversal from contraction to growth include the EU as a whole, Germany, Saudi Arabia and Japan.

Compared with pre-pandemic levels (2019 Q4), GDP for the G20 nations was up by 0.7%, driven by China and Turkey, which recorded recovery rates of 8.2% and 8.8% respectively.

International Chamber of Shipping

ICS is the principal international trade association for merchant shipowners and operators, representing all sectors and trades and over 80% of the world merchant fleet.

For more ICS contacts:
www.ics-shipping.org/contact-us/

Contact us
International Chamber of Shipping
38 St Mary Axe, London EC3A 8BH
☎ +44 (0) 20 7090 1460
info@ics-shipping.org
www.ics-shipping.org

ICS contacts
Tanya Blake,
ICS Communications Manager
tanya.blake@ics-shipping.org
☎ +44 (0) 7498 871353

Paul Gunton, ICS Newsletter Editor
paul.gunton@ics-shipping.org
☎ +44 (0) 7776 441192

Design and layout
Phil McAllister Design
phil@philmcallisterdesign.com
☎ +44 (0) 1273 737481

Press and Communications
Duncan Bray,
Woodrow Communications
☎ +44 (0) 7972 224445

Sales
Richard Emsley
richard.emsley@ics-shipping.org
☎ +44 (0) 7730 289459