International Chamber of Shipping

Shaping the Future of Shipping

Leadership Insights

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Maximising collective knowledge

CTM's John Michael Radziwill discusses the value of active partnerships, commercial co-operation, and the route to achieving shipping's emission targets

Powered by thought

John Michael Radziwill, CEO of shipowner and manager CTM talks about the power of collective knowledge, praises environmental regulations and maps a pathway to greener operations for shipping.

Q Can you tell us a bit about CTM and how it operates?

A We are a shipowner and ship manager with a fleet of 200 vessels including joint ventures and charters – and we have a financial interest in 63 of these ships. A lot of the assets we manage are our own – and we work through what we call thought partnerships.

We have 31 different clients, including ourselves, so that's 31 different perspectives on what is driving markets and how to optimise our operational efficiency when managing these assets. We want to find the most opportune or creative way to manage the assets entrusted to us so we are open if someone has a way to do it better.

Q Are we likely to see more consolidation in the dry bulk markets and what advantages or disadvantages could this bring?

A I don't see any disadvantages – and several advantages to consolidation! Commercial consolidation usually happens in low markets, like the current one where it makes sense to market and trade cargo ships under one entity and share all the revenues. You both reduce fragmentation and have better information, because unlike being one ship by yourself, you are one ship in a pool of 100. Additionally, timing is everything in shipping. If you are a single ship or a small fleet and there is a delay, this can have a significant hit on your revenues and knock on effects.

Also luck will play a big part on your bottom line, since if you are unlucky with rates for your asset, you are locked in until that contract ends. By contrast, if you have 100 ships, you can redeploy a different ship if there is an issue. Plus you smooth out the peaks and the troughs for revenues, and eliminate randomness. I think the more you can eliminate randomness, the better it is.

Q What do you see as the benefits of operating vessels in a pool in the current market?

A I think commercial cooperation should be flexible with as many ships as possible that should be able to come and go rather than directional positioning by a lot of ships. In the latter you are locked into Contracts of Affreightment (COAs) and need vessels to cover them, which takes away your flexibility.

We designed our Capesize, Supramax and Panamax pools to have this agility. Ships can come in with three months' notice and leave with three months' notice - or really, at the end of your voyage. This is the same as having a single ship in a spot market. If the owner wants to take a directional view, perhaps to de-risk their long shipping risk, then they can take their ship out of the flexible cooperation, and fix it in the time charter market, or sell it – all of which would require a three month window anyway. We don't want to take away any flexibility from owners.

Agile scaling up has improved our performance. Our Capesize pool performed at around 14% better than the Baltic Capesize Index in 2022, net of differentials and fees - and our Supermax pool performed 8% better than the Baltic Supramax Index, net of differentials and fees. So the benefit of being in our pool versus the spot market was between $600,000 to $800,000 per ship, which is pretty substantial, particularly for owners with multiple vessels in our fleet.

Q You mentioned thought-partnerships as a major factor of your success – can you elaborate?

A We've been operating ships for a long, long time together with our clients and we objectively take in different views and administer them properly. This is not a case of too many cooks spoiling the broth, but many cooks working to get the broth exactly right. We don't get pulled in too many different directions since our clients are very experienced in this space – and in some aspects, they are more experienced than us. So we maximise the benefits of everyone's knowledge.

What we have created is an active partnership for the pools' strategies, with CTM handling the implementation, administration and people management. Not all our clients contribute to the thought partnership – and they are not forced to. But when a client has assets that are worth millions of dollars, the majority want to discuss what their manager is doing with them.

Q How are your vessel pools preparing for the CII and how do you think this regulation will change the market?

A Rules are rules, so of course we are working towards the good CII certificates. It's an ever evolving process, because through the thought partnerships we are fine tuning our ideas. We're always trying to enhance our data collection in order to really understand what's going on. A ship's CII rating will definitely matter more in a low rate environment than in a high rate environment.

In my experience, in a high rate environment, people will focus more on price, with the environment being a lower priority. After all, you buy or rent the best you can afford. And if what you can afford is a 'D'-rated ship, that's what you will take. In fairness, that's what has happened historically and I would expect that at a certain rate level, the rating will start to really matter again – but either way, we will be prepared

Q What more do you think shipping needs to do on the environmental front?

A Frankly, I think that shipowners have done a pretty good job environmentally of keeping emissions down. Despite all the headlines, emissions have really gone down per tonne of cargo transported. My favourite thing to talk about is the benefits if we put a speed limit on the fleet. We would get past a lot of our emission targets very quickly. I think we're getting there with the new regulations, but it just seems like a hard way – which I find personally frustrating.

Q Regarding a shipping speed limit, do you think that we would need a larger fleet if we slow speed, thus creating more overall emissions – or should everyone adjust their expectations for cargo transport?

A So firstly, we already have plenty of ships, so filling the gaps caused by slow steaming won't be an issue. But I think that the industry has been getting it wrong by not looking at the optionality offered by the speed of a ship. Slowing a ship down would make the freight pie bigger, and we would all be in a more lucrative business. Plus you could have

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more cargo per ship, which would bring down the fuel cost and ship emissions per tonne of cargo, because it would just be a much more efficient use of vessel space. It's amazing that we haven't embraced this mentality, particularly in 2021 when we had huge lines of congestion and ships were being ordered to speed to port just to wait there. I think this is simple-minded, short term thinking.

I'm fairly certain that no one cares if their bushel of wheat, barrel of crude oil, or tonne of iron ore arrives in port, five or seven days later – and you would be doing the environment and your bottom line a big favour. This is a similar logic as just-in-time, and I feel that the best way to kind of start to implement this is to put a speed limit on ships just like you have speed limits on highways.

Q Do you expect a boom in newbuild ordering in the near future?

A I'm proud of being part of a dry cargo industry that has not over supplied itself in the past few years, especially in 2021 – although admittedly, a lot of that was because we don't know what the new fuel sources are going to be. But I would argue that dry cargo owners have done a pretty good job of being disciplined – and unfortunately it will be very easy for all of us to remain disciplined in the current day rate environment. But even if it improves, we still don't have a clear line of sight as to what the new fuel sources will be, so I'm not anticipating a boom.

Q What fuels are on your radar in the short and medium terms?

A For the next five years, I think we will stay conventional. I think there's a lot to be said about biofuels. And after that, it's really anyone's guess. I think it's worth saying that the fuel consumption, the efficiency, environmental footprint and carbon emissions of the conventional engines are getting pretty good. In our fleet, we have seen that one of our 2010-built 180,000 tonne ships consumes 60% more fuel than our 2022-built 180,000 tonne ship. So in 12 years, you've had a 60% reduction in the amount of fuel consumption. That's not only the engine, that's also the hull design, fuel saving devices, etc. I think this was a normal evolution in shipbuilding and we have done a fairly good job, but we can do a lot better and be more efficient at reducing our emissions.

I think at a high level, being better to the environment comes down to being selfless, and not selfish. If we all were selfless, we would get there a lot quicker – and no one would lose commercial advantage.

Shipping's hard-to-abate peers face decarbonisation hurdles

Comparing shipping's progress on climate change with other modes of freight transport and its own industrial customers shows varied challenges with common obstacles and solutions

Steel production accounted for 8% of global carbon emissions from the energy sector and 30% of industrial carbon emissions, according to a 2021 International Energy Agency (IEA) report, making the industry's decarbonisation a priority on par with shipping. Steel industry ambitions and timelines differ to those in shipping, but there is a similar trend – progress is being made, but the industry is not on track to meet its targets, according to the International Energy Agency (IEA). To meet a global net zero target in 2050, the steel industry must cut emissions by 90% from 2020 levels by 2050.

National and company decarbonisation pledges by steel manufacturers are increasing in ambition, but there is much progress left to be made on green steel production. Promising new low carbon production methods involving carbon capture and hydrogen lack industrial maturity, and so new and planned steel production capacity leans towards traditional carbon-intensive furnaces, which risk becoming stranded assets, according to a 2022 Organisation for Economic Co-operation and Development (OECD) report.

The IEA advocates for stronger policy support for decarbonising steel production, including carbon pricing, investment in R&D, and incentivising steel recycling. The latter could have a significant impact on future tonne-mile demand for iron ore.

Aviation faces similar decarbonisation challenges to shipping: a reliance on fossil fuels, a need for energy dense fuel, and the complexities of international operations. Like shipping, a lower carbon future for aviation relies on sustainable fuels. For both industries, sustainable fuel production and infrastructure require development, but low carbon hydrogen production and liquid hydrogen storage poses a "huge technical and industrial challenge" for aviation, said IEA.

Policies such as fuel taxation and funding of technological innovation are identified as essential to meeting decarbonisation targets in shipping and aviation; in each sector industry leads calls for greater ambition at UN global regulators such as the International Maritime Organization and the International Civil Aviation Organization.

A 2022 IEA report marked aviation as "not on track" to meet its net zero 2050 scenario along with international shipping, trucks and buses, aluminium, buildings, energy efficiency, chemicals, cement, and more. Cars and vans earned a "more effort needed" rating along with rail, while electric vehicles and lightning were awarded the only "on track" ratings.

News

Ukraine: 12 months and counting

One calendar year on from the start of the conflict in Ukraine, fierce fighting on land shows no sign of abating. At sea, the Black Sea Grain Initiative ('the Initiative') remains in effect, but the plight of seafarers trapped in Ukrainian ports, and the indiscriminate threat posed by an unknown number of sea mines adrift in the Black Sea, continue to cast long shadows over merchant shipping.

Despite hosting only three inspection teams, the Joint Coordination Centre has steadily reduced the number of vessels awaiting authorisation to sail. As of 1 March, 33 vessels were waiting for inspection and, in total, the Initiative has enabled an impressive 777 outbound voyages carrying 22,747,287 metric tons of grain and other foodstuffs to global markets.

In an address to the General Assembly Emergency Special Session on Ukraine on 22 February, the UN Secretary-General drew attention to the Initiative's contribution to addressing global food insecurity, especially in the Global South.

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However, in remarks to the UN Security Council on 24 February, he also acknowledged the fragility of the agreement and underscored the "importance of all parties remaining engaged in this initiative" and called "for it to be extended beyond March 2023".

Renewing the Initiative is a strategic priority, but the welfare of 331 seafarers trapped on board 62 vessels in the Black Sea and Sea of Azov is also a major concern. To highlight their predicament, ICS and 34 other maritime organisations and companies, submitted a joint open letter to the UN Secretary-General on 20 February, urging immediate action to evacuate the seafarers and their vessels. ICS hopes that the joint overture will increase pressure on decision makers to find a solution.

Detached sea mines have been seen throughout the conflict and the threat they pose remains a concern. A recent example of this is when, on 13 February, a sea mine exploded within three miles of Batumi port, Georgia. Thankfully, the detonation was caused by a storm and no vessel was involved, but the incident was a timely reminder of the threat they pose and the complexity of conducting clearance operations. Operating in the Black Sea continues to require a thorough security risk assessment.

Disaster management for shipping and ports

Resilience is a core requirement of the supply chain, making unpredictable, large-scale natural disasters, such as the earthquake that hit Turkey and Syria in February, particularly problematic.

Trade patterns are often disrupted in the wake of natural disasters, with cargo being diverted to close-by ports and massive delays in the supply chain. Carriers destined for Iskenderun shifted bookings to the neighbouring Port of Mersin, and a Maersk advisory said that the earthquake had a "significant impact on logistics operations in the area". According to visibility platform project44, the export dwell time at that port totalled 3.6 days just before the earthquake hit, soaring to a peak of 21.1 days on February 16.

Shipping is not the only mode of transportation seriously impacted. Turkey's Transport Ministry reported that 1275km of railway lines have been severely damaged or destroyed in the Kahramanmaraş region. Recovery could take a long time – and progress will likely be underpinned by public investment.

While extreme weather and natural disasters can affect ports in many parts of the world, they are particularly damaging to terminals in developing countries, such as those in small island developing states. Ports there often have inefficient infrastructure, and their economies are usually very dependent on maritime imports.

Indeed, the impact of extreme weather is illustrated by Typhoon Yutu in 2018, which forced all ports in Guam and Northern Mariana Islands to close for almost a week, severely disrupting trade flows.

However, actions are being taken to improve the disaster resilience of these ports, with the Asian Development Bank financing the upgrading of port infrastructure in the Pacific. This includes rebuilding the infrastructure and breakwater of Apia port, an important project as this is the only gateway for international cargo in Samoa.

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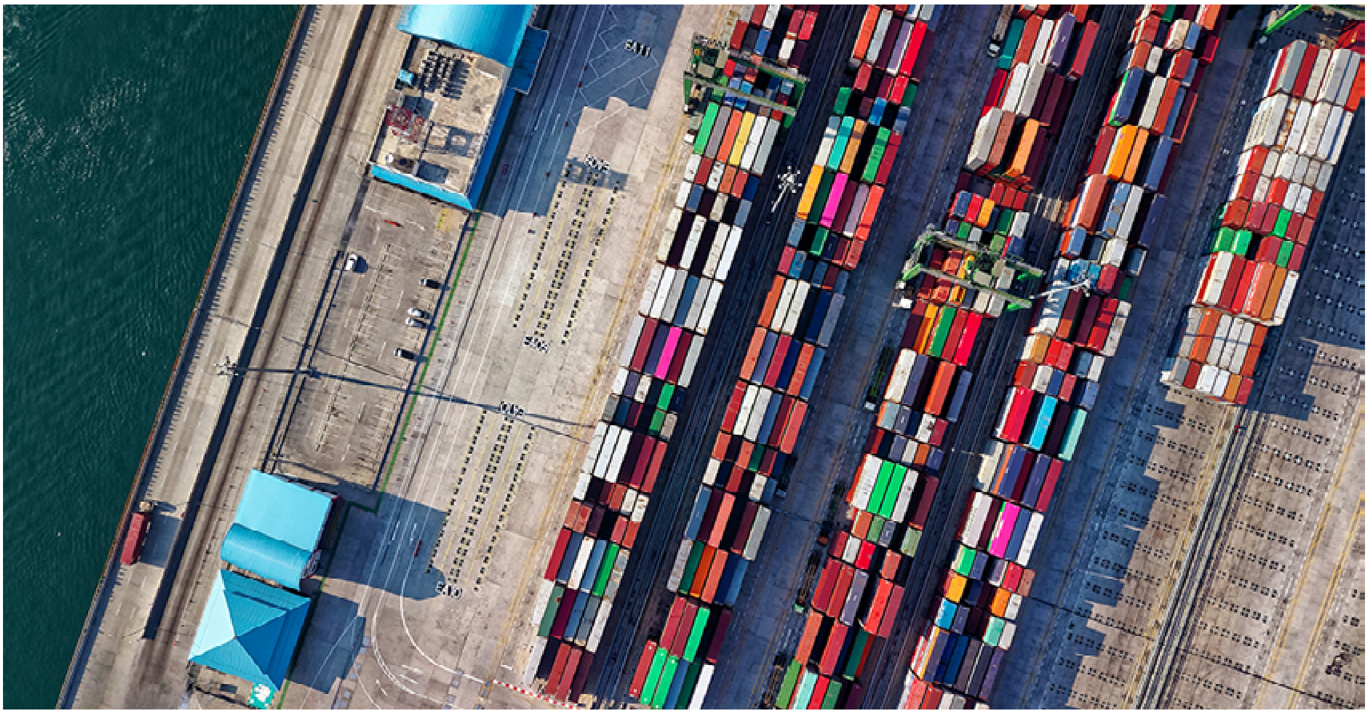
Elsewhere, International Association of Ports and Harbors' (IAPH) Risk and Resilience Guidelines were introduced in January 2023, centred around three steps – developing and inventorising risk, managing stakeholders and defining resilience – to build port continuity plans for crises including adverse weather.

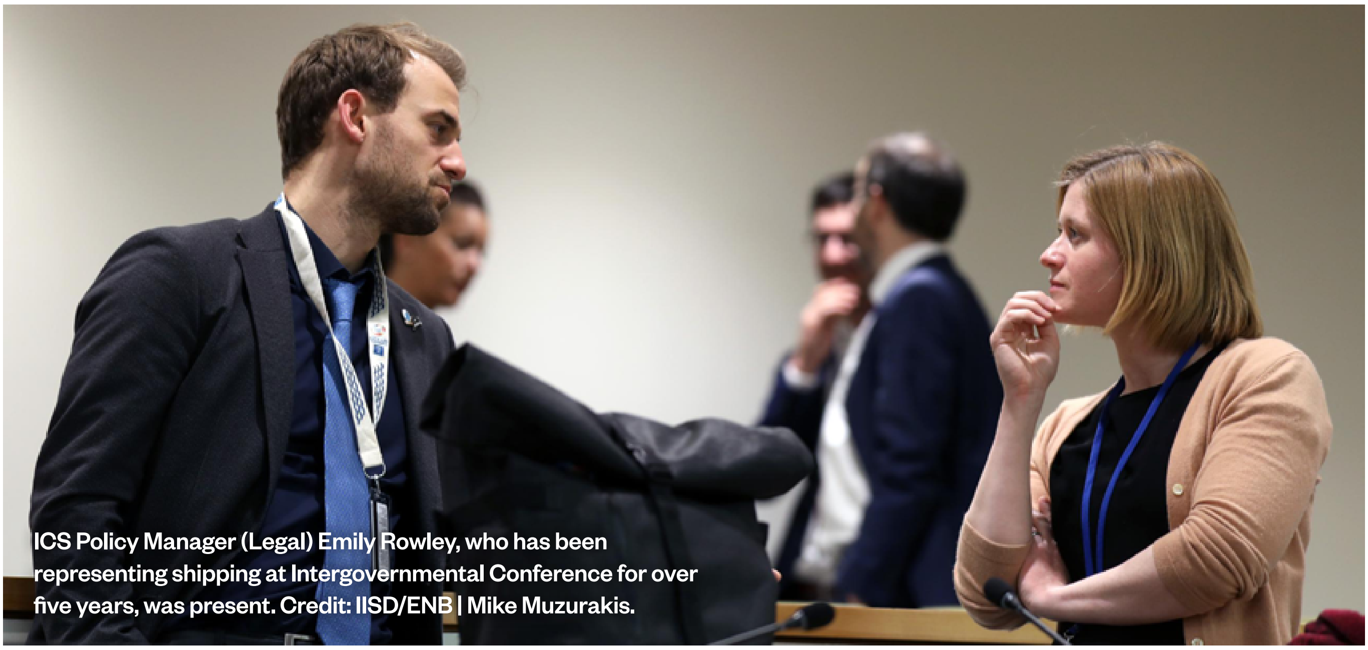
IAPH is collating case studies to help ports better prepare for eventualities. Its first case studies include one by Port of Los Angeles on how it is addressing the risk of floods and sea level rise.

Preparing for extreme weather is especially important given that the IPCC's Sixth Assessment report highlights the impact of climate change. IPCC's Sixth Assessment Report (2022) highlights the impact of climate change. It suggests that a "Transformational adaptation approach to address climate impacts on maritime activities and increase security would relocate ports, change centres of demand, reduce shipping distances, or shorten supply chains".



News

Conserving biologically diverse areas beyond national boundaries



ICS Policy Manager (Legal) Emily Rowley, who has been representing shipping at Intergovernmental Conference for over five years, was present. Credit: IISD/ENB | Mike Muzurakis.

Nearly 200 nation states at the United Nations have agreed final draft text for a treaty to protect high seas marine life. While yet to be formally adopted, the agreement forms the substance of an international legally binding instrument under the UN Convention under the Law of the Sea on the conservation and sustainable use of marine biological diversity of areas beyond national jurisdiction (BBNJ agreement).

The new treaty addresses four main elements of ocean governance: marine genetic resources, including questions on the sharing of benefits; measures such as area-based management tools, including Marine Protected Areas (MPA); environmental impact assessments; capacity building and the transfer of marine technology.

Notably, the treaty sets out a process to enable the establishment of cross-sectoral MPAs and other area-based management tools in the high seas and the underlying seabed. BBNJ will assist in delivering agreed upon targets of 30% global MPAs as decided in the

> The agreement is intended to cover gaps in ocean governance and will help ensure that emerging high seas industries will be as well-regulated as shipping is by IMO
>
> **Emily Rowley,**
> **ICS Policy Manager (Legal)**

Kunming-Montreal Global Biodiversity Framework in December 2022 at COP15.

Liz Karan, Director of Pew's Ocean Governance Project, said, "The effective implementation of this landmark treaty is the only pathway to safeguard high seas biodiversity for generations to come and provides a pathway for nations to fulfil the 30 by 30 target. Governments and civil society must now ensure that the agreement is adopted and rapidly enters into force."

The agreement takes account of the IMO's role and the measures that emerge from it will complement existing regulations, with the detail of any measures that may be needed for ships to be ultimately discussed and decided by the IMO.

"For international shipping, the matters which the convention is designed to address are within the remit of the IMO," explained ICS Policy Manager (Legal) Emily Rowley, who has been representing shipping at Intergovernmental Conference for over five years. "The agreement is intended to cover gaps in ocean governance and will help ensure that emerging high seas industries will be as well-regulated as shipping is by IMO. The agreement is also intended to enhance cooperation and coordination between UN agencies and other global and regional regulators of activities on the high seas, promoting a holistic approach to the protection of marine biodiversity and ecosystems areas where no one State is responsible for preserving them."

The ICS has welcomed this landmark agreement, having actively participated in talks on the BBNJ since 2016. This has ensured that the international shipping community is engaged and represented at UN negotiations, and to reiterate the the role of the IMO as shipping's global regulator.

Climate law poses emerging challenge for shipowners

Shipowners may be vulnerable to strategic litigation, examining sustainability reporting and compliance planning to meet future decarbonisation obligations, as climate litigation targets corporations.

The increasing trend and scope of climate litigation could herald new legal risk for shipping companies and directors, legal experts have warned. According to the Grantham Institute, the number of actions has grown year-on-year over the past two decades and increasingly targets corporations rather than governments, with businesses now defending half of all cases.

A recently launched lawsuit against directors of Shell for failing to protect the business from climate-related risk highlights the trend. The case, brought by climate activists Client Earth, argues that Shell directors neglected their duty to shareholders by setting climate targets below those needed to reach Paris Agreement targets.

The claim against Shell's directors is based on the company's alleged failure to consider physical and energy transition risks to the business. The company is also claimed to have failed to comply with an order in a Dutch court to redress its strategy, which a third-party report assessed had no short-to-medium term plan to tackle emissions from consumers using its products.

The Shell case, the first of its kind in the UK, is part of a trend for 'derivative actions' against directors. Diana France, a partner at law firm HFW, told *ICS* that stock listed, multinational ship operators carrying fossil products were the most likely targets due to their trade's involvement in the oil and gas industry.

Other shipowners. and shipping stakeholders viewed as having defined climate requirements, could also face climate litigation in different jurisdictions.

"If you can point to a compulsory obligation that's not being complied with, that's very helpful for a claim," France said. "But the detail depends on where you are in the world and exactly what the claim is."

Winning the case may not be the point, as groups often use "strategic litigation" to apply pressure on companies to decarbonise faster. Translated to shipowners, this could lead to interrogation of sustainability reporting and compli-

ance planning, including choices of technology and fuels to meet future climate obligations.

Haris Zografakis, a partner at law firm Stephenson Harwood, told *ICS* that climate compliance plans that are justified, specific, "and above all, acted on" are the best defense. To dissuade actions, plans for compliance may need to be more concrete than the potential future improvements listed in a vessel's Ship Energy Efficiency Management Plan.

"Compliance with the IMO regulatory framework is not necessarily sufficient to ward off climate litigation of the type that is seen in other industries, especially as the IMO target is at present not aligned with net zero goals of companies and governments," said Zografakis.

While only directors of stock-listed companies are open to derivative actions, there are wider grounds for climate litigation that could affect all shipowners. Litigation could cover corporate frameworks, contractual arrangements and greenwashing claims, operating across supply chains and investment portfolios as well as core business activities. Risk to shipowners could also be multiplied due to the many national, regional and global climate frameworks that could be applied to mobile assets.

A survey of the biggest 95 owners revealed that 35% have already pledged to comply with either IMO's 2050 greenhouse gas reduction target or committed to net-zero emissions by 2050

Contractual disputes are also expected to proliferate as climate obligations play a bigger role in shipping. Owners competing for a tender could bring an action if their rival's green credentials are material in securing the contract and then shown to be untrue, for example. The Carbon Intensity Indicator (CII) is also ripe for dispute. For example, if operators refuse work contracted by charterers because it would affect their vessel's CII rating, they could be sued for not fulfilling their employment order.

The potential impact of climate law on shipping should not be underestimated, said Zografakis. The terms on which shipping conducts business has been "forged in the hot crucible of litigation", he said, filling the gaps in the industry's regulatory framework. As climate case law evolves, courts are likely to play a similar role in the decarbonisation of shipping.

A recent study from the Maersk McKinney Møller Center for Zero Carbon Shipping highlights that the world's biggest ship owning companies are already making public efforts to highlight compliance with forthcoming climate obligations. A survey of the biggest 95 owners revealed that 35% have already pledged to comply with either IMO's 2050 greenhouse gas reduction target or committed to net-zero emissions by 2050, in line with the Paris Agreement.

ICS in Action

A round-up of ICS news and activites over the last month

Funding the net-zero transition

The ICS has submitted a revised proposal to member states at the IMO for shipowners to make mandatory flat rate contributions per tonne of CO_2 emitted to create a new IMO fund, to be established by 2024, to help accelerate the transition by international shipping to net zero. The ICS 'Fund and Reward' proposal has been submitted to IMO for consideration at the next round of IMO GHG negotiations (ISWG-GHG 14) in March.

The fund will reward the uptake by shipowners of low and zero-carbon fuels, as well as supporting alternative fuel production and bunkering infrastructure in developing countries. The funds collected will be used to reward the uptake of eligible alternative by first movers, based on the CO_2 emissions prevented by their use. This should significantly reduce the price gap with conventional marine fuels whilst minimising the additional cost of marine fuel used by most ships today to minimise negative impacts on trade, which is a legitimate concern among many developing economies.

ICS updates STCW guide

ICS has published the fourth edition of its Guidelines on the IMO STCW Convention, helping shipping companies stay up to date on the latest regulations and guidance required to comply with IMO International Convention on Standards of Training, Certification and Watchkeeping for Seafarers (STCW).

The fourth edition includes significant updates related to new codes, including for alternative fuel use and polar operations. It also reflects changes in the working environment for seafarers, including technology changes, onboard processes and the growing importance of crew welfare.

The guide helps companies identify mandatory and voluntary elements relating to training, industry best practice and the role of shipping companies and governments in implementing and enforcing STCW. It is priced at £135 and is available in print and digital ebook versions.

Promoting Africa's green potential

The Maritime Just Transition Task Force, of which ICS is a founding member, has highlighted Africa's potential to become a world leader in green shipping jobs to maritime administrations across the region.

Speaking at the Green Shipping Conference in Accra on 15 February, Helio Vicente, senior manager of trade policy and employment affairs at, ICS, noted that a future global centre of maritime excellence for seafarer training could be based in Africa, bringing with it more jobs and wider benefits for the region.

"Africa can leverage the strategic opportunities of this shipping revolution. But our advice is that you need to move on this now, today," he said.

Writing Women into Maritime History

Lloyd's Register Foundation and Lloyd's Register are seeking stories of women in shipping as part of a project titled 'Rewriting Women into Maritime History'. The project aims to highlight the activities undertaken by women in shipping over the centuries.

The project will provide opportunities for organisations to be involved in outreach activities to engage a global audience. A key theme is diversity, equality and inclusion, ensuring that overlooked voices are heard and highlighting the many opportunities presented by a maritime career.

This year the project will focus on the UK and Ireland before branching out to global collaborations in 2024. Interested parties are invited to join the initiative and submit their stories.

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.

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