

Annual Review 2019



International
Chamber of Shipping

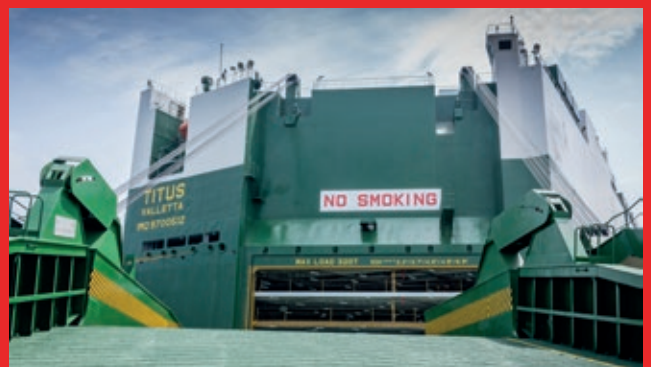
Shaping the Future of Shipping

The International Chamber of Shipping (ICS) is the principal global trade association for shipowners, concerned with all regulatory, operational and legal issues, as well as employment affairs.

The membership of ICS comprises national shipowners' associations representing all sectors and trades from 37 countries, covering more than 80% of the world merchant fleet.

We acknowledge with thanks the use of photos from the following associations and their member shipping companies:

Bahamas Shipowners' Association
Union of Brazilian Shipowners
Cyprus Shipping Chamber
Danish Shipping
Finnish Shipowners' Association
French Shipowners' Association
German Shipowners' Association
Union of Greek Shipowners
Italian Shipowners' Association
Japanese Shipowners' Association
Royal Association of Netherlands Shipowners
Norwegian Shipowners' Association
Singapore Shipping Association
Swedish Shipowners' Association
Turkish Chamber of Shipping
UK Chamber of Shipping
Cruise Lines International Association



Annual Review

2019



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Chamber of Shipping

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Chairman's Review

Esben Poulsson (Singapore), ICS Chairman

The Annual Review set outs a broad cross section of just some of the many issues in which ICS is deeply engaged on behalf of the global shipping industry.

The Fourth Industrial Revolution, as envisaged by the World Economic Forum, will be fundamentally different from the previous three which were characterised mainly by advances in technology. The underlying basis for the fourth revolution lies in radical advances in communication and internet connectivity. We thus have the potential to drastically enhance the efficiency of maritime transport while supporting further improvements to safety and environmental performance.

The immediate focus of ICS, and the shipowners we represent, is the successful implementation of the UN International Maritime Organization (IMO) global sulphur cap, which will take complete effect on 1 January 2020. I am proud of the comprehensive advice that ICS has produced to help shipowners prepare, and the notable success that ICS has had in persuading IMO to adopt appropriate guidelines for its Member States.

Together, these initiatives should go at least some way towards reducing the risk that shipowners, through no fault of their own, could be unfairly penalised by Port State Control authorities in the event that safe and compliant low sulphur fuels are initially unavailable in every port worldwide. There are still many questions that will not be fully settled before 2020, including what the cost of compliant fuels will be, but hopefully this enormous regulatory change will proceed as smoothly as possible.

ICS is acutely aware of the urgent need for all economic activities, including international shipping, to eventually eliminate GHG emissions as soon as practicable, through a combination of short and longer term measures. The sector has already made impressive CO₂ reductions since 2008, something for which the shipping industry is given insufficient credit. But now we need to redouble our efforts to deliver further dramatic improvements in fuel efficiency, as demanded by governments and society at large.

ICS has been leading the way in coming forward with constructive proposals for GHG reduction at IMO and will continue to do so throughout 2019. The transition to zero CO₂ emitting fuels – which ICS has dubbed the 'Fourth Propulsion Revolution' – is the challenge of our age, and one that I know the industry will embrace. This will require truly massive investment in research and development, which ICS believes must be at the heart of the IMO GHG Strategy if the ambitious reduction targets that IMO Member States have set are to be met.

I am particularly pleased that ICS's call for a comprehensive review of the IMO STCW Convention governing seafarers' training standards is gaining traction with governments, following a speech I made in Manila in November 2018. We are also making progress on a range of other important legal and policy issues at many different international fora. This includes the International Labour Organization, in Geneva, with which ICS is celebrating 100 years of co-operation, and



ICS Secretary General, Guy Platten, moderating IMO event on Empowering Women in the Maritime Community, May 2019

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the United Nations, in New York, where I joined the first round of high level negotiations on a new UN Law of the Sea agreement for the protection of marine Biodiversity in Areas Beyond National Jurisdiction (BBNJ) which could have significant consequences for the future regulation of shipping.

There are many other pressing issues in which ICS is engaged as the industry's global trade association, not the least the danger of a global trade war. There is also the unacceptable spike in the number of violent pirate attacks off West Africa; and the continuing tragedy in the Mediterranean where thousands of migrants continue to drown, and where there are increasing questions as to whether ships involved in large scale rescue operations can be confident that prompt and predictable disembarkation of rescued people will continue.

2018 was an important year for ICS with our new Secretary General, Guy Platten, taking the helm. He has joined at a time when our agenda is busier than ever and the challenges before us are of a transformational nature. I believe the fresh approach he is bringing to the oversight of ICS's many activities, including the production of our widely used publications on industry best practice, will allow ICS to serve the interests of its members even more effectively. With the assistance of the ICS Board, plus the support of our expert Committees and our dedicated Secretariat, I am greatly looking forward to a further year in office as Chairman.

As this Annual Review explains, the work of ICS is vital to ensure that the shipping industry can present a united front when seeking to influence its global regulators, especially at IMO, so that regulatory outcomes agreed by governments are compatible with economic sustainability, as well as the continuous improvement of safety and environmental protection.

This includes working effectively with the other members of the Round Table of international shipping associations – in the past 12 months I have enjoyed two very productive meetings with my fellow Chairmen; as well as working closely with our regional partners, ASA and ECSA, with whom, in April 2019, I signed an MOU on behalf of ICS to further enhance our good co-operation as representatives of the world's national shipowner associations. United we stand and divided we fall.

Esben Poulsen

ICS Vice Chairmen 2018/19

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Bahamas



Mr Emanuele Grimaldi
Italy



Mr Mark Martecchini
Liberia



Mrs Karin Orsel
Netherlands



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Mrs Catherine Howlett
Administrator Publications

The 2020 Global Sulphur Cap

On 1 January 2020 the UN IMO global sulphur cap will take full effect and will be strictly enforced by the world's Port State Control authorities.

The IMO Marine Environment Protection Committee (MEPC) reiterated at its meeting, in May 2019, that there is no possibility of delaying implementation of the global sulphur cap and the start of what will be a new multi-fuel future. The immediate priority for ICS has been to help shipping companies prepare for compliance, and to persuade IMO to adopt vital guidance to ensure a smooth transition, to prevent the possibility of ships being unfairly treated through no fault of their own.

Ships trading outside of existing sulphur Emission Control Areas (ECAs) will have to burn compliant low sulphur fuels. With the exception of a minority of ships that have elected to use LNG or install Exhaust Gas Cleaning Systems ('scrubbers'), the majority of ships will comply using a variety of fuels with a sulphur content of 0.5% or less. This is compared to the 3.5% sulphur content which has been permitted outside of ECAs since 2012.

The new IMO regime is fully supported by ICS. It will deliver dramatic reductions to the sector's sulphur emissions and significant environmental benefits, not least to the health of coastal populations. But notwithstanding ICS efforts to support successful implementation, this will be the regulatory game changer of the decade, with profound effects on the economics of shipping and the future structure of the industry. If implementation by governments and bunker suppliers is flawed there is also scope for some serious market distortion. It is also important to remember that the IMO decision to proceed in 2020 focused entirely on the likely availability of compliant fuel and took little account of the possible purchase price.

Apart from the significant additional cost of low sulphur fuel, implementation will be far more complex than for the previous introduction of ECAs. This is because of the sheer magnitude of the switchover and the much larger quantities and different types of fuel involved, as well as continuing uncertainties about the availability of compliant fuels in every port worldwide, immediately before and after 1 January 2020.





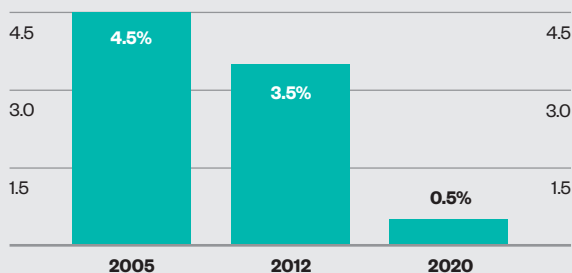
Fuel, by far, is a ship operator's greatest cost and the price of compliant fuels is expected to be expensive, perhaps 50% more than the residual fuel which most ships have been using for the past 40 years. It is currently understood that about half of the low sulphur fuels that will be available in 2020 may have a sulphur content of just under 0.5%, many being new blends of distillate and residual fuels, with much of the remainder being 0.1% distillate fuels as currently used in ECAs. Although opinions differ, it is possible that the price differential between 0.5% and 0.1% fuel could in fact be relatively small, although this is likely to vary considerably between regions and from port to port.

The collective cost to the global industry could be in excess of US\$50 billion per year, with an additional price spike anticipated during the initial period of implementation due to continuing uncertainty about the availability of compliant fuels. Even if the cost of a barrel of oil stays at the lower levels which have applied since the significant price fall in 2015, the switch to low sulphur fuel in 2020 could mean that bunker costs for the majority of ship operators could return to their 2014 peak.

The global sulphur cap was agreed via amendments to Annex VI of the MARPOL Convention in 2009, but the 2020 date was not confirmed by IMO until 2016 and fuel producers and bunker suppliers have struggled to be fully ready. Now that 2020 is fast approaching, ship operators, oil refiners and bunker suppliers must urgently prepare for implementation. ➤

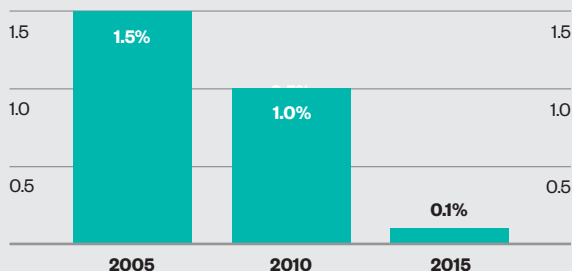
Global Sulphur Cap

Sulphur content of fuel permitted outside Emission Control Areas



IMO Agreement to Reduce Atmospheric Pollution from Ships

Sulphur content of fuel permitted inside Emission Control Areas



➤ The 2020 Global Sulphur Cap

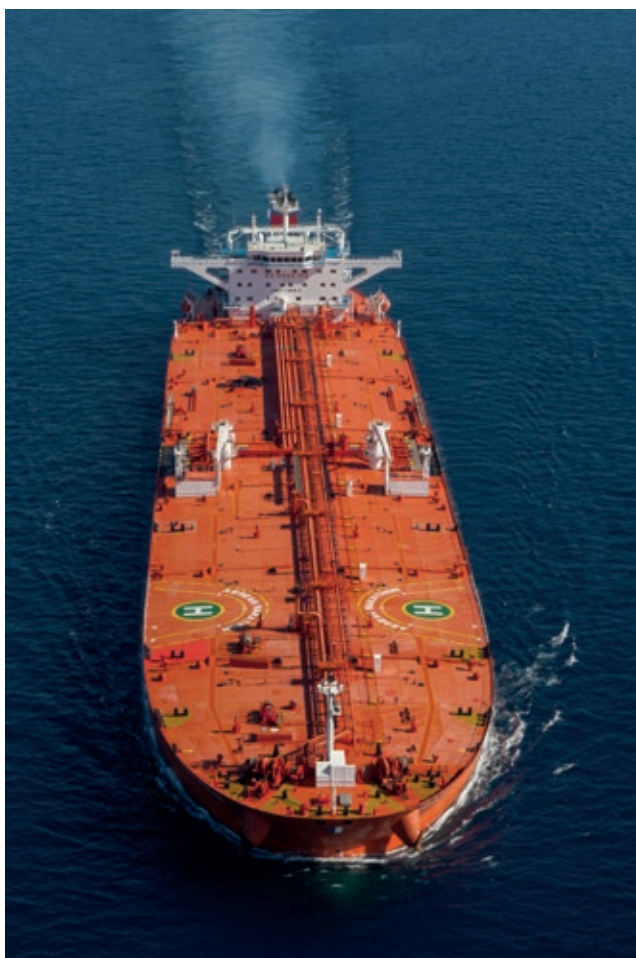


The oil refining industry in particular will need to take important decisions to ensure that sufficient quantities of compliant fuel will indeed be produced well in advance of 1 January 2020. But governments will need to monitor this carefully, as it may be in the refiners' commercial interest to keep the supply of compliant fuel as tight as possible. Indeed, the high cost of refinery investment, and the patenting of new blended fuels, could increase the dominance of the oil majors in supplying marine bunkers.

As well as concerns about whether sufficient quantities of compliant fuels will be available in every port worldwide, the new blended fuel oils which many ships will use create complex operational problems, especially for ships in tramp trades which may not be instructed of their next port of call until shortly before they arrive. Concerns have also been raised about fuels, including these new blends, which will be compliant with the 0.5% sulphur limit but which may differ in their composition from supplier to supplier and from port to port, potentially leading to compatibility and mechanical problems.

In September 2018, ICS produced comprehensive Guidance on Preparing for Compliance with the Global Sulphur Cap which has been distributed free of charge throughout the industry and well received by ship operators. This ICS Guidance has also helped to demonstrate to IMO Member States that, when raising legitimate concerns about fuel availability, safety and compatibility of new fuels, the industry is acting in good faith and not seeking to circumvent compliance when the new regime initially takes effect. This ICS Guidance has since been updated in 2019 to take full account of recent IMO decisions, including the various guidelines adopted by the MEPC, as well as model charterparty clauses issued by BIMCO and INTERTANKO.

ICS has been particularly concerned to ensure a level playing field for ship operators. While the vast majority of shipping companies will of course comply automatically, the global nature of the sulphur cap, and the challenge of checking compliance in the middle of the ocean, means that enforcement will be far more complicated than is the case in those sulphur ECAs which already exist in North



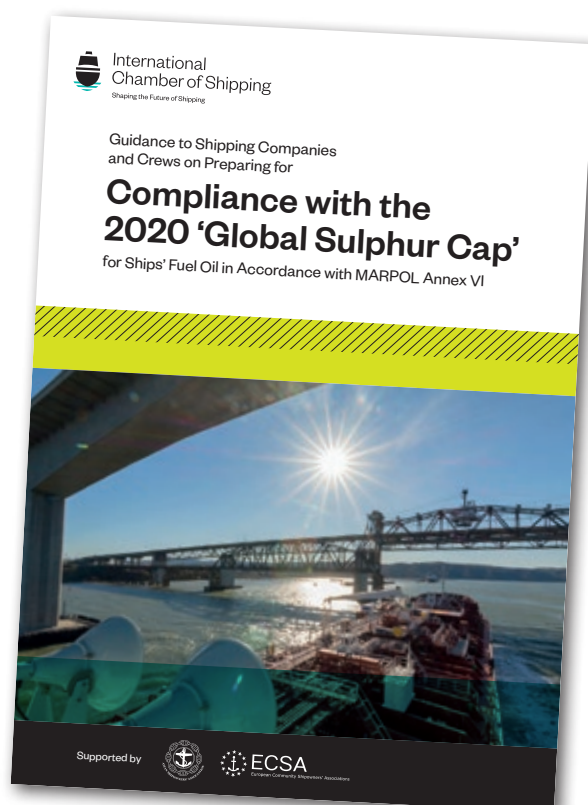
America and North West Europe. ICS, in co-operation with other international shipowner associations, was therefore instrumental in persuading IMO, in October 2018, to adopt a prohibition on the carriage of non-compliant bunker fuels. This additional tool to help Port State Control inspectors check for potential non-compliance will take full effect on 1 March 2020.

In theory, in the margins of the industry, a ship registered with a flag state that is not a party to MARPOL Annex VI and which trades to a port located in another non-party, could potentially have evaded compliance. But with the IMO carriage ban adopted at the suggestion of the industry, any such ship can now be inspected for compliance as soon as it enters the majority of port states which are signatories

to the global cap. These port states can then apply the IMO principle of 'no more favourable treatment' whereby compliance can still be checked, even if the flag state has not yet ratified Annex VI. Data about any non-compliance will then be published by regional PSC authorities, exposing the vessel to further targeted inspections and reducing the ship's ability to secure future charters.

Most importantly, the MEPC has formally adopted extensive IMO Guidelines on implementation. As requested by ICS, this includes a template for ship specific Implementation Plans, on which the ICS guidance on compliance provides detailed advice.

While IMO has so far refused to accept industry requests for an explicit recommendation for some kind of common sense approach to Port State Control in the event of any 'teething problems' immediately before and after 1 January 2020, IMO has agreed that the use of a ship specific Implementation Plan, supported by appropriate documentation, can be taken into account by PSC inspectors. ➤



► The 2020 Global Sulphur Cap



Critical to the treatment of ships which, through no fault of their own, may initially be unable to operate using compliant low sulphur fuel will be the use of Fuel Oil Non Availability Reports (FONARs). With significant input from ICS, IMO adopted guidelines on FONARs in May 2019. However, while the possibility to use FONARs will be important during the early period of implementation, ICS has been keen to emphasise that they are only a tool of last resort that cannot be used routinely, and that decisions on issues such as when and how any non-compliant fuel must be removed from the ship will rest with the PSC authorities in the next port of call.

IMO has also approved guidance on best practice for fuel oil suppliers for assuring the quality of fuel oil delivered to ships, based on proposals submitted by ICS and the industry. In July 2018, the International Organization for Standardization (ISO) delivered a statement to IMO that the requirements of ISO 8217:2017 cover “2020 0.50% max. sulphur fuels in the same way as they cover today’s fuels”. ICS has therefore recommended that shipowners ensure that ISO 8217 is specified as the required standard when ordering 0.5% sulphur fuels for use after 1 January 2020.

At the IMO Maritime Safety Committee meeting in December 2018, IMO Member States considered a further ICS/industry submission concerning fuel quality and safety issues that may be elevated by the introduction of the sulphur cap and the use of new blended fuels. Based on this industry submission, IMO has agreed to develop further measures and to recommend that all Member States take appropriate action to ensure that fuel suppliers under their jurisdiction deliver compliant fuels.

At the MEPC meeting in May 2019, IMO Member States also gave preliminary consideration to an ICS/industry submission on the development of a global bunker supplier licencing scheme. This is partly based on the scheme developed for use in Belgian/Netherlands ports, as well as the successful licencing system which now operates in Singapore.

As recommended by IMO, it is particularly important that shipping companies prepare a ship specific Implementation Plan for each of their ships, taking account of the ICS Guidance and the indicative format that has been developed by IMO. Shipping companies need to prepare these plans as soon as possible, especially as they will need to start purchasing and loading compliant fuels several months in advance of 1 January 2020.

It is impossible to predict with certainty what will happen in 2020. There seems to be a growing consensus within the bunker industry that sufficient quantities of compliant fuels will probably be available, although they are likely to be expensive. While the industry is committed to full and immediate implementation, there could possibly be an initial period of supply problems when compliant fuel might not always be available in every port worldwide until it can be shipped in from elsewhere.

ICS is nevertheless confident that if a ship has a suitably developed Implementation Plan, and corresponding records are maintained on board which show how the plan has been followed, then the ship’s crew should be in a better position to demonstrate to Port State Control officers that they have acted in good faith and done everything that could be reasonably expected to achieve full compliance.



Reducing CO₂ The Fourth Propulsion Revolution

ICS is making proactive proposals to achieve the high levels of ambition agreed by the UN IMO to phase out GHG emissions, including a total cut by the sector of at least 50% by 2050.

In the 19th Century, international shipping transitioned from sail to steam propulsion and in the 20th Century from coal to oil. As a result of the need to eliminate greenhouse gas emissions from ships, the industry is now on the brink of a 'Fourth Propulsion Revolution', possibly using a combination of hydrogen/ammonia and batteries powered from renewable energy sources.

ICS and its member national associations are committed to the phase-out of greenhouse gas (GHG) emissions, consistent with the Initial Strategy on the Reduction of GHG

Emissions from Ships that was adopted by IMO in April 2018. The IMO strategy establishes very ambitious targets, including the phase-out of GHG emissions "as soon as possible this century" and reducing annual GHG emissions from international shipping by at least 50% by 2050 compared to 2008.

ICS is confident that the radical solutions required will eventually be found. However, the technologies necessary to achieve these ambitious IMO goals do not currently exist at a scale or in a form which is commercially viable for widespread use by international shipping, especially for transoceanic voyages. ICS therefore believes that support for massive research and development activity needs to be at the centre of the implementation of the IMO strategy by Member States.

Given the complexities of the politics of climate change, this 'Paris Agreement for international shipping' is a genuine achievement of diplomacy. It represents consensus between those nations, including EU Member States, that wish to see dramatic CO₂ reductions as soon as possible, and other IMO Member States that have legitimate concerns about the possible impacts on trade and their national economies.

The GHG reduction targets agreed by IMO are very ambitious. A 50% total cut by 2050, regardless of trade growth, is very challenging indeed. The industry also has to deliver a 40% efficiency improvement by 2030, although ICS is confident that this earlier goal can be achieved using existing technologies. ➤





Initial IMO Strategy on Reduction of GHG Emissions from Ships



Adopted on 13 April 2018 (key extracts)

Vision

IMO remains committed to reducing GHG emissions from international shipping and, as a matter of urgency, aims to phase them out as soon as possible in this century.

Levels of Ambition

- 1. Carbon intensity of the ship to decline through implementation of further phases of the energy efficiency design index (EEDI) for new ships**
To review with the aim to strengthen the energy efficiency design requirements for ships with the percentage improvement for each phase to be determined for each ship type, as appropriate;
- 2. Carbon intensity of international shipping to decline**
To reduce CO₂ emissions per transport work, as an average across international shipping, by at least 40% by 2030, pursuing efforts towards 70% by 2050, compared to 2008; and
- 3. GHG emissions from international shipping to peak and decline**
To peak GHG emissions from international shipping as soon as possible and to reduce the total annual GHG emissions by at least 50% by 2050 compared to 2008 whilst pursuing efforts towards phasing them out as called for in the Vision as a point on a pathway of CO₂ emissions reduction consistent with the Paris Agreement temperature goals.

(The strategy also includes a list of candidate measures for further CO₂ reduction that will be considered by IMO, including measures that can be implemented before 2023.)

➤ Reducing CO₂ The Fourth Propulsion Revolution

The targets agreed by IMO will hopefully be sufficient to discourage unilateral action given shipping's vital need for uniform global regulation, bearing in mind that these objectives will be revisited by IMO by 2023, taking account of the improved data on the progress that the shipping sector is making. This information will be derived from the mandatory Fuel Oil Data Collection System (DCS) that IMO established in 2016 and which is now fully up and running.

Although the UN Framework Convention on Climate Change (UNFCCC) is applicable to shipping, the sector (along with international aviation) is not covered by the CO₂ reduction commitments that governments are required to make with respect to their national economies. This recognises the fact that responsibility for emissions generated by maritime transport cannot be attributed to individual countries. International shipping nevertheless generates about 2% of global CO₂ emissions, comparable to an economy such as Germany. While the UNFCCC Conference in Poland, in November 2018, greatly welcomed the adoption of the IMO strategy, progress by IMO on behalf of the shipping sector is still being closely monitored by the international community.

Importantly, while the IMO strategy is 'cognizant' of the UNFCCC principle of Common but Differentiated Responsibilities and Respective Capabilities (CBDR-RC) whereby parties to the Paris Agreement accept different

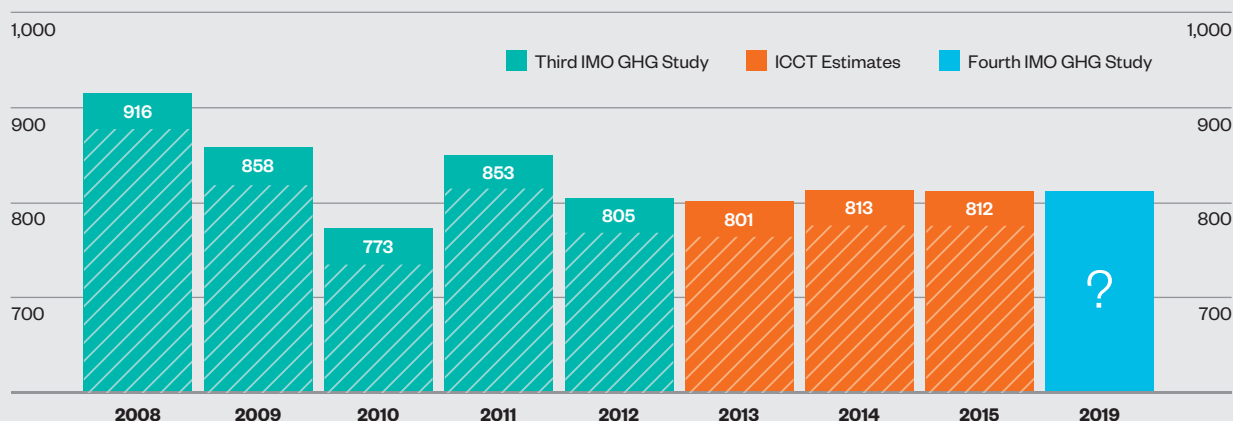
obligations for addressing climate change – a concept that has great difficulties if applied to international shipping – IMO has also agreed that any new regulations must apply to all ships equally, regardless of flag, which will be vital to prevent market distortion and trade inefficiencies.

The agreed IMO targets are fully consistent with the UNFCCC goal of limiting temperature increases to 1.5 degrees centigrade compared to pre-industrial levels, and are far more ambitious than those so far agreed for aircraft by the International Civil Aviation Organization (ICAO) which has currently only agreed a goal of holding the aviation sector's emissions at 2020 levels. Indeed, based on the total impact of the commitments so far made by governments as part of the Paris Agreement, successful delivery of the IMO targets will decarbonise shipping at a much faster rate than the rest of the world economy, whose emissions are projected to continue increasing for at least a further 10 years. International shipping emissions are believed to be about 8% lower than in 2008, subject to confirmation by the next IMO Green House Study which is being conducted in 2019.

However, the pressure is now on to make genuine progress with delivering the IMO strategy. In October 2018, the IMO Marine Environment Protection Committee adopted an Action Plan, including consideration of a suite of possible candidate measures for the short, medium and longer term.

Total International Shipping CO₂ Emission Estimates

Million tonnes per year



Source: Third IMO GHG Study & ICCT

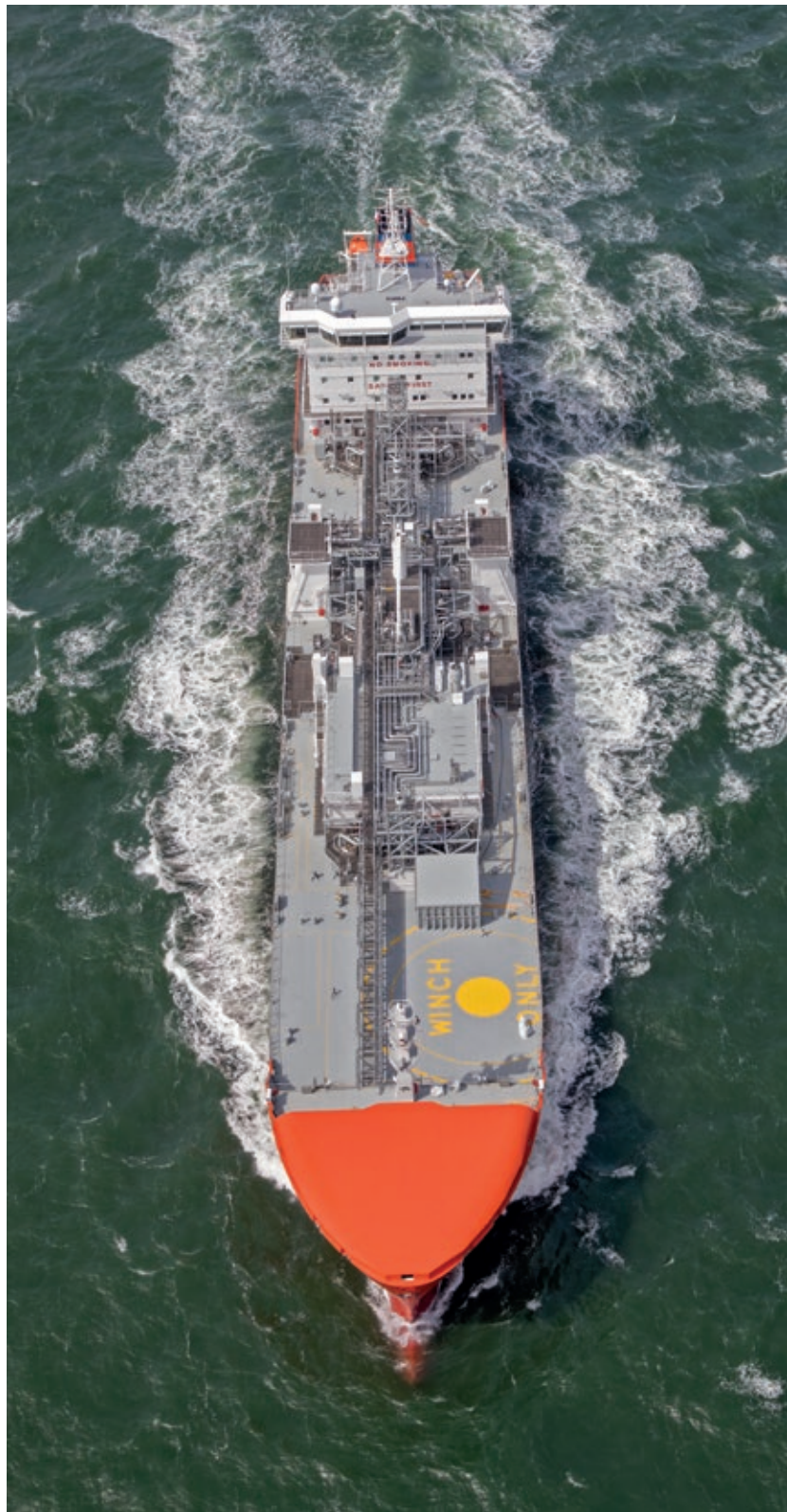


The immediate priority is for IMO to make progress with short term measures, including the adoption of new regulations that will achieve further CO₂ reductions from shipping before 2023. ICS is acutely aware of the political importance that many governments attach to this 2023 date if unilateral or regional rules are to be prevented. ICS, in co-operation with other industry associations, has therefore come forward with detailed proposals which were given initial consideration by the MEPC in May 2019.

These industry proposals support a further tightening of the existing Energy Efficiency Design Index (EEDI) for new ships – which already require ships built in 2025 to be 30% more efficient than those delivered in 2013. They also propose the concept of the ‘Super SEEMP’, whereby mandatory Ship Energy Efficiency Management Plans will be subject to some form of external audit as part of the International Management Code for the Safe Operation of Ships and for Pollution Prevention (ISM Code).

In making these proposals, ICS and the industry are trying to come forward with viable alternatives to some frankly unrealistic suggestions from some IMO Member States which, if accepted, would lead to serious market distortion. These impractical and unhelpful ideas include operational efficiency indexing of individual ships, mandatory speed limits (as opposed to speed optimisation which ICS fully supports) and mandatory refitting of potentially unproven and immature new technologies which may be inappropriate for many ships and actually counterproductive. The overriding concern of ICS is that many of these unwelcome proposals confuse the CO₂ emissions generated by particular shipping routes and trades with the operational efficiency of individual vessels.

For example, the fuel consumed by two identical ships during two similar voyages will vary considerably due to factors such as currents, ocean conditions and weather. Similarly, fuel consumed by individual ships, particularly those in tramp sectors, may vary considerably from one year to the next, being dependent on changing trading patterns and the nature of charters over which the ship operator has little control. A ship which predominantly trades in the North Atlantic, the Bay of Biscay or the North Sea will superficially display far worse operational efficiency indicators than a ship which mostly trades in areas like the Gulf of Mexico or the Adriatic. ➤



➤ Reducing CO₂ The Fourth Propulsion Revolution





ICS wants IMO to make meaningful progress with short term GHG reduction measures as soon as possible to achieve further measurable GHG reductions by 2023, in addition to the significant reductions already achieved by the sector since 2008. But while these short term measures will be very important, ICS also wants IMO to move on to developing the critical longer term measures that will truly help the industry to decarbonise completely. It is vital that these discussions begin in earnest during 2020.

In March 2019, in conjunction with other international shipowner associations, ICS made an important submission to IMO in order to highlight the fact that, when account is taken of projections for future trade growth, the industry cannot achieve the 2050 GHG reduction target using fossil fuels alone. This may require an efficiency improvement of around 90% compared to 2008, which cannot be delivered with current propulsion systems. If the 2050 reduction target is to be met, commercially viable low emission ships need to start appearing on the market by the 2030s.

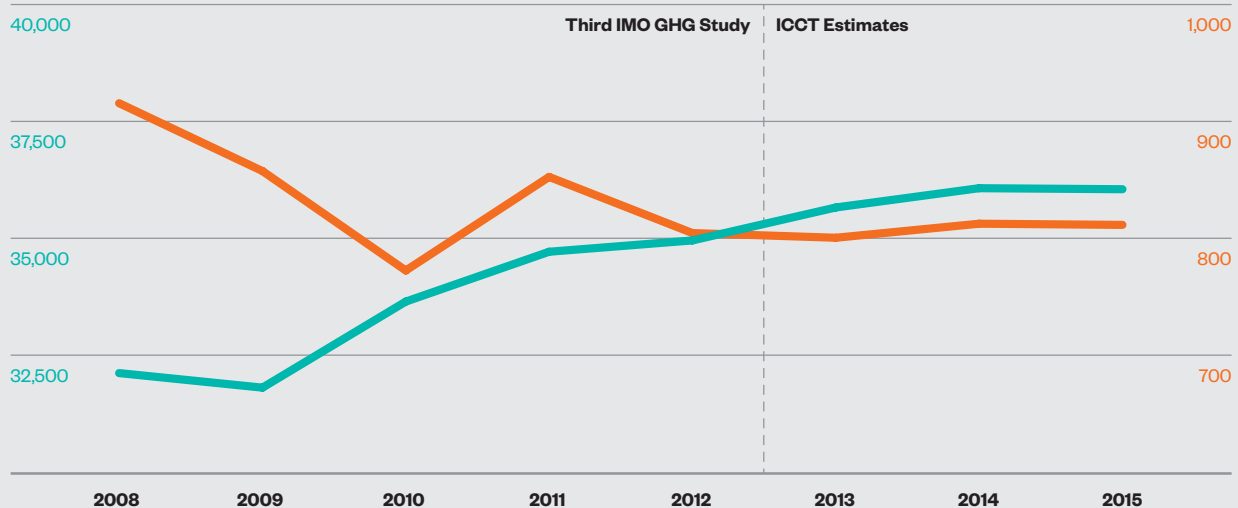
To reiterate, the technologies necessary to achieve the ambitious IMO GHG reduction goals do not yet exist in a form which is viable for widespread use by international shipping, especially for intercontinental voyages. Over the next decade, the sector is therefore going to require massive investment in research and development of zero (or near zero) CO₂ emitting fuels, propulsion systems and other new technologies. ICS believes that new and innovative measures to encourage research and development must therefore be a key component of the longer term measures that are considered by IMO in 2020, and that work on this needs to be completed before 2023.

ICS, its member national associations, and other international shipowner associations, are currently engaged in intensive discussions on how global GHG reduction research and development programmes might be accelerated and, subject to achieving global consensus, the industry hopes to come forward with some detailed ideas before the end of 2019.

Reduction in International Shipping Emissions Compared to Increase in Global CO₂ Emissions

Global CO₂ Emissions (million tonnes)

International Shipping CO₂ Emissions (million tonnes)



Source: Third IMO GHG Study & ICCT

Keeping the STCW Training Regime Fit for Purpose

ICS wants IMO to undertake a comprehensive review of the STCW Convention governing seafarers' training standards.



Shipping is a global industry and therefore requires a global regime for governing the competence standards and certification requirements for the 1.6 million seafarers employed throughout the world merchant fleet. This is because the majority of seafarers serve on ships with a flag state that is different to the country responsible for overseeing their training and issuing certificates of competence. This global regime is provided by the IMO Convention on Standards of Training, Certification and Watchkeeping for Seafarers (STCW) which has now been in place for over 40 years.

In November 2018, at a major crewing conference in Manila (the Philippines being one of the largest providers of seafarers), the ICS Chairman raised some penetrating questions about whether the current IMO STCW regime can remain truly fit for purpose as we approach the third decade of the 21st Century. His speech received an overwhelmingly positive response from maritime employers around the world.

In February 2019, the ICS Board endorsed a recommendation by the ICS Manning and Training Sub-Committee that ICS should request IMO to conduct a comprehensive review of the STCW regime. This is something which has not been undertaken since the early 1990s prior to the radical rewrite of the STCW Convention that was adopted by IMO Member States in 1995.

The STCW Convention and its accompanying STCW Code were most recently reviewed prior to the adoption of the 'Manila Amendments' in 2010, with the transitional period for implementation of the many adjustments agreed by



governments coming to an end in 2017. However, while the piecemeal changes agreed in 2010 were extensive, they fell somewhat short of a comprehensive revision, being more akin to a wide ranging 'tidying up' exercise.

In summary, ICS members have concluded that a fully revised STCW regime would allow the industry to adapt much more effectively to fast moving technological developments, including increased automation. A revised Convention could provide a structure with sufficient flexibility to meet the demands of a rapidly evolving world fleet, and could permit a far more modular approach to competency accumulation and certification than possible under the current regime. The arrival of new technology, with respect to navigation, engineering and propulsion systems (including the use of alternative fuels) is already changing the functions that seafarers perform on board ship and the competencies and training which they now require.

Most importantly, ICS believes that a comprehensive revision of the STCW Convention and Code should seek to improve transparency and the robustness of implementation oversight with regard to the obligations of IMO Member States that are responsible for the quality of their national training and certification systems. In particular this includes ensuring strict adherence by individual training institutes to delivering IMO competence standards, and a tightening of the approval process by governments of training colleges, especially those engaged in operational level ships' officer training.

Unfortunately, it is now all too commonplace for employers to need to provide additional training and assessments prior to the deployment of many officers that have been issued with STCW certification by Parties to the STCW Convention, which indeed raises questions as to whether the Convention, as currently drafted, can continue to meet the requirements of the industry in the 2020s. ➤



► Keeping the STCW Training Regime Fit for Purpose

For example, the so called STCW 'white list' of IMO Member States that have communicated information to the IMO Maritime Safety Committee about measures taken to effect compliance with the Convention and Code now appears to serve little real purpose as it includes virtually every IMO Member State. In particular, the 'white list' takes little account of whether or not governments have subsequently submitted periodic quality standards reports (an interrelated requirement of the STCW Convention) whose great importance seems to have been overlooked since these oversight provisions were adopted almost 25 years ago.

Increasing concerns about the 'white list' have been acknowledged by the IMO secretariat which, in early 2019, made interesting suggestions for its updating which, if ever taken forward, would potentially have the effect of reducing the number of states currently on the list by half.

Unsurprisingly, these ideas proved controversial among IMO Member States when they were given consideration in April 2019. They nevertheless illustrate industry concerns about the need for a full review of the STCW Convention's requirements. ICS would not wish to tear up the 'white list' without a suitable replacement, but there has to be a more





transparent and robust monitoring system of national implementation to ensure that STCW continues to deliver competent and quality seafarers in the interests of maritime safety and pollution prevention.

In April 2019, ICS presented a detailed paper to the IMO Sub Committee on Human Element, Training and Watchkeeping (HTW) setting out the concerns of maritime employers with regard to the current STCW regime. This submission was well received by many Member States and will be followed by further discussions with governments and other stakeholders, including seafarers' trade unions, throughout 2019. ICS then intends to make a formal request to the IMO Maritime Safety Committee in 2020 that it should indeed embark on a fundamental review and rewrite of the STCW Convention during the early 2020s.

In the early 1990s, IMO responded positively to industry requests to address serious concerns about training standards in many of the newly emerging seafarer supply countries, many of which now have world class training institutions. With the involvement of all industry stakeholders, ICS believes that the time is now right to consider the next comprehensive revision of STCW, similar in scale and ambition to that completed by IMO Member States back in 1995.



UN Law of the Sea Implementing Agreement

ICS supports the objectives of high level negotiations at the United Nations to protect the ocean, while seeking to prevent unintended consequences for the future regulation of shipping.

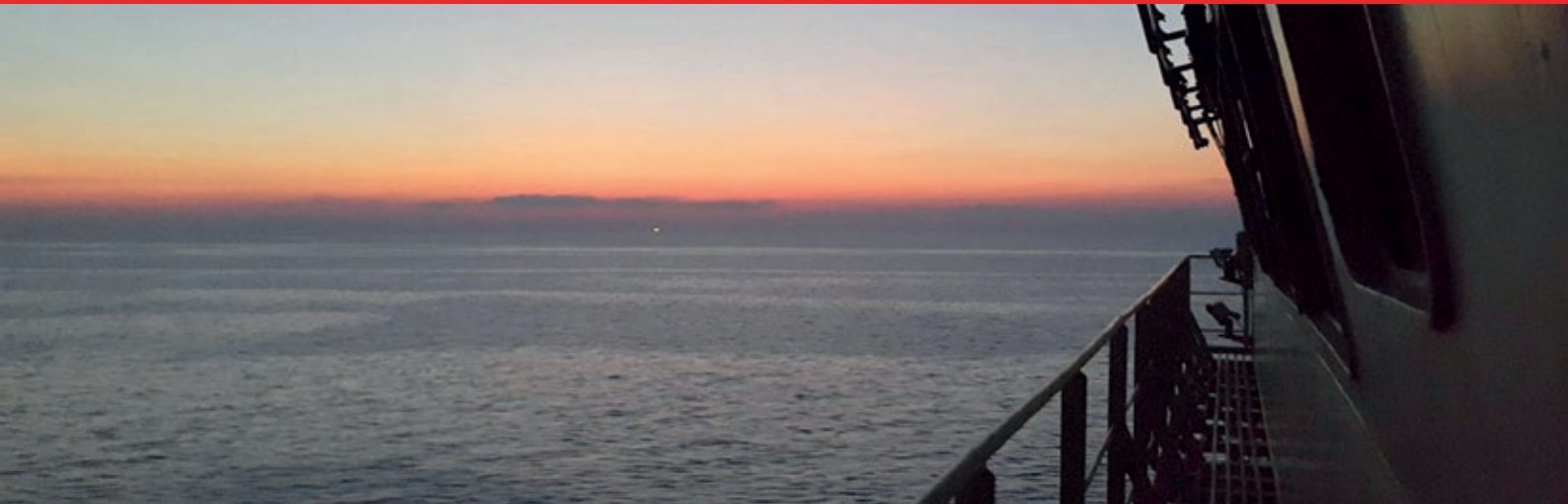
For the past three years, at the United Nations in New York, ICS has been representing the world's shipowners in a major negotiation to agree a new legal instrument for the protection of the ocean, the objectives of which ICS fully supports. If adopted, this will provide protection to marine Biodiversity in sea areas Beyond National Jurisdiction (BBNJ), in other words the High Seas beyond territorial waters and the Exclusive Economic Zones (EEZ) of nations, 200 nautical miles from their coast, over which a state has special rights regarding the exploration and use of marine resources.

The authority of shipping's global regulator, the International Maritime Organization (IMO), and the successful regulatory framework it has developed for maritime safety and pollution prevention, is ultimately derived from the United Nations Convention on the Law of the Sea, 1982 (UNCLOS) which provides the fundamental legal framework for protecting the world's oceans.

In September 2018, the United Nations convened the first session of a high level Diplomatic Conference to adopt a new implementing agreement to permit, within the framework of UNCLOS, the future development of regulation for the environmental protection of the High Seas. In co-operation with IMO, and the Governments of Norway and the Marshall Islands, ICS Chairman, Esben Poulsson, participated in a special event, held for the UN negotiators in New York, to explain how shipping is already comprehensively regulated by IMO, including its activities on the High Seas.

Protection of the ocean is of utmost importance and ICS fully supports the objective of these important UN negotiations, because the oversight of other ocean activities, especially on the High Seas, is not so well developed. Nevertheless, given that the shipping industry is regulated by IMO very effectively, ICS is working hard to ensure that this important UN work will not have unintended consequences for IMO's authority.





The second session of the Diplomatic Conference took place in New York, in April 2019, to begin consideration of options for detailed legal text. ICS attended these discussions, working closely with IMO in support of its central role in the development of any future regulatory measures that might affect shipping, continuing to emphasise that, as a result of the global rules already provided by over 50 IMO Conventions and Protocols, ships are not operating in a regulatory vacuum.

A shipowner's activities are never beyond national jurisdiction of the flag state, even when its ships are operating on the High Seas. There are around 80,000 merchant vessels engaged in international trade, operating outside of territorial waters, which must all adhere to IMO rules throughout the ship's voyage, including the MARPOL Convention for pollution prevention. As well as being overseen by a rigorous system of flag state enforcement, compliance with IMO regulations is also subject to oversight by a sophisticated regime of Port State Control inspection, co-ordinated via regional agreements within a global IMO framework. A case in point is the new ban on the carriage of non-compliant low sulphur fuels (sulphur emissions into the atmosphere being a potential source of ocean acidification) which will come into

force in March 2020 and which will help to ensure that the new IMO global sulphur cap will be complied with by all ships worldwide, even when a ship is operating on the High Seas.

While shipping is not the main focus of this UN initiative, which is primarily aimed at strengthening the regulation of deep sea fishing, energy production and new economic activities such as seabed mining, this work is likely to lead to the establishment of Marine Protected Areas (MPAs) on the High Seas. ➤



UN Diplomatic Conference in New York, April 2019

➤ UN Law of the Sea Implementing Agreement



In order to ensure that sectors such as fishing cannot argue for exclusion from the new agreement on the grounds (like shipping) that there are already other mechanisms in place to regulate them, it is currently proposed that the UN agreement should be as comprehensive as possible in scope. This means that it may also apply to international shipping, even though there is currently no suggestion that the industry is insufficiently regulated.



Potentially therefore, there is a risk that this UN work could have unintended consequences and adversely impact on shipping, interfering with principles such as freedom of navigation, principles governing IMO pollution liability Conventions, or otherwise cut across the work of IMO. It could also potentially upset the current balance that exists between the rights and obligations of flag states, coastal states and port states.

One of the challenges facing ICS is that most of the national UN negotiators are drawn from foreign affairs, environment and ocean ministries which are not necessarily closely engaged in the work of IMO. ICS is therefore encouraging its member national shipowner associations to ensure that government representatives in New York are fully briefed by their shipping and transport ministries.



The UN negotiations are, however, still at a relatively early stage and the issues are complex because, in addition to IMO, the ocean is already regulated by a large number of different UN and regional agencies. For the moment it appears that most of the key governments (as well as the European Commission, which is co-ordinating the views of EU States) are broadly aware of the importance of ensuring that any new measures that could potentially affect shipping should not be taken forward without the full involvement of IMO. None of the key players in the UN negotiations seem to question the ability of IMO to develop detailed provisions for shipping in Marine Protected Areas should it be decided to apply these on the High Seas. IMO already has extensive experience of implementing similar measures at the request of IMO Member States (which are also signatories to UNCLOS).

Nevertheless, it will be important for the shipping industry to be vigilant because the scope of these discussions is wide. It was previously understood that there was little appetite among governments, or existing UN agencies with responsibility for the ocean, to establish a new UN body to administer the new UNCLOS implementing agreement. However, this is an option that remained on the table for the negotiations in April 2019. On balance, ICS would prefer that future decisions that might emerge from the agreement – such as the designation of High Seas Marine Protected Areas – should be determined by regular Conferences of Parties to the agreement, possibly administered by the UN Division of Ocean Affairs and Law of the Sea.

Whatever is ultimately decided in New York, it is most important that the detail and appropriateness of any measures that might be developed to apply to shipping, within High Seas MPAs, should still be determined by the relevant specialist agency, in this case the IMO which has long experience of implementing such measures. (By way of example, this might include the development of any special navigational measures for international shipping to avoid harm to rare species of whales.) It is further suggested that such important decisions, that could affect the efficient movement of global trade, would have to be based on proper scientific analysis, e.g. with input from bodies such as GESAMP (the Joint Group of Experts on the Scientific Aspects of Marine Environmental Protection).

However, because of legitimate and serious concerns about environmental damage to the ocean being caused by activities other than shipping, as well as high level geopolitical issues relating to governance of the High Seas, these complex UN negotiations are expected to take on an increasing political dimension prior to their scheduled completion in 2020.



Piracy and Violence: Addressing an Unacceptable Problem

Piracy, hostage taking and attacks on merchant ships' crew may be perennial threats. This does not make them any less unacceptable.

Piracy and armed attacks against shipping are a global problem and require a concerted response by the international community at the highest level. This includes the United Nations Security Council which debated the issue inconclusively in February 2019. While serious threats continue in the Indian Ocean, as well as South East Asia, ICS is particularly concerned by the deteriorating security situation in the Gulf of Guinea where there has been a sharp increase in the number of attacks on ships' crews, many extremely violent.

The statistics are stark. According to the International Chamber of Commerce's International Maritime Bureau (IMB) reports of attacks in waters between Côte d'Ivoire and the Democratic Republic of Congo more than doubled in 2018, with six hijackings, 130 seafarers taken hostage and 78 being kidnapped for ransom. These outrages have continued in 2019. Moreover, the number of unsuccessful attacks against shipping by speed boats, many using automatic firearms and causing great fear and anxiety among civilian ships' crew, is higher still, with perhaps as many as 50% of these estimated, by IMB, to be passing unreported.

In the last three months of 2018, 41 kidnappings were recorded by the IMB in waters off Nigeria alone. For example, in October 2018, eleven seafarers were kidnapped from a container ship 70 nautical miles off Bonny Island, Nigeria. Two days later, Nigerian pirates in a speedboat hijacked a tanker underway 100 nautical miles off Point Noire, Congo, with eight of the 18 crew then being kidnapped. These are just two examples of how armed criminals are reaching further out to sea and targeting a

wider variety of ship including bulk carriers, containerships and general cargo vessels in addition to attacks on tankers, offshore support vessels and fishing boats.

Whereas the majority of attacks in the region in recent years had taken place in territorial waters, making intervention by foreign military vessels politically problematic, many vessels are now being attacked and boarded by pirates well outside territorial limits. Previously many of these attacks had been principally motivated by the intention to steal cargo. Increasingly, however, seafarers are now routinely being kidnapped and taken into Nigeria where they are then held for ransom in the most appalling and terrifying conditions.

In April 2019, in co-operation with other international shipping associations and the Oil Companies International Marine Forum (OCIMF), ICS made a submission to the IMO Maritime Safety Committee, meeting in June 2019, calling *inter alia* for a far more co-ordinated response by governments and the world's military navies to support the law enforcement of authorities in the region. As well as presenting an unacceptable threat to the lives of seafarers, piracy also threatens the conduct of global trade.

The industry is also supporting a call by the Government of India for the United Nations to establish a diplomatic contact group with regular meetings to address the growing crisis, as it did with notable success to help resolve the surge of attacks off the coast of Somalia in which around 4,000 seafarers were taken hostage until order was eventually restored by the world's military navies.



In June 2018, with military support, ICS and other international shipowners' associations launched a new website (www.maritimeglobalsecurity.org) dedicated to providing comprehensive maritime security guidance to shipping companies and seafarers as well as links to other useful maritime and military security resources.

Central to the website are new best practice guides developed by the industry to help companies and crews to risk assess voyages and mitigate against external threats to their safety. Particularly important is a new publication: *Global Counter Piracy Guidance for Companies, Masters and Seafarers*, also published in June 2018, containing detailed guidance on preventive measures that can be deployed around the world. This includes specific guidance on the characteristics of the threats which prevail in different regions. Tens of thousands of copies of this publication have now been distributed to shipping companies around the world free of charge.

In June 2018, ICS and the other industry organisations also launched BMP5: a new edition of the very effective *Best Management Practices to Deter Piracy and Enhance Maritime Safety in the Red Sea, Gulf of Aden, Indian Ocean and the Arabian Sea* to which ships are still strongly encouraged to adhere when trading in the Indian Ocean, where the possibility of a resurgence of Somali piracy is ever present, complicated by the ongoing conflict in Yemen.

In March 2019, the Round Table of international shipping associations plus OCIMF announced that the geographic

boundaries of the High Risk Area for piracy in the Indian Ocean – which they are responsible for setting – had been reduced, with new advice issued to merchant ship operators. This followed extensive consultation with the military including the NATO Combined Maritime Forces (CMF), EUNAVFOR and United Kingdom Maritime Trade Operations (UKMTO), which continue to provide critical advice and protection to merchant shipping in the region.

Nevertheless, in view of the continuing threat of pirate attacks in the Indian Ocean, shipping companies are being urged to maintain full compliance with BMP5, and to be vigilant in their reporting of incidents, sightings of potential pirates and any other suspicious activity, as this is vital to provide intelligence on risk levels in the area.



Heading into Uncertainty: Economic Risks Ahead

Avoiding overcapacity and unsustainably low freight rates is a constant challenge.

Last year's Annual Review suggested that shipping companies needed to show restraint when ordering large numbers of new ships to prevent stifling any new recovery, just at the moment when it might be about to get started, ten years after the massive downturn of 2008. A lot has changed in the past 12 months. There are new clouds on the horizon and the avoidance of over ordering is more important than ever. However, while restraint will clearly serve the collective best interest of the industry as a whole, this may not always be the case for individual operators who will often see investment opportunities which rationally appear to justify ordering new tonnage.

Shipping is the servant of world trade and many of the factors which can affect demand for its services are beyond the industry's control. It is still unclear to what extent China's 'Belt and Road' initiative – vaunted to include Chinese investment in about 70 nations approaching US\$4 trillion – will actually create significant additional demand for shipping services. It is also becoming increasingly less certain whether the infrastructure development promised by President Trump in the United States will ever materialise.

Opinion is still divided on whether the rapid globalisation that has been experienced since about 1990 may have run its course, and whether the slower rate of trade growth seen since the 2008 crisis represents some kind of permanent structural change. Prior to 2008, shipping had become accustomed to increases in maritime trade being a significant multiple of global GDP growth. But this ratio between demand growth and GDP is now much smaller – especially when tanker tonne-mile growth due to changing patterns in the movement of energy cargoes is excluded (an impact of the U.S. shale revolution of the 2010s).

In 2019, the outlook for the global economy and thus demand for maritime transport appears to be worsening. Given concerns over slowing growth in key economies, including China and the EU, and the possibility that the trade dispute between the United States and China could develop into a full blown global trade war, growth is expected to decelerate in 2019 and further still during 2020.





According to a recent assessment by The Economist Intelligence Unit, the possibility of the dispute between the United States and China having serious effects on the global economy stands at between 20-30 per cent. In May 2019, President Trump extended tariffs to a further US\$200 billion worth of Chinese products. Although trade negotiations continue, fundamental differences on matters such as intellectual property rights make prospects for long term harmony unlikely. Indeed, the U.S. Congress (including the Democrat controlled House of Representatives

following the 2018 mid term elections) is also hardening its attitude towards China in the run up to the Presidential election in 2020.

The U.S. is also still threatening to impose new tariffs on car manufacturers and there is a danger that the EU, in particular, may feel compelled to retaliate. Meanwhile, the EU and nations such as Canada and Australia have their own trade issues with China due to security fears about the involvement of Chinese companies in their IT networks. ➤



➤ Heading into Uncertainty: Economic Risks Ahead



There are other economic dangers on the horizon. Levels of U.S. corporate debt are at similar levels (almost 50% of GDP) to those before the 2008 financial crisis, and many of these debts are insecure. If a crisis develops, there is also the possibility of contagion of markets in emerging economies. In Europe, the impact of Brexit, while of importance to local ship operators, is often seen as a parochial issue. But a disorderly United Kingdom departure from the EU could have wider damaging impacts on the entire EU economy. The same applies to the growing risk of a possible banking crisis in Italy.

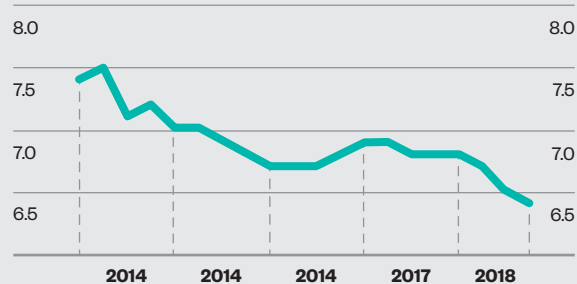
Last but far from least, there is increasing uncertainty with regard to China's economic performance. Although shipping has not yet fully recovered from the impact of the 2008 financial crisis, sluggish growth in many OECD economies was in large part compensated by the impressive growth in demand for shipping from China.

GDP growth in China during 2018, at about 6.5%, was the lowest recorded since 1990 and significantly below the average growth of around 10% per annum recorded since 1989. Moreover, as the Chinese economy continues to

mature, an increasing proportion of this GDP growth is actually due to the expansion of service industries, rather than manufacturing or infrastructure development which does not generate the same demand for shipping.

A lot will depend on how China manages any slowdown, which could get worse in 2019 due to the impact of the

China Year-on-Year Growth Rate



Source: National Bureau of Statistics of China



tariffs which the U.S. has already imposed. In view of the high levels of debt that also prevail in the Chinese economy, there is a danger that if any downturn is poorly managed by the Chinese authorities this could actually develop into a recession. Indeed, if compounded by a full blown global trade war, the effects of the U.S. debt burden or other disruptive events (potentially even including military conflict in the South China Sea or the Korean peninsula) a repeat of the economic crisis of 2008 is not implausible.

The immediate risk to shipping, however, is the real possibility of a trade war. ICS is increasingly concerned by the attitude of the United States towards the continuation of a rules-based multilateral trading system under the auspices of the World Trade Organization (WTO), and the U.S. Administration's belief that trade is no more than a zero sum game. The ICS Chairman expressed the shipping industry's concerns forcefully at a major shipping event in Tokyo in November 2018, which was widely reported worldwide. The ICS Secretary General did the same at the biennial meeting between the U.S. Government and those maritime administrations around the world committed to free trade principles – the Consultative Shipping Group (CSG) – held in Washington DC in October 2018. A further meeting between ICS and the CSG is scheduled in the Netherlands for November 2019.

More positively, with respect to the one thing over which shipowners actually have some control, ship ordering (in deadweight tonnage) fell 14% in 2018 according to Clarksons, about 17% below the average since the 2008 downturn. This suggests that many shipowners may indeed be resisting the temptation to over order. In early 2019, the worldwide shipping order book appeared to be stable at around 10% of the fleet. However, the reluctance of governments in Asia, where the vast majority of ships are built, to address overcapacity in the shipbuilding sector remains a serious issue.

National state subsidies to shipbuilding risk distorting global markets and can be counterproductive if they are conditional on the recipients ordering more tonnage at national yards – which is the situation that applies in major shipbuilding nations, such as China and Korea. In 2018, Japan launched a complaint at the WTO against the Republic of Korea over the support measures for its shipbuilding industry. ICS awaits the outcome with great interest.



ICS is also encouraged by the decision in 2018 by the Organization for Economic Co-operation and Development (OECD) to resume negotiations on an agreement to remove market distorting measures from shipbuilding that contribute to overcapacity. However it remains to be seen whether China (which is not an OECD member) will take an active part.

As well as the temptation to over order as demand in certain trades may improve, decisions about when to recycle older ships are also fundamental to the equation. The good news is that a number of important regulatory uncertainties which have complicated decisions about when best to dispose of older ships are finally being resolved. In particular this includes the implementation dates of the IMO Ballast Water Management Convention. While the precise cost of compliance with the IMO sulphur regulations is still unknown, the situation should also become clearer after January 2020 now that IMO has confirmed that the implementation date of the global sulphur cap is irrevocable.

Notwithstanding the risks of uncertainty in the immediate years ahead, in the long term there is always cause to remain optimistic. Whilst possibly not good for the planet, the UN has revised its projections for population growth upwards to 8.6 billion in 2030 from 7.7 billion in 2019. Combined with seemingly inexorable demand for higher living standards in emerging economies, this indicates that long term demand for international shipping should continue to increase significantly.

The Year in Review



Ballast Water Convention

Over the next five year period, at an estimated collective cost to the industry of as much as US\$80 billion, some 40,000 ships are expected to have to install expensive new ballast water treatment systems if they wish to continue trading.

September 2019 will mark an important stage in the implementation of the IMO Ballast Water Management (BWM) Convention following its global entry into force two years ago. This is because existing ships (i.e. ships constructed before 8 September 2017) will be required to install new treatment systems at the time of their first International Oil Pollution Prevention (IOPP) renewal survey on or after 8 September 2019. This followed the decision by the IMO Marine Environment Protection Committee (MEPC) in 2017 – at the request of ICS and the industry – to adjust the Convention's implementation dates.

The purpose of the BWM Convention is to address the problem of invasive marine organisms which, if inadvertently transported in ships' ballast water tanks, can have damaging impacts on local ecosystems. The industry has always supported the objectives of the Convention, having implemented voluntary measures since the 1990s. Nevertheless, the BWM Convention has proved to be one of the most complex and controversial pieces of technical regulation ever developed by IMO. It was adopted under huge political pressure back in 2004, when the technology required for ships to treat millions of gallons of ballast water simply did not exist outside of a laboratory. As a consequence, the enormous challenges of installing completely unproven systems were dramatically underestimated, first by the equipment manufacturers and then by IMO Member States.

Apart from the economic cost (typically US\$1-5 million per ship), meeting the Convention's requirements presents ship operators with a serious challenge because of the expected lack of shipyard and manufacturing capacity needed to retrofit the new treatment systems on so many vessels. Decisions about retrofitting are all the more difficult if the ships are approaching the end of their typical 25 year life. Many shipowners will now need to make important financial choices about whether or not to install the new equipment or, because of the potentially prohibitive cost, send older ships for early recycling.

The MEPC's decision on implementation dates was a victory for common sense and has hopefully provided necessary time for shipping companies to identify and invest in far more robust technology to the benefit of the environment, as they will now be able to select equipment for existing ships that has been type-approved in accordance with the more stringent standards that IMO adopted in 2016. The industry should therefore have greater confidence that the



systems which ships are required to install will indeed be fit for purpose in most operating conditions, which was not the case with several of those systems initially approved by maritime administrations using the original IMO guidelines, and then installed by 'early movers' before the Convention requirements took effect.

The principal reason for IMO's decision to delay implementation for existing ships until after September 2019 was that the type-approval standards adopted for the complex new treatment systems were unable to ensure that the equipment would actually meet the Convention's treatment standards and be acceptable to all Port State Control authorities worldwide. In 2016, following a major industry campaign led by ICS over several years, the IMO MEPC adopted revised and more robust type-approval standards. These have now been included in a new mandatory Code for Approval of Ballast Water Management Systems which was finally adopted in 2018.

IMO has recommended that administrations should apply these revised standards as soon as possible. However, they only became mandatory for new system approvals in October 2018, and only systems being installed after October 2020 will be required to have been approved in accordance with the new IMO Code. Shipping companies have therefore been strongly advised by ICS to put pressure on manufacturers by only considering treatment systems for installation that have been certified in accordance with the revised IMO type-approval standards. ➤



There are many other significant changes to the IMO ballast water regime which ICS has had to persuade governments to agree in recent years, in order to make the Convention ready for implementation. In addition to overcoming resistance from equipment manufacturers to making the IMO type-approval guidelines sufficiently robust, these have included: the removal of the original fixed implementation dates; the removal of a requirement to install equipment by the ship's next intermediate survey (if this came sooner than the next renewal survey); and – most important – measures to ensure that 'early movers' would not be unfairly penalised by Port State Control.

ICS and the industry have also had to persuade IMO to adopt fairer Port State Control guidelines relating to the timing of sampling during inspections, and guidance to coastal states on what should be expected of ships operating in areas where ballast water exchange cannot be conducted in accordance with the Convention (as required since September 2017) until treatment systems can be fitted.

The IMO Harmonized System of Survey and Certification (HSSC) guidelines now include an additional initial survey item related to the issuance of the International Ballast Water Management Certificate (IBWMC). This survey item requires verification by the administration that a biological efficacy test

of each ship's ballast system has been carried out following installation, and that documented evidence is provided to show compliance of the treated ballast water discharged from the system through sampling and analysis. In October 2018, with considerable input from ICS, IMO adopted additional guidance relating to the time of commissioning. This means that every BWM system will now have to be proven to be biologically effective prior to issuance of the IBWMC. This should therefore give shipowners the opportunity to verify that biological efficacy has been tested and complied with at the time of the system's installation, and to take appropriate action if necessary.

ICS has always fully supported the objectives of the BWM Convention. Following its entry into force, the industry is at last able to focus fully on implementation and making this a success. It is now in everyone's interest to ensure that the new IMO regime will deliver genuine environmental benefit, commensurate with the great collective cost of installing the required new treatment systems across the entire world fleet.

ICS has developed some comprehensive advice and information for shipping companies about the implementation of the BWM Convention in the form of answers to 'Frequently Asked Questions'. These are available free of charge via the ICS website and are being updated regularly.

Action on Plastics

Garbage dumped at sea can actually be as harmful as oil or chemicals. Plastics in particular can take years to degrade, and fish and other marine life can easily confuse plastics with food. As well as doing great harm to marine life and threatening biodiversity, dangerous toxins can enter the food chain, ultimately being consumed by humans.

The vast majority of plastic found at sea originates from land. Most of it is washed into the ocean by rivers and, according to the World Economic Forum, 90% of it comes from just ten of them. Nevertheless, although the problem of plastic litter from merchant ships is negligible, the shipping industry has a special responsibility to play its part in eliminating any pollution of the ocean.

The provisions of Annex V of the MARPOL Convention, which are strictly enforced worldwide, already mean it is no longer permitted for any merchant ship to dispose of garbage at sea because of the damaging effects on the marine environment. The generation of ship's garbage including plastic must therefore be minimised, recycling should be undertaken as a matter of course, and discharge to port reception facilities must always be the norm.

In October 2018, IMO adopted an Action Plan to enhance existing regulations and introduce new measures to further prevent the possibility of plastic litter from ships. To support this initiative, ICS has published a new edition of its Guidance for the Preparation and Implementation of Garbage Management Plans. This second edition is intended to help shipping companies comply with the latest requirements of MARPOL Annex V regarding the treatment and disposal of garbage.

Being illegal under MARPOL, marine plastic litter from merchant ships is actually very rare. However, modern products commonly use materials which persist in the marine environment and therefore require special processing before disposal on shore. An essential feature, therefore, of the current IMO MARPOL regime is the requirement for ships to prepare and implement Garbage





Management Plans. The new edition of the ICS Guidance updates advice on best practice in line with the most recent changes to MARPOL Annex V. These have expanded the scope of the regulations by broadening the definition of what constitutes garbage and introducing a general prohibition of its discharge into the sea.

This revised ICS guidance is timely as new attention is given to the negative impacts of plastics on the health of the world's oceans. This has been given impetus by the widely acclaimed BBC documentary series 'Blue Planet', and the high level UN Ocean Conference in 2017 – at which ICS represented shipowners – in support of the UN Sustainable Development Goal (SDG 14) for the protection of the ocean. ICS has further restated shipowner support for SDG 14 as part of the new UN Global Compact's 'Sustainable Ocean Business Action Platform', attending a major launch event in New York held during the UN General Assembly in September 2018.

The revised ICS Guidance is intended to provide those with responsibility for developing mandatory Garbage Management Plans with a better understanding of the intentions behind the IMO MARPOL requirements, to enable effective implementation and full compliance.

Any incident involving the illegal dumping of garbage may result in criminal convictions and heavy fines. This in turn may severely damage a company's reputation and impact its commercial performance. Ignorance of the regulations is no defence. If a ship and its crew are seen to pose a risk of marine pollution, the vessel can be detained by Port State Control until any deficiencies are corrected.

It is a fundamental requirement of MARPOL that IMO Member States should provide adequate facilities for the reception of waste from ships calling at their ports and terminals. However, the quality and availability of reception facilities worldwide is inconsistent. Indeed some developed countries actually provide poorer facilities than their developing nation counterparts, or offer services based on varying tariff structures which often do not encourage their use.

The new ICS Guidelines therefore emphasise the important need for ships to report inadequate reception facilities to their flag administration so that reports can be communicated to IMO. The issue of reception facilities is also a key issue which needs to be taken forward as part of the IMO Action Plan on plastics.



Black Carbon

While the shipping industry is preoccupied with implementing the 2020 global sulphur cap and the challenge of reducing CO₂ emissions, ICS is still heavily engaged with other IMO discussions concerning atmospheric emissions from ships.

Black carbon refers to solid particles emitted during incomplete combustion of fuel, and can contribute to climate change in two ways. In the atmosphere it absorbs sunlight and reemits the energy as heat, and when deposited on ice or snow in the Arctic it is believed to reduce surface reflectivity causing it to absorb more sunlight, potentially accelerating melting of the polar ice cap. Black carbon is also a public health concern, as it is a type of particulate matter that can contribute to respiratory diseases.

Addressing emissions of black carbon by ships is therefore a priority at IMO, and ICS acknowledges the great importance of the issue. However, the topic is a complex one, not least what the definition of black carbon actually is. Moreover, while some environmental policy makers often give emphasis to the possible impact of the small amount of shipping that trades in the Arctic, black carbon can travel very large distances. The possible contribution of shipping to the problem therefore has to be seen in the context of the far greater production of black carbon by other industries, especially coal powered power stations generating electricity. Although IMO is currently developing a ban on the use of heavy fuel oil by ships in the Arctic this is actually driven by concerns about the potential impacts of oil pollution.

In September 2018, ICS (with the World Shipping Council) participated in a very useful workshop held by the International Council on Clean Transportation (ICCT) in San Francisco. The goal was to identify appropriate black carbon control measures for international shipping. While ICS did not fully concur with all of the conclusions, ICS was impressed by the commitment to scientific objectivity and the willingness to consider possible solutions that might be realistic and practicable.

ICS has also been active in an IMO correspondence group with governments, established in 2018, to further consider the impact on the Arctic of black carbon emissions from international shipping. As a result of the significant effort invested in this by IMO, knowledge and understanding of black carbon and the extent of shipping's possible contribution to the problem is increasing. That said, it should be recognised that emissions of black carbon are subject to a range of variables and it remains a complicated subject. For example, a switch to distillate fuel may reduce emissions of black carbon for some engines, particularly those provided with electronic fuel systems and particulate filters. However, in engines with mechanical fuel systems a switch to distillates may be ineffective or even result in increased black carbon emissions, particularly at lower loads. Any assessment of the effectiveness and appropriateness of possible black carbon control techniques must therefore be qualified by stating limiting conditions and the influence of other factors. These include engine design, fuel type and engine load.

The matter is complicated further when it is remembered that although black carbon is a type of particulate matter (PM), only a small percentage of PM is actually black carbon. IMO has decided to agree to the 'Bond et al' definition which describes the specific properties of black carbon. But it is important not to conflate black carbon with PM as the two terms are not synonymous. Significant work is still required to agree a robust measurement methodology for black carbon emissions, which will be a prerequisite for the development of any future control measures by IMO.

Notwithstanding these questions and the complexity of the issue, ICS is generally satisfied with the progress IMO is making. In May 2019, the IMO MEPC completed the identification of a list of potential black carbon control measures. ICS now expects further proposals for a new output to identify which of these measures might be most appropriate for IMO to consider further, with a view to the development of regulation or guidance, and to agree a measurement standard which might be suitable for any future control measures. ICS will continue to contribute actively to this work at IMO and to engage with other stakeholders on this important issue.





Exhaust Gas Cleaning Systems

On 1 January 2020, the vast majority of shipowners will comply with the IMO global sulphur cap using compliant fuels with a sulphur content of 0.5% or less (while continuing to use fuel with a sulphur content of 0.1% or less in Emission Control Areas). However, the relevant MARPOL Annex VI regulation also allows ships to use alternative compliance options, provided that these are at least as effective in terms of emissions reduction as that achieved by the use of low sulphur fuels. This was something which ICS fought hard for when the new IMO regime was adopted in 2009, consistent with a 'goal based' approach to regulation which has been embraced by IMO since the 2000s.

The mostly widely used alternative compliance option is the use of Exhaust Gas Cleaning Systems (EGCS), or 'scrubbers' as they are commonly known, whereby sulphur is removed from the exhaust of marine engines or boilers. Ships fitted with scrubbers will therefore continue to be able to use residual fuel, which is expected to be far less expensive than low sulphur fuel oils, with significant economic benefits for shipowners that have invested in them.

In May 2019, depending on the port, the cost of residual fuel was typically about US\$400 per tonne, whereas low sulphur fuel (already required to trade in ECAs) was about US\$600.

But as a result of the huge extra demand for low sulphur fuel that will be created by the implementation of the 2020 global sulphur cap, especially if supply of compliant fuels is tight, this differential is expected to widen considerably as ships start placing orders for compliant low sulphur fuels during the second half of 2019.

The financial attraction of fitting scrubbers is obvious, especially for larger ships that consume far more fuel and which have the space on board to accommodate this equipment. Even at a cost of up to US\$5 million per ship, the capital cost of installation could be recovered in two or three years, assuming that finance is available, and depending upon what the actual differential between residual and low sulphur fuels will be after 1 January 2020.

Until early 2019, it had been assumed that only around 2,000 vessels would be fitted with scrubbers by 2020. But in addition to retrofits, the number of new build ships being ordered with scrubbers is increasing – in tonnage terms about 30% of the current order book – with several major shipping companies reversing their initial decisions not to deploy them. In tonnage terms the proportion of the world fleet operating with scrubbers by about 2022 could be as high as 20%. ➤



Scrubbers may be of the 'open loop' type where sea water used for scrubbing is treated and discharged back to sea, or of the 'closed loop' variety where fresh water treated with chemicals is used for scrubbing with only a small quantity of the treated wash water being discharged into the sea after a certain time period of operation. IMO adopted the first version of its Guidelines for Exhaust Gas Cleaning Systems back in 2005 which, among other things, address potential concerns about wash water. There have been many subsequent revisions to these guidelines, and the latest iteration adopted in 2015 is currently in the process of a further revision by IMO.

Despite the adoption of these IMO Guidelines, worries about the possible environmental impacts of scrubbers have led to an increasing incidence of unilateral action by several IMO Member States – including Germany, Belgium and Singapore – to ban wash water discharges from scrubbers operating in the open loop mode within their territorial waters. Notwithstanding the sovereign right of port states to enforce provisions at variance to MARPOL, ICS is concerned about the apparent lack of detailed technical justification for such measures.

Also of concern to ICS is the absence of global consistency of standards within a growing number of individual ports,

which may result in ships fitted with scrubbers, as permitted by MARPOL, being unfairly penalised for being unaware of little known local requirements. ICS has therefore compiled a list of ports around the world that are understood to have prohibited discharges from open loop systems which is available via ICS national associations. In 2019, ICS will continue to work with the International Association of Ports and Harbors (IAPH), the European Ships and Ports Organisation (ESPO) and the Exhaust Gas Cleaning Systems Association (EGCSA) in order to gain further clarity on this issue.

In May 2019, in response to a submission by EU Member States, the IMO MEPC agreed a new work output for the evaluation and development of harmonised rules and guidance on the discharge of liquid effluents from EGCS. ICS supports the concept of a harmonised approach, but only provided that any subsequent control measures will be based on sound technical evidence. Most importantly, given the huge investments that many shipping companies are now making in scrubbers, the overarching IMO principle of 'grandfathering' arrangements for existing ships must be maintained. This to ensure that early adopters of new technologies which are permitted under MARPOL are not unfairly penalised in the event that IMO's current position regarding their use is changed in the future.

CO₂ Emission Reporting

The EU Regulation on the Reporting, Monitoring and Verification (MRV) of CO₂ emissions now applies to merchant ships trading to Europe, regardless of the flag state, with the apparent intention of eventually developing this into some kind of regional operational efficiency indexing system. Since April 2019, ships have been required to submit verified data to the European Commission which will publish this information from June 2019, accompanied by ship and company identifiers.

Regardless of whether mandatory operational efficiency indexing is implemented unilaterally or globally by IMO, ICS remains strongly opposed to the concept whereby metrics derived from individual ships' CO₂ emissions are placed in the public domain where they can then be misused and wrongly interpreted by third parties, such as charterers, when making commercial decisions about which ships to hire or the freight rates they wish to pay. ICS fears this will lead to serious market distortion without delivering any additional environmental benefit.

CO₂ efficient ships are correctly rewarded by the market because their lower fuel costs make them more commercially competitive. The ultimate purpose of operational efficiency indexing, however, is to penalise

individual vessels twice, on the basis of a theoretical and arbitrary rating that has little relation to the actual CO₂ efficiency of the ship in real life.

For example, the fuel consumed by two identical ships during two similar voyages will vary considerably due to factors such as currents, ocean conditions and weather. Similarly, fuel consumed by individual ships, particularly those in tramp sectors, may vary considerably from one year to the next, being dependent on changing trading patterns and the nature of charters over which the ship operator has little control.

The publication of individual ship's emissions data, which is a prerequisite for operational indexing, is also completely contrary to the approach agreed by IMO Member States when they established the IMO Fuel Oil Data Collection System (DCS) which will be fully up and running during 2019.

When adopted in 2016, the IMO DCS was viewed as an acceptable compromise between those IMO Member States which are interested in having reliable information about fuel consumption and CO₂ emissions within the sector as a whole, in order to inform the development of future IMO work, and those nations that wished to collect more detailed information about fuel efficiency and 'transport

work'. The current purpose of the IMO DCS is simply to inform future policy making rather than to penalise or reward individual ships.

ICS encouraged support by governments for this IMO compromise with the understanding that the DCS should be simple for ships to administer and primarily be based on fuel consumption. Most importantly, data relating to fuel consumption of individual ships under the IMO system will remain anonymous, in order to prevent the serious danger of misuse by third parties who can all too easily misinterpret the meaning of the information and then use it to penalise individual ships unfairly.

Shipping is a global industry requiring uniform global rules. ICS and its members therefore continue to be very unhappy about the European Union's unilateral decision to proceed with the implementation of its own regional MRV regime for the collection and publication of data on individual ship emissions, at variance to the approach agreed by EU Member States at IMO for the global DCS under which the data is anonymised.

In February 2019, the European Commission issued recommendations on possible alignment with the IMO regime for the collection of data on ship's CO₂ emissions, following the consultation that the Commission concluded in 2018 to which ICS and the European Community Shipowners' Associations (ECSA) submitted detailed comments. However, as anticipated, the Commission has not proposed any significant changes with regard to its

approach to the publication of ships' data, although it has suggested some possible adjustments to the metrics that must be reported.

The Commission has already initiated a fresh consultation on these proposals prior to their consideration by the European Parliament (which had elections in May 2019) and EU Member States. ICS and ECSA therefore submitted further comments in March 2019, expressing their disappointment that, rather than seeking a full alignment with the IMO system, the Commission still wishes to proceed with the publication of potentially misleading data, having merely sought to make its system slightly more compatible with the IMO regime.

Meanwhile, the dangers of the EU taking a unilateral approach, which undermines the authority of IMO and might be emulated by others, has been demonstrated by the announcement by China, in January 2019, that it too is introducing its own unilateral MRV regulation, whereby visiting ships will have to submit data about fuel efficiency to the China Maritime Safety Agency (MSA). In addition to the administrative burden created for ships having to report different data under different systems, this also raises questions about how this potentially commercially sensitive information might be used by the Chinese authorities. In March 2019, ICS met with representatives of the China MCA to voice gentle concern about this and other recent unilateral regulations on environmental issues that are applicable to visiting ships. This dialogue with China will hopefully continue throughout 2019.



Mediterranean Migrant Rescue Crisis

The migrant rescue at sea crisis in the Mediterranean is far from over, with tens of thousands of migrants still attempting to make the dangerous sea crossing from Africa to Europe in overcrowded and unseaworthy craft. Shockingly, according to the office of the United Nations High Commissioner for Refugees (UNHCR) a further 2,300 migrants lost their lives during 2018, and hundreds more have already perished during the first months of 2019.

Under the IMO Safety of Life at Sea Convention (SOLAS), ships have a legal obligation to come to the assistance of anyone in distress at sea. But the principal obligation of shipowners is humanitarian, and ICS continues to promote the use of the industry Guidelines for Large Scale Rescue Operations, whose development was led by ICS as a direct response to this terrible situation. The primary concern of ICS is that port states will continue to adhere to their own legal obligation under international law to provide prompt and predictable disembarkation of rescued people as soon as possible.

Since the crisis first escalated four years ago, governments such as Italy and Greece have so far permitted, to their great credit, the prompt disembarkation from merchant ships of 80,000 rescued people. But the crisis now seems

to be taking an ever more political direction. Tensions due to concerns about migration have been increasing across Europe. Some senior national politicians have been making statements to the effect that rescued migrants should not be permitted to enter Europe in the first place.

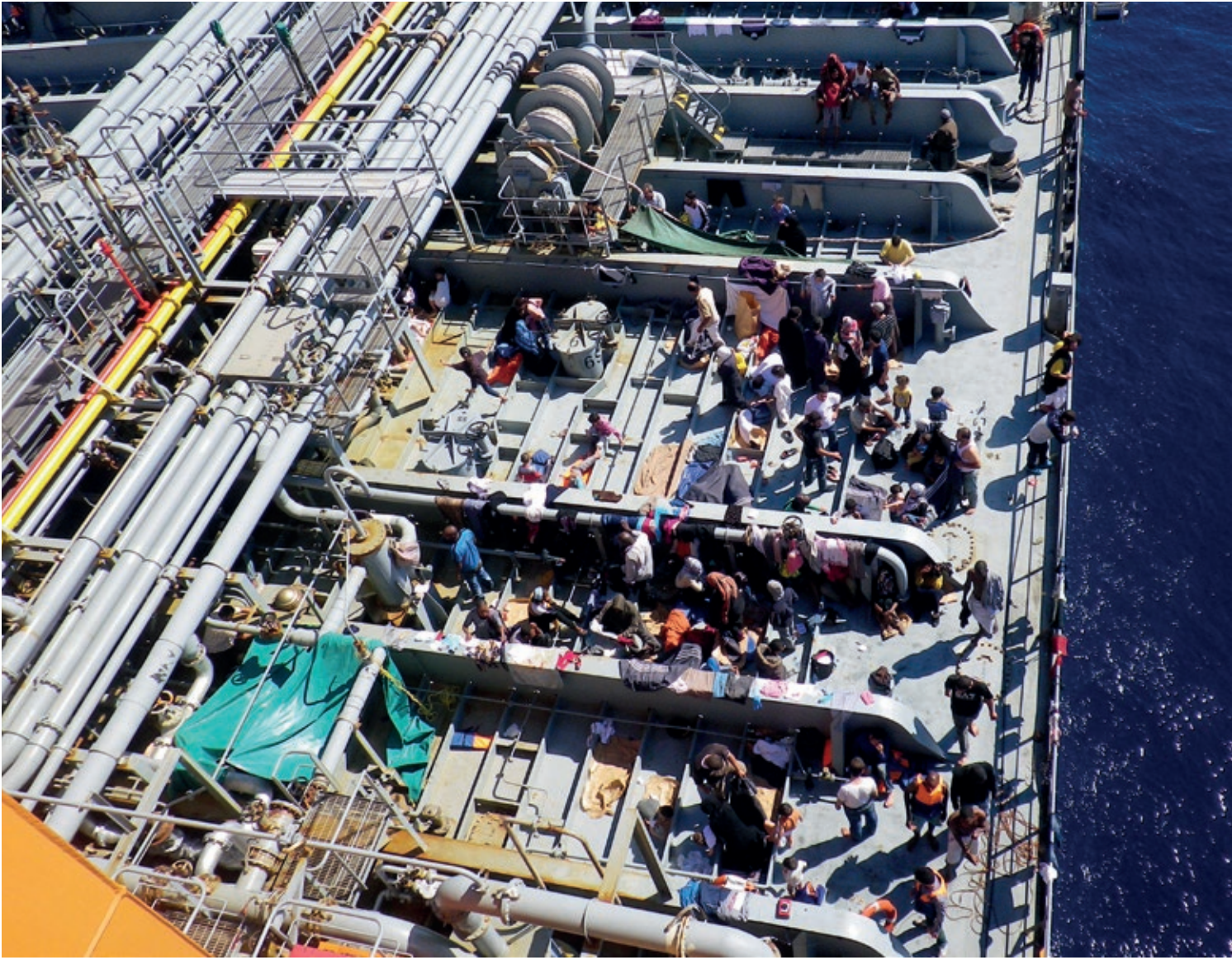
Following the elections in Italy in March 2018, ICS has been following developments closely. As attitudes in Europe towards illegal immigration harden, shipping now faces the possibility of prompt disembarkation of rescued persons being refused. In the meantime, until the root causes are resolved (war in the Middle East plus instability in many parts of Africa and the increasing effects of climate change on water supply) large numbers of migrants can be expected to continue their perilous attempts to enter Europe by sea.

Despite increased efforts to clamp down on their activities, the main cause of the continuing large number of migrant deaths is the murderous practice by criminal smuggling gangs of sending hundreds of people to sea at the same time. This makes it extremely difficult for rescuers to save them all. The dynamic in the Mediterranean has evolved, and there has been a significant reduction in the number of migrant rescues being carried out directly by merchant shipping. Nevertheless, merchant ships are still routinely diverted by Rescue Co-ordination Centres (RCCs) to assist.

The situation is very fluid given the escalating civil conflict in Libya. However, the European Union, and Italy in particular, has worked closely with the Libyan authorities to establish a functional coastguard, and has provided both equipment and training to facilitate this. Within its territorial waters, the Libyan coastguard has itself now rescued, and returned to Libya, a significant proportion of migrants seeking to make the crossing. This new policy however – which is very controversial due to the conditions that returned migrants face in Libya – is creating new challenges which were illustrated by a disturbing incident, in March 2019, when the Palau-flagged tanker 'Elhiblu 1' was taken over by rescued migrants, reportedly because the ship was going to return the 100 rescued persons to Libya. The situation was quickly resolved by the Maltese authorities. Nevertheless, ICS is carefully watching this new development, which it will seek to raise at the meeting of the IMO Maritime Safety Committee in June 2019.

If ships are directed to disembark rescued people in Libya, this clearly creates a potential for conflict between the crew and desperate and frustrated people that might object to being returned. Given the numbers picked up by merchant ships in large scale rescue operations, the crew of the rescuing ship can easily be outnumbered and overwhelmed. It is therefore vital that coastal states' search and rescue





authorities co-ordinate and provide for disembarkation in a place of safety, both for the sake of those rescued and for the seafarers involved in the rescue. It should be remembered that the merchant seafarers on board ships that continue to be involved in these incidents are civilians. They can be severely affected by the traumatic situations they have to face, having complied with their legal and humanitarian obligations.

Although the crisis and human suffering continues, the situation has improved compared to 2016 when over 5,000 people lost their lives and merchant ships were involved in hundreds of large scale rescue operations. This improvement has in large part been due to the EU border protection initiative 'Operation Sophia' which, although

not constituted primarily with a search and rescue role, has conducted an increasing proportion of the rescue operations. In March 2019, the EU announced it would be suspending Operation Sophia sea patrols from September 2019. In conjunction with the European Community Shipowners' Associations (ECSA), ICS is therefore waiting to see what new arrangements will be made by EU Member States to replace this successful operation.

In the meantime, ICS continues to liaise with a variety of international fora whenever migration issues affecting shipping are considered, including the Office of the United Nations High Commissioner for Refugees (UNHCR) and the International Organization for Migration (IOM), in addition to IMO.



Classification Society Issues

In December 2018, ICS was pleased to attend a special dinner to mark the 50th anniversary of the International Association of Classification Societies (IACS). ICS works very closely with IACS to ensure that services provided by class societies to shipowners and shipbuilders – and statutory inspections of ships conducted on behalf of flag states, in their capacity as Recognized Organizations (ROs) – continue to meet the high expectations of all stakeholders in maintaining the safety of ships and the protection of the environment.

Essential to underpinning the quality of services delivered is the IACS Quality System and Certification Scheme (QSCS) against which its twelve class society members must be audited and certified. ICS currently provides the Chairman of the IACS Quality Advisory Committee (AVC), which comprises independent representatives of governments, insurers, shipowners and shipbuilders, as well as an observer from IMO.

Over the past year, the AVC has continued to provide IACS with an impartial view on the work and performance of class societies with respect to quality in general, raising specific technical/quality issues of common relevance to all IACS members and providing recommendations for improving the effectiveness of the QSCS. The AVC Chairman, currently the ICS Principal Director (Marine), presents a report each year to the IACS Council providing observations and recommendations to improve the QSCS and the quality performance of IACS members. The next report will be presented to the IACS Council in June 2019 in Busan, South Korea.

As part of its ongoing commitment to continuous improvement, IACS made important proposals to the IMO Maritime Safety Committee (MSC) in December 2018 for investigating whether moves towards a fully independent quality assessment review body might further strengthen maritime stakeholders' confidence in the IACS QSCS, while also facilitating IMO Member States' awareness of the quality of the performance of classification societies delegated to conduct ship inspections on their behalf.

The IMO MSC agreed to the establishment of a fully independent International Quality Assessment Review Body (IQARB) for the review of the QSCS for an initial trial phase. IQARB, an advisory body, is now tasked with independently reviewing the adequacy of the QSCS in meeting the objectives set for ROs by IMO, flag states and industry. As well as the performance of the audit bodies, this includes checking against the criteria of the QSCS, the nature of non-compliances and, most importantly, the robustness and effectiveness of agreed corrective actions against audit findings. ICS was invited by the Chair of the newly established body to participate as a member of IQARB during the trial



phase in its capacity as a representative of shipowners, and ICS was honoured to attend its first meeting held at the end of February 2019 at the IMO headquarters.

ICS, and its Construction & Equipment Sub Committee, are also engaged in the work of the IACS External Advisory Group (EAG) on the Common Structural Rules (CSR) for Tankers and Bulk Carriers. In 2018, following a request from ICS, IACS re-established the EAG to provide initial technical and operational feedback on possible Rule Change Proposals (RCPs) being considered for the CSR. As well as ICS, the EAG comprises nominees from the Active Shipbuilding Experts' Federation (ASEF) and other international shipowner associations. On the basis of the feedback provided by the EAG, IACS then considers whether or not to progress the individual RCPs or review them further and provide additional information for consideration before making a decision. In January 2019, ICS representatives attended a meeting in London where the potential RCPs for 2019 were tabled and initial feedback was provided for further consideration by IACS.

Meanwhile (in conjunction with the European Community Shipowners' Associations) ICS has been engaged in discussions with the European Commission about the new EU Regulation for the Mutual Recognition by EU Recognized Organizations (EU ROs) of class certificates for materials, equipment and components. ICS participated in a workshop on the subject of mutual recognition of class certificates by EU ROs in Hamburg in September 2018, and accepted an invitation from the European Commission's Directorate-General for Mobility and Transport (DG MOVE) to discuss this issue further at a meeting in Brussels in March 2019.

The agreed position of ICS is that the choice of class society for the classification of a ship must ultimately be made by the shipowner and is a private arrangement covered by contract. It is therefore expected that the chosen class society will conduct the required surveys and tests – and

issue related certificates – for equipment being fitted and materials being used in the construction of the ship, upon which the ship's Class Notations are assigned. ICS is concerned that this important principle should not be undermined by the EU requirement for a class society to accept installation into a ship of equipment or materials certified by a different class society simply on the basis that the other class society has the status of being an EU RO.

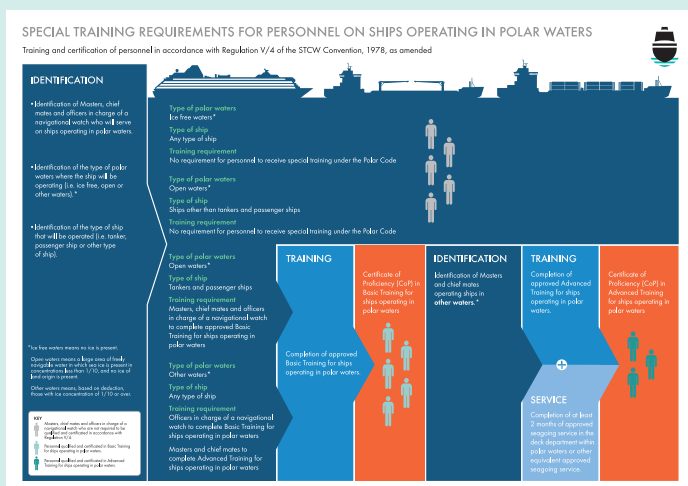
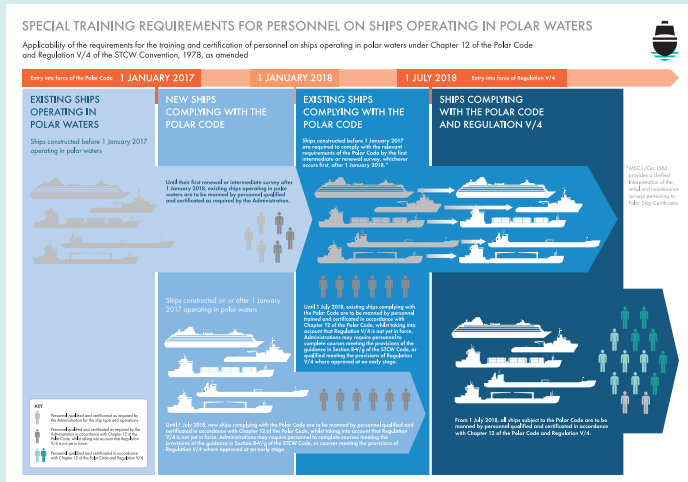
Notwithstanding this position, ICS has not objected to the level of mutual recognition of equipment certificates agreed by the EU ROs to date, as this has so far been limited to certain type-approved equipment. However, ICS has made it clear that it would strongly object to mutual recognition being extended to safety-critical equipment where class society rules require each piece of equipment to be individually surveyed and certified.



Training and Watchkeeping

As explained elsewhere in this Annual Review, ICS is seeking to persuade IMO to conduct a comprehensive review of the International Convention on Standards of Training, Certification and Watchkeeping for Seafarers (STCW). In the meantime, ICS remains engaged in routine but nonetheless important discussions at IMO on improving seafarers' training.

Ballast water treatment systems, as required by the IMO Ballast Water Management Convention, are a significant new piece of complex ship's equipment that must be operated and maintained by shipboard personnel, adhering to new procedures to ensure compliance. ICS members have therefore identified an additional training need that may not be adequately addressed by STCW. However, an underlying principle for ICS is that training in the use of common ship systems or equipment should be covered under the core maritime education and training delivered



in accordance with the STCW Convention. Following an ICS submission to the MEPC meeting in October 2018, IMO has agreed to add this matter to its work programme. ICS is examining the possibility of suggesting some amendments to Chapters II and III of the STCW Code to include generic training on ballast water management in an appropriate manner.

Meanwhile, on 1 July 2018 two new sets of amendments to the STCW Convention and Code entered into force: the requirement for training in the International Code for Ships Operating in Polar Waters (Polar Code); and new mandatory minimum requirements for the training and qualifications of personnel on passenger ships. To assist ship operators with compliance, ICS has developed infographic guidance on these new STCW training requirements which can be downloaded free of charge via the ICS website.

Following several fires on board ro-ro passenger ships in recent years, IMO has been conducting a review of SOLAS requirements to minimise the incidence and consequences of such fires. Some governments have suggested the development of new requirements for seafarer training or ship's drills. ICS, however, is seeking to highlight the extent and strength of existing requirements for fire-fighting training, familiarisation and drills, both in SOLAS and STCW, and the need to focus the discussion on ensuring proper implementation and compliance.



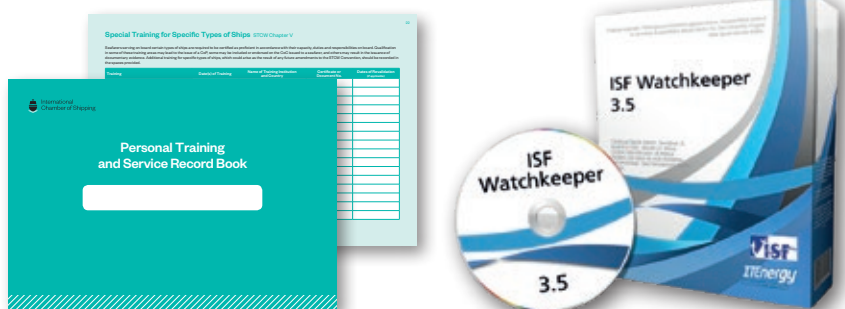
Minimum rest hour requirements also form part of the STCW Convention's watchkeeping provisions, compliance with which ICS continues to support through its successful ISF Watchkeeper seafarers' work hour record software, which is now used by around 10,000 ships.

In January 2019, following a long review process in which ICS was actively involved, IMO issued revised Guidelines on Fatigue, superseding those developed in 2001, to help all stakeholders better understand their roles and responsibilities in mitigating and managing the risk of fatigue among seafarers. ICS is now encouraging companies to take the revised Guidelines into consideration when maintaining Safety Management Systems under the ISM Code. As part of the IMO review, ICS successfully



secured inclusion of important additional guidance for flag states and Port State Control authorities, providing some approaches for their role in helping to reduce fatigue on board ships, including when ships are subject to inspections in port.

Following the wider use and acceptance of electronic ship certificates, discussions have finally commenced at IMO about the extension of their potential benefits to STCW certificates and documentary evidence of ongoing competence. ICS is very supportive of any efforts to move towards the issuance and acceptance of electronic certificates and flag state endorsements under the STCW Convention. The availability and opportunities provided by electronic certification would greatly assist companies, which may be responsible for thousands of seafarers, of many different nationalities, who are currently required to hold a very large number of different certificates and documents. Work on developing possible IMO guidance on this issue under the STCW Convention will begin in 2019, in which ICS will be actively engaged to ensure an outcome that will contribute to reducing administrative burdens for ship operators and seafarers worldwide.





Lifeboat Safety

ICS continues to lead the Industry Lifeboat Group (ILG), which was first established in 2007 to consider solutions to an alarming spate of injuries among seafarers during drills due to some fundamental flaws with lifeboat design and the means of getting them into the water. Although not statistically proven, anecdotally it was often said that more seafarers had been killed by lifeboats during drills than had actually been saved by them, and a number of safety-critical issues remain to be resolved.

The ILG consists of representatives drawn from a number of IMO Member States and shipping NGOs, and is chaired by ICS. Its objective is to develop proposals to IMO in order to address both immediate and longer term lifeboat safety issues.

In March 2019, ICS and other ILG members co-sponsored a submission to the IMO Sub Committee on Ship Systems and Equipment which proposed amendments to the IMO Life Saving Appliances (LSA) Code, in order to ensure adequate safety standards for lifeboats and rescue boats fitted with single fall and hook systems with onload release capability. Disappointingly, the Sub Committee found insufficient time to consider this proposal. However, discussions on this subject will continue at IMO in 2019.

The ILG is also considering a new output to the IMO Maritime Safety Committee to amend the LSA Code to provide additional technical standards for wire ropes in launching appliances, using falls and a winch, in order to enhance safety by reducing accidents.

Discussions also continue on the ventilation of survival craft other than totally enclosed lifeboats, following IMO having agreed amendments to the LSA Code for totally enclosed lifeboats which are expected to enter into force in 2024 for new installations. The amendments to the LSA Code will require that a totally enclosed lifeboat must be provided with a ventilation system capable of delivering 5m³/hour per person for the maximum number of persons which the lifeboat is permitted to accommodate for a period of not less than 24 hours. ICS, ILG members and several Member States have argued that any metric introduced should be goal based and avoid unintended consequences for survival craft other than totally enclosed lifeboats. However, these arguments were not accepted by IMO. The issue will continue to be discussed at future IMO meetings.

Meanwhile, ICS and other ILG members are co-sponsoring a submission to the Maritime Safety Committee in June 2019 proposing a new output to develop design and

prototype test requirements for the arrangements used in the operational testing of free-fall lifeboat release systems without launching the lifeboat (equipment used in the simulated launching of free-fall lifeboats). This submission is in response to an incident in Australia regarding an unintentional release of a free-fall lifeboat, following which it was recommended that simulation equipment (such as wires) used for maintenance and testing should be approved and designed to take into account the lifeboat's static weight as well as the shock loading that would be experienced during a simulated launch.

The ILG has also highlighted a major concern regarding the mandatory requirement under the SOLAS Convention for launching and manoeuvring lifeboats in water every three months, compliance with which is often made difficult by bad weather or the vessel's schedule, and is further complicated when ports or terminals will not allow lowering into the water. While the responsibility for lowering into water and manoeuvring rests with the ship, it would greatly assist vessels to meet this requirement if ports and terminals were more accommodating. The ILG is reviewing how best to address this matter within IMO.



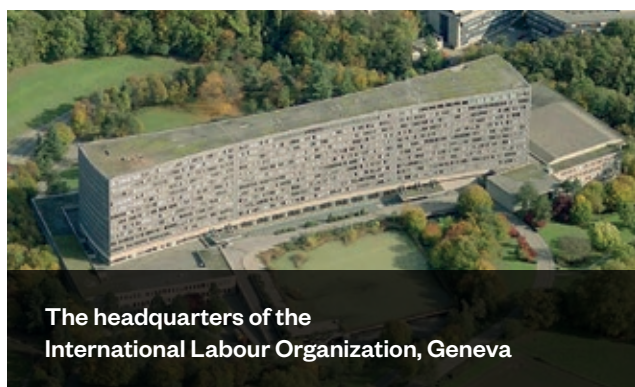
ILO Labour Standards

The International Labour Organization (ILO) is celebrating its 100th anniversary during 2019. ICS and its member national shipowner associations have been proud to be associated with its work on seafarers' employment standards from the very beginning, the first special Maritime Labour Conference being held in 1920 and attended by ICS (under the banner of the International Shipping Federation, which fully merged with ICS in 2011).

Shipping is the only industry to enjoy a comprehensive global framework of sector specific employment standards – the Maritime Labour Convention (MLC), developed by the ILO via its tripartite process involving governments, trade unions and employers' representatives. More than five years have passed since the MLC's entry into force, and it is now strictly enforced on a global basis and subject to Port State Control inspection. As the representative of maritime employers, ICS was responsible for negotiating the MLC text with governments and seafarers' unions and has a direct interest in ensuring that its provisions are properly implemented, in order to maintain a level playing field for decent working conditions on board merchant ships worldwide.

In May 2019, ICS published a new edition of its Guidelines on the Application of the MLC. This is widely regarded as the comprehensive and definitive guide to MLC compliance for anyone involved with the employment of seafarers, including shipping companies, ship managers and crewing agents.

The revised edition addresses the wide range of MLC provisions including seafarers' contractual arrangements, manning agencies, working hours, health and safety, crew accommodation, catering standards, and seafarers' welfare. It also contains detailed advice on the MLC requirement for ships to maintain a Declaration of Maritime Labour Compliance (DMLC), including linkages to the IMO International Safety Management (ISM) Code, and takes account of the inspection processes and procedures used by PSC authorities since the Convention's entry into force in 2013.



The headquarters of the International Labour Organization, Geneva



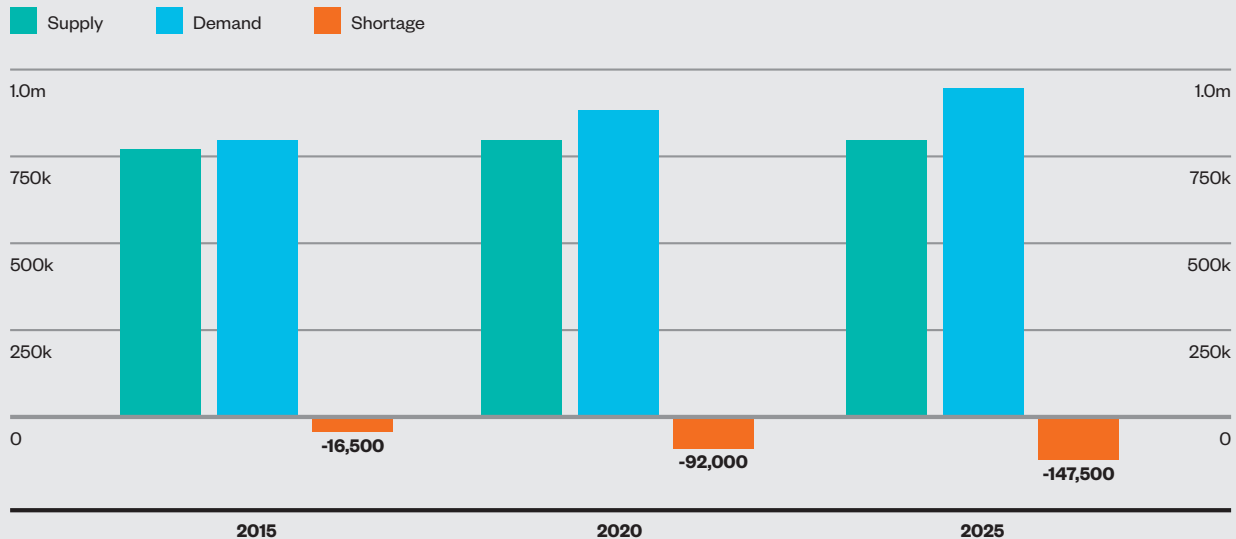
Most importantly the revised edition covers the very latest MLC amendments and ILO guidance adopted since 2013, which ICS again helped to negotiate on behalf of employers, with respect *inter alia* to financial security and repatriation to assist seafarers in potential situations of abandonment, changes to employment agreements to address piracy, training of ships' cooks, implementation of occupational health and safety provisions, and measures to prevent harassment and bullying.

Meanwhile, ICS continues to co-operate with its social partner, the International Transport Workers' Federation (ITF), to ensure that the MLC is properly implemented. In October 2018, ICS and ITF jointly published Guidelines for Implementing the Welfare Aspects of the MLC. Seafarers can be separated from their families and communities for long periods of time, and often remain on board ships with limited time ashore. They therefore require adequate services at sea and in port where different national and cultural requirements can create challenges. While a number of countries enjoy advanced arrangements for providing seafarers with welfare services and facilities ashore, others have not yet developed welfare organisations to provide such services, either at home or abroad. This joint ICS/ITF publication is therefore intended to assist governments and welfare agencies to draft their own guidelines for implementing the welfare provisions of the MLC. While some countries may already have their own laws and policies in place, they may nevertheless wish to adapt these new Guidelines to complement current practices. ICS and ITF have previously co-operated to produce Guidance on Eliminating Shipboard Harassment and Bullying which can also be accessed from the ICS website.

Meanwhile, routine representational work at ILO continues. In February 2019, ICS co-ordinated its member associations, alongside government and union representatives, at a Sectoral Meeting on Recruitment and Retention of Seafarers and Opportunities for Women. Ms Kathy Metcalf (United States) served as the Shipowner Spokesperson at the meeting.

Seafarers and Digital Disruption

Global Supply and Demand Forecast for Officers



Source: ICS and BIMCO Manpower Report 2015

In October 2018, ICS released a new study conducted on its behalf by the Hamburg School of Business Administration regarding the potential effects of autonomous ships on the role of seafarers and the global shipping industry. The study included an in-depth assessment of risk and opportunities provided by digitalisation in global logistics chains, as well as automation in ship operations.

In light of growing media interest and the diversity of expert opinion on the subject, the study sought to separate fact from fiction. A two-year IMO regulatory scoping exercise for Maritime Autonomous Surface Ships (MASS) is now well underway within the Maritime Safety Committee to determine how existing IMO instruments can be leveraged to ensure that autonomous ships are safe, secure, and environmentally sound. This is a complex task, expected to impact several areas under IMO's purview. While it is recognised that clear opportunities might arise for the shipping industry which might not exist today, much more work must be done, particularly on the regulatory side, to address concerns about the impact of MASS on seafarers employed worldwide. With over 1.6 million seafarers currently estimated to serve on merchant ships trading internationally, the impact of MASS on seafarers requires thorough consideration going forward.

Encouragingly, the study indicates that there will be no shortage of jobs for seafarers, especially officers, in the next two decades. While the size of crews may evolve in

response to technological changes on board, there may also be considerable additional jobs ashore which require seafaring experience.

The findings of the study suggest that the role of personnel on board and ashore will need to be redefined both operationally and legally. Reviewing and understanding how these roles may evolve is also identified in the study as an important aspect to assess and address the impact of autonomous ships on the role of seafarers.



Minimum Wage Review

In November 2018, in Geneva, the ILO Joint Maritime Commission (JMC) reviewed the current level of the ILO Minimum Wage for the rating grade of Able Seafarer, formally known as Able Seaman (AB). The vast majority of ratings are recruited from developing nations. The Shipowner Spokesperson at the meeting was Dr Max Johns (Germany).

The shipping industry is probably unique in that it has a recommended global minimum wage, which is reviewed periodically by the JMC, a bipartite ILO body comprising employers' representatives co-ordinated by ICS and seafarers' union representatives co-ordinated by the International Transport Workers' Federation (ITF).

As a result of the new agreement, the ILO Minimum Wage will be increased to US\$641 over the next 3 years, an overall increase of 4.5% on the previous basic wage (excluding substantial overtime payments) with increases of US\$4 on 1 July 2019, US\$7 on 1 January 2020 and US\$16 on 1 January 2021.

The agreed increase takes careful account of a report by the ILO Office looking at the value of the US dollar in relation to the cost of living in a number of seafarer supply countries. The previous figure of US\$614 basic wage per month has applied since January 2016 when it was increased as a result of an agreement in 2014.

ICS is strongly committed to the principle of the ILO Minimum Wage which is now referenced in the ILO Maritime Labour Convention. While it is still only recommendatory, and is not directly relevant to seafarer grades other than Able Seafarers (although officers serving at the operational level and above will of course



ILO Joint Maritime Commission, November 2018

receive significantly more) it has a strong moral authority and is often referred to by national courts. It is particularly important for employers in some developing countries and may also be relevant to future collective bargaining negotiations, including those which take place in the International Bargaining Forum (IBF), as well as those conducted by several ICS national associations on behalf of their member companies.

The ILO Minimum Wage is substantially higher than that paid for comparative work ashore in developing countries. Moreover, the total wage enjoyed by most Able Seafarers is significantly higher once overtime hours and other mandatory payments, such as leave entitlements, are taken into account. By definition the ILO wage is a minimum. Most ratings from developing countries that serve on internationally trading ships, especially where ITF contracts apply, receive significantly higher wages than those recommended by ILO.

Defending the Global Pollution Liability Regime

Ships operate in an environment presenting a high degree of physical risk, and it has not yet been possible to eradicate maritime casualties completely. Over the past decade, there have only been about two serious oil spills each year (of over 700 tonnes) worldwide, compared to 30 or more per annum 40 years ago, despite a significant increase in maritime trade. Nevertheless, although major incidents are now much less frequent, any oil spill can have huge consequences for those affected, and the global compensation system for addressing pollution damage from tankers is a great success story.

The IMO Civil Liability (CLO) and Fund Conventions have been remarkably effective in providing those affected by oil spills with prompt compensation without protracted

legal wrangling. Importantly, the shipowner's contribution is paid regardless of fault, and on the very rare occasions that claims have exceeded the shipowner's liability under CLC, additional compensation is provided by the International Oil Pollution Compensation Fund (IOPCF) financed by oil importers. The *quid pro quo* for shipowners' acceptance of strict liability is that this is limited to a level that allows the shipping industry to obtain access to the necessary cover through its third party liability insurers, principally members of the International Group of P&I Clubs.

In 2019, in countries that have signed up to the 2003 IMO Supplementary Fund Protocol, over US\$1 billion is available to cover the cost of clean-up and to compensate those affected by any single spill. However, the stability

of this impressive global system is severely threatened by decisions by national courts and domestic legislation that are inconsistent with the manner in which the IMO liability regime is intended to function. This includes the controversial judgment by the Spanish Supreme Court, in 2016, on the 'Prestige' disaster of 2002, and the enactment of a law in France, also in 2016, providing for unlimited liability for environmental damage. In both cases these decisions were inconsistent with fundamental principles of the IMO CLC/Fund Conventions, in particular the 1992 CLC 'limitation' and 'channelling' provisions.

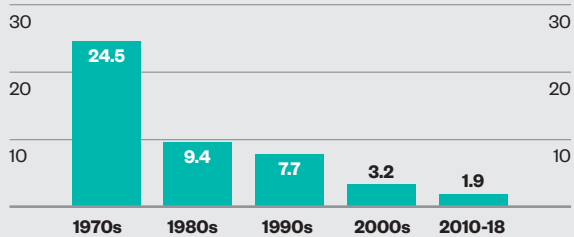
The Spanish Supreme Court decision, which held the shipowner's insurer liable for over US\$1 billion, is particularly startling, being far in excess of the limit of shipowner liability agreed under the IMO CLC regime to which the Spanish Government is a State Party. It is therefore worth recounting the background to this remarkable case.

The 'Prestige' disaster occurred 17 years ago and led to the IMO agreement to accelerate the phase-out of single hull oil tankers, which have now all been withdrawn from international service. A fully laden tanker suffered damage in heavy seas and eventually sank some distance off the northern Spanish coast; the Master's request for access to a place of refuge having been denied by the Spanish authorities. Very controversially, the Master was then detained in Spain for two years, the first three months in a high security prison. Some years later, a lower court, after hearing evidence – including from the Master – subsequently acquitted him of all charges of criminal damage. It also acquitted the Spanish civil servant



Reduction in Major Oil Spills

Average number of major oil spills per year (over 700 tonnes)



Source: ITOPF

involved in the decision not to allow the ship into a place of refuge. The lower Court did not therefore award any compensation to the claimants in the case, which included the Spanish Government.

But in 2016, the Spanish Supreme Court overturned the decision of the lower trial Court and determined that the Master was guilty of the crime of reckless damage to the environment and that, as a result, the shipowner was not entitled to limit its liability under the international regime. The shipowner's P&I Club was also held directly liable above the IMO CLC limit, for up to US\$1 billion (the limit of cover provided by members of the International Group of P&I Clubs for oil pollution damage). The Supreme Court's judgment was reached after just one day, without hearing any new evidence and in the absence of the Master. At the same time, the Supreme Court confirmed the acquittal of the Spanish civil servant.

In December 2018, the Spanish Supreme Court delivered its final judgment ordering the shipowner and insurer to pay over €1.4 billion. This enormous amount includes €1.35 billion payable to the Spanish Government, far exceeding the assessment of losses for the Spanish State carried out by the IOPCF, which had quantified these at €300 million. The latest judgment also confirms the Court's previous decision that the shipowner's insurer is liable for all the damages caused by the incident, including moral and environmental damages, which are not admissible under the international regime. The judgment also confirmed that, under Spanish law, the IOPC Fund is liable for damages resulting from the spill, up to the maximum amount established under the international regime, but not including moral and environmental damages. The court in charge of the enforcement of the judgment issued a further decree, in February 2019, ordering the Master, the shipowner and the P&I Club to pay the amounts awarded by the Supreme Court plus 30% for interests and costs. ➤





This extraordinary decision on the 'Prestige' case is of great concern because it follows on from the French court decision on the 'Erika' case (of 1999) which raised similar issues of inconsistent interpretation of the international regime. In 2012, the French Supreme Court determined that the international regime requirement for all liability to be 'channelled' to the shipowner did not apply because the damage from the 'Erika' had resulted from the recklessness of other parties. In 2016, legislation was then adopted which introduced unlimited liability for environmental damage into French law, despite the fact that France is a State Party to the IMO Conventions. However, the French Government delegation to the IOPCF has subsequently advised – after being pressed by ICS and the International Group of P&I Clubs (IG) – that the IMO Conventions would probably prevail over this domestic legislation in the event of any future shipping incident.

The court decisions in both these cases are inconsistent with the fundamental principles of the IMO CLC/Fund Conventions to which over 115 nations, including Spain and France, have subscribed, and they threaten to disturb the balance of interests on which the international compensation regime for ship source pollution damage is based. The ICS Maritime Law Committee has therefore kept this serious issue under close scrutiny, in co-operation with the IG.

In 2017, ICS and the IG made a joint submission on this critical matter to the IOPCF which generated a lengthy debate over several meetings, although this was ultimately derailed by a small group of states, led by Spain and France, which raised procedural impediments. As a result, agreement could not be reached on how to

address the important issue of inconsistent interpretation of the IMO Conventions.

However, in March 2019, the IMO Legal Committee considered a fresh submission, this time led by Greece and the Marshall Islands, but with full ICS and IG support. This made the case that the test for breaking shipowners' right to limit liability also has serious implications for other IMO liability conventions. The submission therefore proposed a new output to the Legal Committee's work programme to develop a Unified Interpretation under all of the IMO Conventions on liability and compensation, something for which there was overwhelming support. Work will now begin immediately and is expected to conclude in 2021.

If an interpretive tool is developed by IMO, this should be extremely helpful to national courts and those tasked with drafting national legislation, to provide a better understanding of the intention of the IMO Conventions when they were originally agreed. It is hoped that this will lead to greater uniformity and certainty and, most importantly, ensure the long term future sustainability of the international compensation regime.

In parallel with the efforts being pursued for an interpretive tool, ICS is continuing to promote greater ratification by governments of the 2003 Supplementary Fund Protocol, which was adopted after the 'Prestige' incident and provides for much higher limits of liability. If the Protocol is in force in any nation that suffers a future pollution incident, it is likely that the higher levels of compensation available would discourage the kind of unhelpful actions that have recently been taken by the Spanish and French courts.

Salvage and Lloyd's Open Form

The professional salvage industry provides a vital service to ships in need of assistance in emergency situations. Salvors also assist in less urgent wreck removal and towage operations.

In their role as emergency responders, traditionally salvors have been entitled to a generous reward when the ship and other property has been saved (payable by commercial marine property underwriters). In more recent times, salvors have also been entitled to receive special compensation for rendering assistance to ships that threaten damage to the environment (payable by shipowners' liability insurers). This is to encourage salvage operations, even in cases which might otherwise be uneconomic, and promote a viable and sustainable salvage industry.

The Lloyd's Open Form (LOF) is a long-standing standard form of salvage agreement, which provides for the salvor's remuneration to be settled later by agreement or arbitration. Special compensation may be awarded in accordance with the terms of an industry agreement – "SCOPIIC" – when incorporated in LOF by agreement.

SCOPIIC is a carefully balanced package, the result of negotiations in which all interests were represented. SCOPIIC can be invoked by the salvor at any stage of the salvage operation regardless of the circumstances and whether or not there is a threat of damage to the environment. SCOPIIC remuneration is assessed by reference to an agreed tariff of rates for equipment and personnel, and salvors receive a bonus of 25% of the tariff rate remuneration in all cases where SCOPIIC is invoked. The salvor nevertheless runs a commercial risk by invoking SCOPIIC, in that if the traditional reward exceeds the SCOPIIC remuneration, the reward will be discounted by 25% of the amount by which it exceeds the SCOPIIC remuneration.

The LOF regime is administered by the Lloyd's Salvage Arbitration Branch, and kept under review by the Lloyd's Salvage Group (LSG) in which ICS participates along with representatives of all interests in the LOF regime – shipowners, salvors, marine property underwriters, and liability insurers.

Over the years, concerns have been raised in the LSG about a decline in the use of LOF. More recently the discussions have focused on the use of side-agreements to LOF that undermine the LOF regime. The terms of the side-agreements reportedly vary from case-to-case. Some of them have sought to activate SCOPIIC earlier or to extend the time for SCOPIIC rates without the prior knowledge



or approval of the P&I Club. The International Group of P&I Clubs has previously warned that such agreements concerning SCOPIIC may be invalid and, if agreed without the P&I Club's consent, such agreements may also prejudice the shipowner's P&I cover.

Other side-agreements, however, are reportedly directed at the salvor's traditional reward for saving the ship and other property rather than SCOPIIC. Generally, such side-agreements have been aimed at amending the LOF to a fixed costs contract whereby marine property underwriters have sought to avoid the potential uncertainty associated with the reward determined after the event by arbitration. Reportedly, salvors are under pressure to accept such side-agreements in a difficult market.

ICS continues to be a strong supporter of LOF, which, with its standard agreed terms, avoids the need to negotiate in emergency situations. In addition, it is in shipowners' interests for salvors to be encouraged and for the salvage industry to remain viable and competitive. Accordingly, it is considered important that LOF remains the default contract for use in genuine emergency situations when time is of the essence so that the provision of salvage services is not delayed. A new iteration of LOF is expected to be published in 2019 and will include a requirement for side-agreements to be notified to Lloyd's.



Insurance Issues

The ICS Insurance Committee's primary *raison d'être* is to liaise with the London commercial hull insurance and war risks markets. Liaison with other major insurance markets, e.g. in Europe and Asia, is also maintained, not least through regular contact with the International Union of Marine Insurance (IUMI), which represents the global marine insurance industry.

ICS engagement with commercial marine insurers is of great importance. In the past, the practice of the underwriters had been to present shipowners with significant changes in scope of cover as a *fait accompli*. The ongoing dialogue, which has been maintained over many years, and irrespective of the state of the insurance market, provides a forum for consultation and discussion, and is valued by both the insurers and ICS.

Liaison is particularly important with respect to scope of cover issues and how the commercial marine insurers assess risk. Current topics for discussion at the regular meetings of the ICS Insurance Committee Chairman and the London market Joint Hull and Joint War Committee Chairmen include insurance coverage for marine cyber risks, digitisation and automation, and war risks/piracy.

Traditionally, the commercial insurance sector has not engaged to any great extent in regulatory issues that may affect their shipowner clients' businesses. However, recent times have seen a greater interest on the part of this sector to engage in IMO and other intergovernmental debates both as marine property insurers and reinsurers of shipowners' liabilities.

A topical example is the IMO 2020 sulphur cap. Initially, the marine property (hull and machinery) insurers were primarily concerned about the impact that the new low sulphur fuels might have in terms of potential machinery damage claims. However, through ongoing dialogue with ICS, representatives of commercial marine property insurers have gained a greater appreciation of the bigger picture and are now working with shipowners to bring greater pressure to bear on the refineries to ensure there is sufficient supply of IMO 2020 compliant fuel which is compatible with ships' machinery. This collaborative effort could result in a win-win for the insurers and their shipowner clients, and for safety and the environment.

Flag State Performance and Ratification Campaign

In March 2019, ICS published the latest update of its Flag State Performance Table, which can be downloaded free of charge via the ICS website.



The annual update, which is now also supported by the Asian Shipowners' Association (ASA) and the European Community Shipowners' Associations (ECSA), provides an indication of the performance of individual flag administrations, using information available in the public domain.

The purpose of the ICS Table is to encourage ship operators to examine whether a flag state has substance before using it and to put pressure on their flag administrations if improvements might be needed, for example with regard to Port State Control records of ships under their flag, failure to ratify key IMO Conventions or regular attendance at IMO meetings.

Since the Table was launched 15 years ago, ICS has been encouraged by the ongoing improvement which the data has helped to demonstrate. Among the twelve largest flag states, responsible for 80% of the world merchant tonnage, none currently have more than one potential negative indicator and nine of these have no negative indicators at all.

There is nothing inherently unusual in an international ship registry system in which the owner of a ship may be located

in a country other than the state whose flag the ship flies. But a balance has to be struck between the commercial advantages of selecting a particular flag and the need to discourage the use of flag states that may not fully adhere to their international obligations, especially with regard to safety and environmental performance.

Given that shipping is a global industry, it is reliant on global regulatory frameworks to operate efficiently. The alternative would be a plethora of regional or unilateral regulations, which would lead to chaos within the international shipping industry while hindering the smooth flow of global trade.

In conjunction with the Comité Maritime International (CMI) – the international association for maritime lawyers – ICS continues to promote the importance of governments ratifying international maritime conventions, especially those adopted by the UN IMO. At the core of the campaign is a joint ICS/CMI brochure 'Promoting Maritime Treaty Ratification', the aim of which is to encourage more widespread ratification of some key maritime instruments that would benefit from a greater level of global acceptance. This includes a number of important instruments which have not yet received adequate ratifications from governments to enter into force globally.

The current campaign particularly focuses on three key IMO instruments: the Hong Kong Convention on ship recycling; the 2003 Protocol to the 1992 Civil Liability and Fund Conventions concerning oil spill compensation; and the 2010 Protocol to the HNS (liability and compensation) Convention.

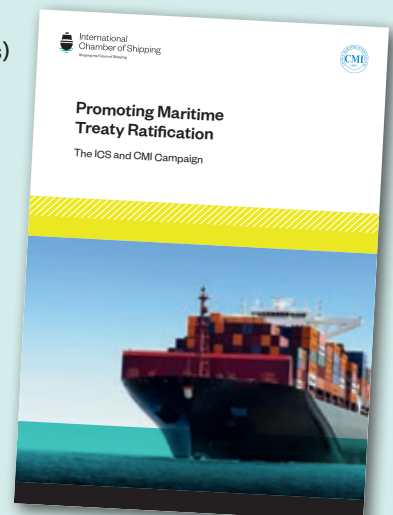
While the slow pace of ratification of these crucial IMO instruments remains disappointing, there is now some cause for optimism. In particular, the Hong Kong Convention on ship recycling has been ratified by the world's largest flag state, Panama, having also now been ratified by Belgium, Denmark, France, Japan, Netherlands and Norway. Turkey, a major ship recycling nation, also ratified in January 2019. But other IMO Member States now need to build on this momentum or else be faced with the confusion likely to be caused by unilateral or regional regulation, including the EU Regulation on Ship Recycling.

The current brochure – which is being updated in 2019 – can be downloaded from the ICS website, and also highlights the need for greater ratification of several other important instruments that address international liabilities and compulsory insurance cover for ships. ICS is also co-operating with the ILO to achieve 100 ratifications of the ILO Maritime Labour Convention before the end of 2019, the ILO's 100th anniversary year.

The following Conventions are the main focus of the current ICS/CMI campaign

- IMO Convention for the Safe and Environmentally Sound Recycling of Ships (Hong Kong), 2009*
- IMO 2003 Supplementary Fund Protocol to the 1992 Fund Convention
- IMO 2010 Protocol to the International Convention on Liability and Compensation for Damage in Connection with the Carriage of Hazardous and Noxious Substances by Sea (HNS), 1996*
- ILO Maritime Labour Convention, 2006
- IMO Convention on Control and Management of Ships' Ballast Water (BWM), 2004
- IMO Protocol of 1997 to MARPOL (Annex VI – Prevention of Air Pollution from Ships)
- IMO Protocol of 1996 to the Convention on Limitation of Liability for Maritime Claims (LLMC Protocol), 1976
- IMO Convention on the Facilitation of International Maritime Traffic (FAL), 1965
- ILO Seafarers' Identity Documents Convention (Revised) (ILO 185), 2003*
- IMO Nairobi International Convention on the Removal of Wrecks (Nairobi WRC), 2007
- IMO Protocol of 2002 to the Athens Convention Relating to the Carriage of Passengers and their Luggage by Sea (PAL), 1974
- United Nations Convention on Contracts for the International Carriage of Goods Wholly or Partly by Sea (Rotterdam Rules), 2009*

* Instruments that have not yet entered into force.



WTO and Free Trade Principles



Shipping is indispensable to the world economy with the global shipping sector transporting about 90% of world trade. This makes shipping an essential driver for economic development and green growth, consistent with the United Nations Sustainable Development Goals for 2030, and the further improvement of global living standards as the world's population continues to increase.

It is no coincidence that the massive growth in the global economy and thus the demand for maritime services that have been witnessed over the past 25 years has followed the establishment of the World Trade Organization (WTO)

in 1995. Global maritime trade now exceeds ten billion tonnes of cargo a year. Indeed, as shown by the United Nations Conference on Trade Development (UNCTAD) and its excellent annual Review of Maritime Transport (which celebrated its 50th anniversary of publication during 2019) the majority of maritime trade now involves exports and imports to and from developing countries.

In May 2019, at the WTO in Geneva, ICS – in co-operation with ASA and ECSA – launched a policy statement in support of the WTO and free trade principles in shipping.

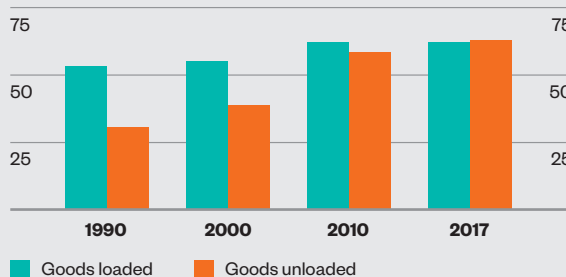
The efficiency of the shipping sector, as the servant and key facilitator of global trade, is dependent on a rules based global trading system. This requires the negotiation of, and strict adherence to, multilateral trade agreements under the auspices of the WTO, utilising the mechanisms for monitoring and dispute resolution which have been successfully overseen by WTO and its predecessors for the past 70 years.

The WTO and its rules based multilateral trading regime have recently been the subject of unwarranted criticism by certain governments, including the United States, undermining its role as the regulator of international trade between nations. The global shipping sector, as represented by ICS, is therefore calling on the global community and WTO Member States to continue to support the WTO and its various functions, which help to govern and maintain the efficient operation of global trade in the best interests of all nations.

It is recognised that the WTO and the current multilateral trading system are in need of enhancement and reform to fully reflect the current and future needs of trade. To

Increase in Developing countries' Share of global seaborne trade (by volume)

% of global goods loaded/unloaded at developing countries' sea port



Source: UNCTAD Review of Maritime Transport 2018

achieve meaningful and mutually beneficial improvements, which the shipping sector supports, all WTO Member States should co-operate and participate constructively in any such reform process. In this context, ICS strongly supports any initiatives by the WTO and its Member States to resume full negotiations on trade in services including maritime transport services, as well as resuming multilateral negotiations as a whole.

Maritime transport services were not concluded at the end of the Uruguay Round in the 1990s which preceded the formation of WTO, and the commitments so far made by governments with regard to maritime transport under the Doha Round are not definitive and therefore lack legal certainty. The shipping sector particularly wishes to see progress being made under the General Agreement on Trade in Services (GATS), including bringing legal certainty to maritime transport services.

While bilateral and regional trade agreements, including agreements which cover the shipping sector and maritime services, are important, they are not a substitute for multilateral trade agreements concluded under the auspices of the WTO, and do not provide the same degree of security against the possibility of protectionist measures being adopted by individual nations in the longer term.

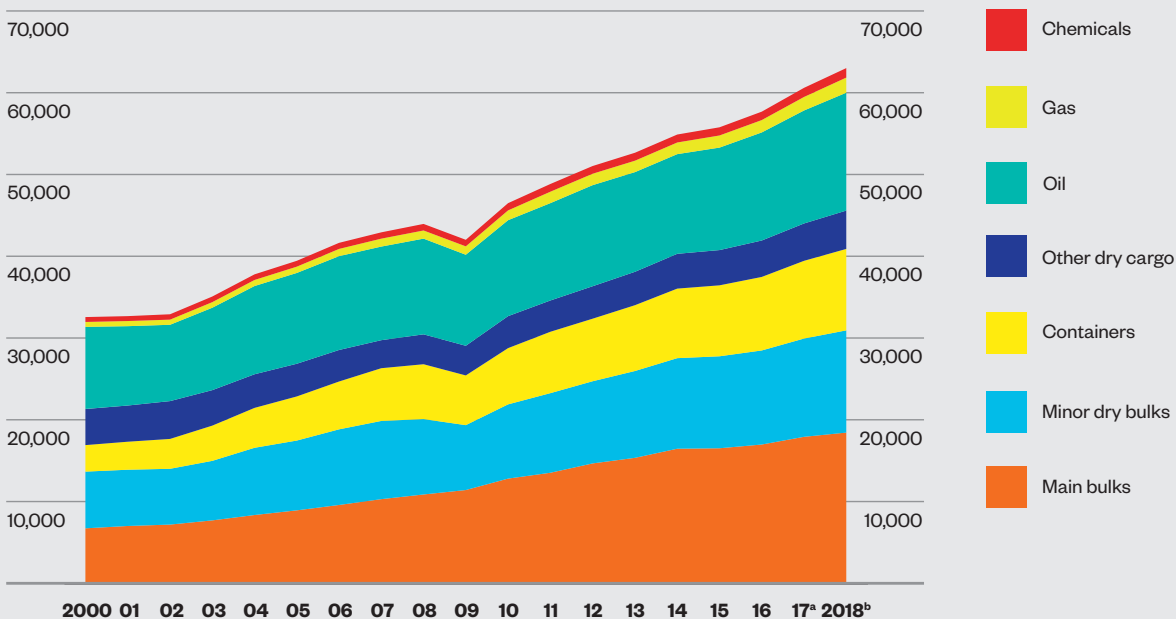


ICS is therefore encouraging WTO Member States to ensure that bilateral agreements and regional agreements, as well as national and regional trade regulations and policies – including those which relate to shipping and maritime services – do not deviate from or conflict with their current national schedules of commitments, as agreed within the framework of the WTO.

ICS, ASA and ECSA are encouraging initiatives by the WTO and its Member States to engage with and take advantage of the experience and expertise which resides within the international business community, including the global shipping sector. This includes several meetings at the WTO in Geneva at which ICS has been invited to participate during 2019.

World Seaborne Trade

Billions of ton-miles



Source: UNCTAD based on data from Clarksons Research

^a Estimated ^b Projected figures



Competition Law Developments

Full compliance with competition law is of utmost importance given that even the smallest violations by shipping companies can result in penalties of up to 10% of company turnover, potentially amounting to hundreds of millions of dollars. But the maintenance of a sensible and unambiguous regulatory framework that takes full account of shipping companies' legitimate need to co-operate is also vital. Shipping is a global industry requiring global rules or, in the case of anti-trust regimes, laws that are aligned globally and at both ends of the trade route. Otherwise there is confusion and inefficiency.

ICS remains committed to the defence, throughout the world, of appropriate anti-trust exemptions for liner shipping agreements, including Vessel Sharing Agreements (VSAs). Such agreements bring economic benefits to all stakeholders, enabling shipping companies to satisfy shippers' (and consumers') demands in terms of frequency, reliability, efficiency, quality and price.

At the moment, despite the large number of detailed reviews undertaken by national competition authorities in recent years, legal certainty for VSAs continues to apply in most jurisdictions including Hong Kong (China), India, Japan, Malaysia, Singapore, South Korea, Australia and New Zealand, as well as Canada, the United States and EU Member States.

In co-operation with the World Shipping Council, the Asian Shipowners' Association (ASA) and local national associations, ICS continues to provide input to the various national competition policy reviews taking place in the Asia Pacific. This involves supporting local efforts to ensure that necessary exemptions for shipping are codified in national competition laws as these become increasingly mature throughout the region, consistent with the guidelines on maritime competition regulation adopted by the Asia Pacific Economic Co-operation forum (APEC) in 2012.

Encouragingly, in July 2018, India granted a three year exemption to VSAs, and it is hoped that Malaysia will renew its current exemption which expires in July 2019. It is also hoped that recent decisions by Hong Kong (China) and New Zealand to agree VSA exemptions will encourage Australia to retain the status quo when it considers longstanding recommendations to make changes to Part X of its Competition and Consumer Act, probably in the second half of 2019.

In 2019, however, the main focus of the industry is the current review by the European Commission on whether or not to extend the EU consortia block exemption regulation (BER) for an additional five years beyond its current expiry date in April 2020. As well as having an impact on EU trades, the outcome of the EU review is likely to be influential





elsewhere, especially as many Asian economies have legal regimes that treat liner shipping consortia in the same co-operation friendly manner.

In December 2018, in conjunction with ASA and ECSA, ICS co-sponsored a WSC-led submission to the public consultation being held by the European Commission's Directorate-General for Competition (DG COMP). The industry reiterated that vessel sharing arrangements, such as slot sharing, are a fundamental part of the structure of the global liner shipping transportation network and that, since

1995, the EU's consortia BER has provided transparent and practical legal guidance on vessel sharing arrangements for international liner shipping services operating to and from EU ports.

Despite recent mergers in the container shipping industry, the sector remains unconcentrated and highly competitive, with freight rates at half of their levels of 20 years ago, despite significantly higher bunker fuel prices. Moreover, the purely operational agreements covered by the BER foster competition by lowering barriers to entry and enabling individual carriers to compete on more routes.

The BER has worked very well for almost 25 years. It sets out clear rules that can be practically applied without the need for extensive legal analysis. This means that carriers can focus on seeking the most efficient transportation solutions without the cost and delay associated with legal self-assessment for these routine operational arrangements.

A factor that is new to this latest BER review is that IMO has now set concrete goals for greenhouse gas emission reductions for the international shipping industry, and that vessel sharing is a key tool for containerships to reduce their fuel consumption and thus their CO₂ emissions, as well as costs for shippers. In addition to supporting operational efficiency and broader service offerings, the BER helps carriers reduce air emissions and greenhouse gases through higher utilisation of vessel space. It is particularly important that DG COMP takes careful account of the relationship between the BER and the ambitious greenhouse gas reduction targets established by IMO, in 2018, which are strongly supported by EU Member States.

The European Commission is expected to publish its recommendation on the extension of the BER in the middle of 2019.





Confronting Corruption

ICS continues to play a leading part in the Maritime Anti-Corruption Network (MACN), which now has an important role in demonstrating how corruption can present a serious safety risk for seafarers, as well as being an obstacle to efficient maritime trade and wider economic development.

A Cross Industry Working Group, jointly established by MACN and ICS, is actively working towards the vision of a maritime industry free of corruption, enabling fair trade to the benefit of society. The Group incorporates a wide range of industry organisations which collaborate, share ideas and address key issues that the shipping industry is currently facing with respect to bribery and corruption.

The shipping industry operates in a wide variety of ports under many different jurisdictions. Masters and seafarers therefore have frequent and multiple interactions with many government officials around the world, sometimes being exposed to corruption and demands for bribes. Rejecting and challenging corrupt demands, including so called 'facilitation payments', can lead to severe delays, place the safety of the crews and ships at risk, and have seriously damaging commercial consequences for shipping companies.

By acquiescing to demands to make potentially corrupt payments, companies and seafarers also expose themselves to the risk of criminal prosecution in their home state. ICS therefore believes that tackling instances of bribery and corruption must remain a key priority, which the industry's regulators, both internationally and nationally, must work very seriously to address, so that the integrity of shipping companies – and the safety of the seafarers they employ in the service of world trade – is adequately protected.

In order to promote wider awareness among maritime administrations about the impact of corruption, the ICS led-group made an important submission to the IMO Facilitation Committee (FAL) meeting in June 2018. This highlighted how corruption impedes social and economic development while undermining security, in ports and on board ships, as well as impacting negatively on the wellbeing and safety of seafarers. The submission also made suggestions on how anti-corruption measures might best be integrated into the current IMO work programme for governmental improvement, and addressed the risks frequently encountered by ships during Port State Control inspections. A presentation was also delivered to IMO FAL Committee delegates about the activities of MACN and the wider challenges in the maritime industry regarding anti-corruption.

In the context of problems experienced as part of the ship/shore interface, there is a need for IMO to mitigate the risk of corruption when new regulations are developed and implemented. In particular, the industry submission highlighted how shipping companies can be adversely affected by the improper use of the wide discretionary powers sometimes held by port officials, and that it is often difficult to plan ahead where requirements for port entry are not transparent, or else deliberately misapplied, allowing officials to invent non-existent violations.

Encouragingly, the industry submission was well received and the IMO Facilitation Committee agreed that corruption does indeed have a significant impact on the movement of maritime traffic and the security of port operations. The FAL Committee therefore requested the IMO secretariat, in co-ordination with the IMO Legal Affairs and External Relations Division, to provide advice on the possible way forward to further address the problem.

At the FAL Committee in April 2019, governments also considered a further ICS-led submission, co-sponsored by six Member States and 14 NGOs, which proposed that IMO should address maritime corruption through an amendment to the FAL Convention and the development of IMO Guidelines and/or a Code of Best Practice. IMO Member States agreed to include this issue within the FAL Committee's biennial agenda for 2020/2021.



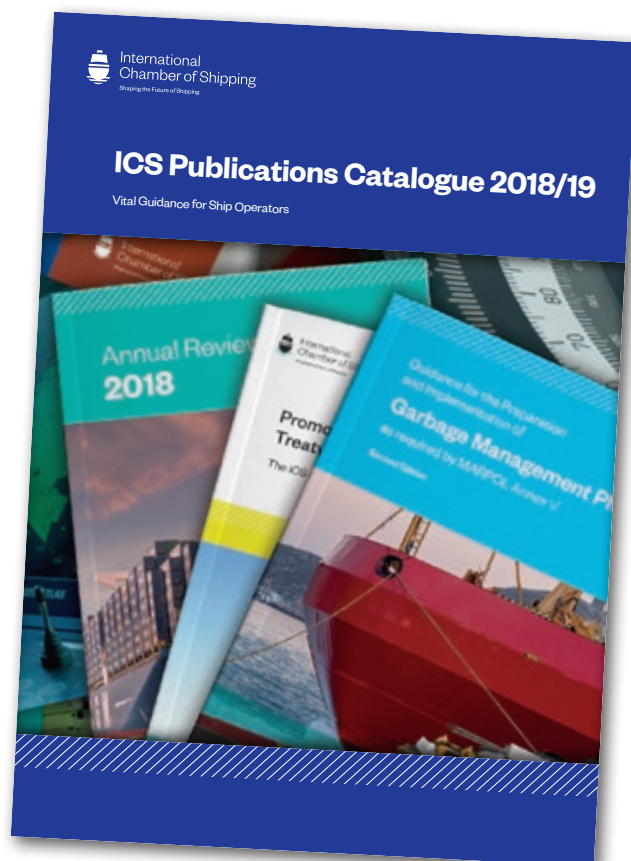
Publications

In addition to representing the industry, the production of publications on regulatory developments and best practices is a vital part of ICS activity. Many ICS publications are used by ships throughout the world fleet, and are often listed as carriage requirements under national legislation.

In May 2019, ICS published a new edition of its Guidelines on the Application of the ILO Maritime Labour Convention. This will be complemented, later in 2019, by a new edition of ICS's definitive Guidelines on the Application of the IMO International Safety Management (ISM) Code.

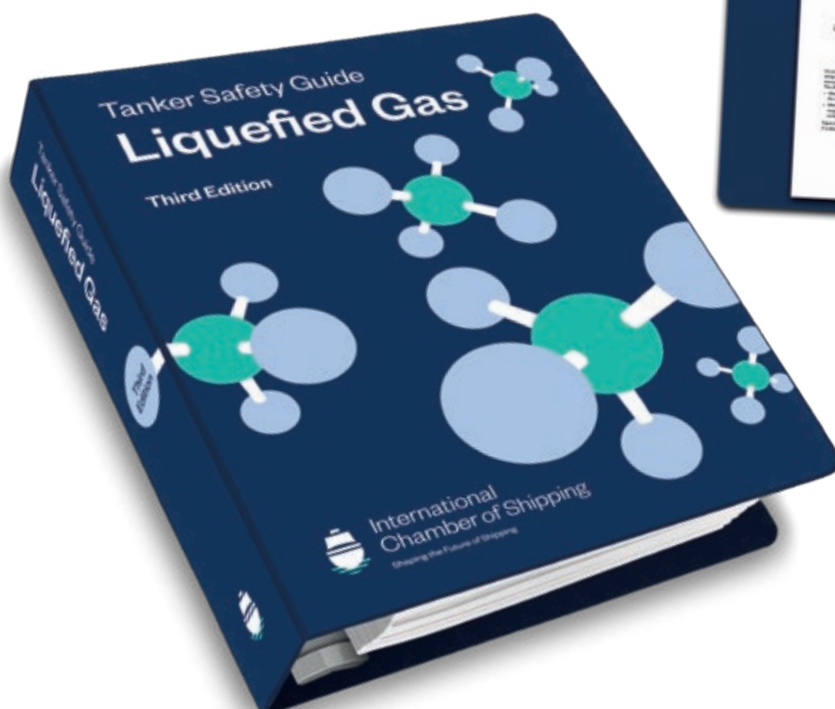
In December 2018, ICS published a new edition of the ICS Tanker Safety Guide (Liquefied Gas), a major project that has taken over three years to complete. In the summer of 2018, ICS also published a new edition of its Guidelines on Garbage Management Plans. A new edition of the ICS Guide on the Prevention of Drug Trafficking and Abuse has also been published in April 2019.

Meanwhile, in conjunction with the Oil Companies International Marine Forum (OCIMF), work is proceeding on a new edition of the International Safety Guide for Oil Tankers and Terminals (ISGOTT). Several inter-industry work groups have now been established with publication anticipated during 2020.



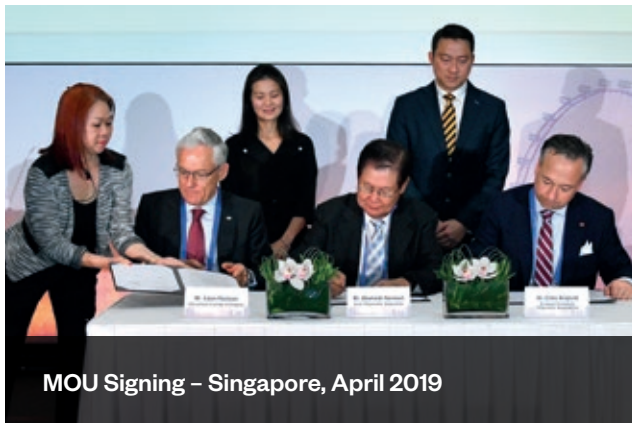
The ISF Watchkeeper seafarers' work hour record software, which is produced jointly with IT Energy, continues to prove popular. Major upgrades are planned during 2019 to ensure that the product remains the best available to help ship operators demonstrate compliance with complex IMO and ILO work hour regulations and record keeping requirements.

In addition to publications for sale, which are available from maritime booksellers worldwide, ICS also produces a large number of free resources for ship operators which can be downloaded from the ICS website. Particularly well received has been the free ICS Guidance on Compliance with the IMO Global Sulphur Cap, which has since been updated following its initial publication in September 2018.





ICS and its Regional Partners (ASA and ECSCA)



In April 2019, ICS signed a joint memorandum of understanding with its regional partners, the Asian Shipowners' Association (ASA) and the European Community Shipowners' Associations (ECSA), which together represent over 90% of the world merchant fleet.

This new MOU codifies the extensive level of co-operation that already exists between these important international trade associations and provides a framework for their closer co-operation. The agreement recognises their respective memberships of national shipowners' associations and the unique and special relationship which their members enjoy with their national governments.

It is vital that the interests of Asian shipping, which controls an increasingly large proportion of the world fleet, are properly represented at the global level. But the increasing importance of Asian economies to overall demand for shipping services means it is also of utmost importance that shipowners outside the region are fully aware of local developments that may affect their operations.

Likewise, the maritime policies of the European Union have a significant impact on regulatory developments at fora such as the UN IMO. Co-operation between ICS, ASA and ECSA allows these associations to enhance their joint efforts to represent the best interests of shipowners, whether at bodies such as IMO or when dealing with the EU institutions.

The MOU confirms the roles of ICS, ASA and ECSA as the principal global and regional associations, representing shipowners and operators – in all shipping sectors and trades – with those global and regional organisations, regulators and other bodies which impact and affect the interests of international shipping.

Shipping is a global industry requiring global rules. It is only natural, as the representatives of the world's national shipowner associations, that these key associations should further cement their relationships to ensure that they work as effectively as possible in support of a global regulatory framework for shipping and in opposition to unwelcome regional or unilateral initiatives that may impede the efficiency of maritime trade.

Internal Affairs

The membership of ICS currently includes national shipowners' associations from 37 countries and territories. The Secretariat and staff of ICS continues to be provided by Maritime International Secretariat Services Limited which is wholly owned by ICS.

The 2018 ICS Annual General Meeting was generously hosted by the Hong Kong Shipowners Association, in conjunction with its 60th Anniversary and the AGM of the Asian Shipowners' Association.



Peter Hinchliffe hands over to new ICS Secretary General, Guy Platten, at ICS AGM in Hong Kong, May 2018

Esben Poulsson (Singapore) was re-elected by the 2018 AGM for a second two year term as Chairman. In addition to receiving support from the ICS Board, he has been assisted during 2018/2019 by the four Vice Chairmen: John Adams (Bahamas), Emanuele Grimaldi (Italy), Mark Martecchini (Liberia) and Karin Orsel (Netherlands).

In August 2018, Guy Platten succeeded Peter Hinchliffe as ICS Secretary General following his appointment by the ICS Board in February 2018.

In September 2018, a special farewell event was held to mark the contribution of Peter Hinchliffe, at Somerset House in London, which was attended by the IMO Secretary-

General, Mr Kitack Lim, as well as representatives of many of the governments and international maritime associations with which ICS enjoys close relations.

In February 2019, Elliott Adams was appointed as Chief Finance & Commercial Officer and in March 2019, Stuart Neil joined ICS as Communications Director. In May 2019, Emily Yates also joined ICS as a new Publications Manager. These appointments are in line with the strategy, adopted by the Board in February 2019, to ensure that ICS's commercial activities are managed effectively in order to provide the necessary resources to support ICS's core work of representing the interests of its member national shipowners' associations.



ICS's Hong Kong Board member, Robert Ho, presenting a gift to ICS Chairman, Esben Poulsson

In November 2019, as part of its new strategy, ICS will be opening an ICS (China) Liaison Office, based in the offices of the Hong Kong Shipowners Association.

The 2019 ICS Annual General Meeting will be hosted from 11-13 June by the Shipowners of the Faroe Islands.



ICS Board of Directors 2018 – 2019

CHAIRMAN

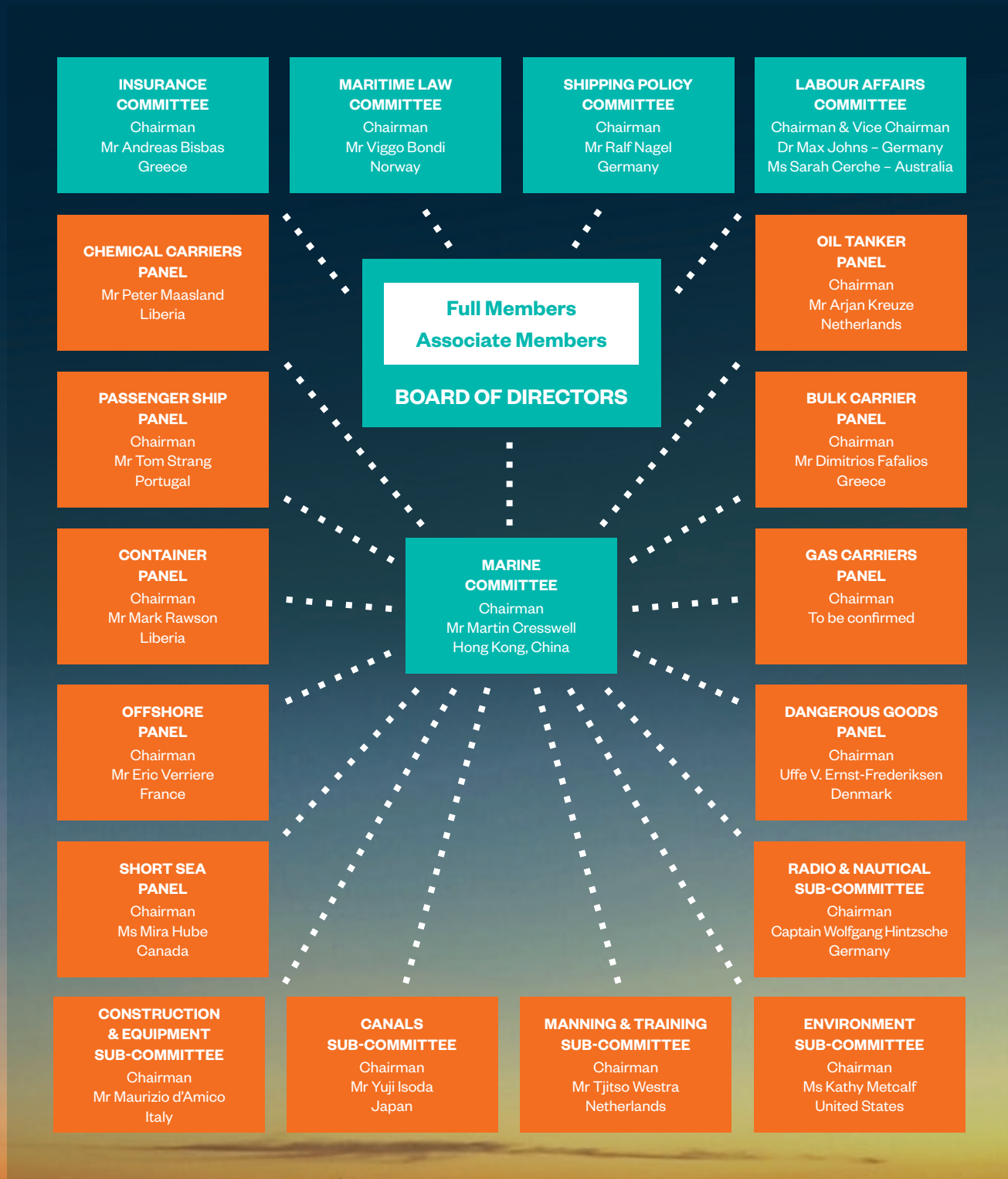
Mr Esben Poulsen

AUSTRALIA	Mr David Parmeter	LIBERIA	Mr Mark Martecchini*
BAHAMAS	Mr John Adams*	MEXICO	Mr Luis Ocejo
BELGIUM	Mr Ludwig Criel	NETHERLANDS	Mrs Karin Orsel*
CANADA	Mr Allister Paterson	NORWAY	Mr Lasse Kristoffersen
CYPRUS	Mr Themis Papadopoulos	PHILIPPINES	Mr Gerardo Borromeo
DENMARK	Mr Claus Hemmingsen	PORTUGAL	Mr Tom Strang
FAROE ISLANDS	Mr Jens Meinhard Rasmussen	RUSSIA	Mr Yury Tsvetkov
FINLAND	Mr Matti-Mikael Koskinen	SINGAPORE	Mr Lim Sim Keat
FRANCE	Mr Jean-Marco Roué	SPAIN	Mr Juan Riva
GERMANY	Captain Alfred Hartmann	SWEDEN	Mr Ragnar Johansson
GREECE	Mr John C Lyras	TURKEY	Mr Haci Hakki Deval
HONG KONG, CHINA	Mr Robert Ho	UNITED KINGDOM	Mr Kenneth MacLeod
IRELAND	Mr Andrew Sheen	UNITED STATES	Mr Rob Grune
ITALY	Mr Emanuele Grimaldi*		
JAPAN	Mr Svein Steimler		

* Vice Chairmen



ICS Committee Structure



ICS Membership

FULL MEMBERS

AUSTRALIA	Maritime Industry Australia Limited
BAHAMAS	Bahamas Shipowners' Association
BELGIUM	Royal Belgian Shipowners' Association
BRAZIL	Union of Brazilian Shipowners *
CANADA	Canadian Chamber of Marine Commerce
CHILE	Chilean Shipowners' Association
CYPRUS	Cyprus Shipping Chamber
DENMARK	Danish Shipping
FAROE ISLANDS	Shipowners of the Faroe Islands
FINLAND	Finnish Shipowners' Association
FRANCE	French Shipowners' Association
GERMANY	German Shipowners' Association
GREECE	Union of Greek Shipowners
HONG KONG, CHINA	Hong Kong Shipowners Association
INDIA	Indian National Shipowners' Association
IRELAND	Irish Chamber of Shipping
ITALY	Italian Shipowners' Association
JAPAN	Japanese Shipowners' Association
KOREA	Korea Shipowners' Association
KUWAIT	Kuwait Oil Tanker Co.
LIBERIA	Liberian Shipowners' Council
MEXICO	Grupo TMM S.A.
NETHERLANDS	Royal Association of Netherlands Shipowners
NORWAY	Norwegian Shipowners' Association
PHILIPPINES	Filipino Shipowners' Association
PORTUGAL	Portuguese Shipowners' Association
RUSSIA	Russian Chamber of Shipping
SINGAPORE	Singapore Shipping Association
SPAIN	Spanish Shipowners' Association
SWEDEN	Swedish Shipowners' Association § Swedish Shipowners' Employer Association *
SWITZERLAND	Swiss Shipowners' Association §
TURKEY	Turkish Chamber of Shipping
UNITED KINGDOM	UK Chamber of Shipping
UNITED STATES	Chamber of Shipping of America

ASSOCIATE MEMBERS

Abu Dhabi National Tanker Co. §
 Chamber of Shipping of British Columbia §
 Cruise Lines International Association
 European Dredging Association
 Interferry §
 International Maritime Employers' Council
 Monaco Chamber of Shipping
 Nigerian Chamber of Shipping
 Sail Training International
 Shipping Australia Limited §
 World Shipping Council §

REGIONAL PARTNERS

Asian Shipowners' Association
 European Community Shipowners' Associations

§ Trade Association Only

* Employers' Organisation Only





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