



September 18, 2019

**Remarks of John Butler, President and CEO of the World Shipping Council delivered at the JOC Events Container Trade Europe Conference, Hamburg.**

***Solutions for challenges facing international container carriers, including IMO 2020 fuel standards and greenhouse gas emissions reduction.***

Good morning everyone. It's a pleasure to be here today.

The panel that follows my remarks will focus on a number of environmental topics under the umbrella of "green shipping." That set of issues is top-of-mind for leaders in the liner industry today. The environmental profile of shipping companies is critical today for a host of interconnected reasons including social responsibility, customer requirements, long-term business planning, regulatory certainty, and operational safety.

What I would like to do with my brief remarks this morning is to step back for a minute from the specifics of the discussions on air emissions and try to provide a broader perspective for thinking about these issues. I will do that in the context of two subjects that are on everyone's mind: the first is the IMO 2020 fuel sulphur regulation, and the second is the discussion about what to do next to reduce greenhouse gas emissions from shipping.

Let me start with the low sulphur fuel requirement, because January 1 is right around the corner.

People are naturally focused on the costs associated with this new measure that is designed to protect human health and the environment. Cost is a necessary conversation, but it is a conversation that has to play out in the marketplace among fuel suppliers, carriers, and their customers. These are commercial decisions that have to be made by individual companies, and trade associations like the World Shipping Council are not part of those commercial discussions.

Where we as WSC do come into the conversation is in making sure that the regulations are implemented and enforced in such a way that they do not distort competition and they do not penalize responsible companies for complying.

IMO 2020 is in many ways a much more ambitious regulation than some of the environmental regulations that IMO member states have agreed to before. I say that because the rules don't simply require the installation of a piece of equipment or a periodic inspection. Instead, the rules govern operational behavior every hour of every day, everywhere on the globe – including on the high seas.

When you add that broad operational and geographic scope to the cost impacts that I mentioned a minute ago, it is obvious that if there is not a level playing field, there is a real possibility for economic distortion. The key to keeping the playing field level is for IMO member countries to be very clear and very public in reminding the industry that compliance will be required for everyone. And beyond that, national governments have to follow up to make sure that vessels flying their flags and calling their ports are obeying the law.

In a sense, implementation of the IMO 2020 sulphur rules is both a challenge and an opportunity for the IMO community. If the IMO and its member states can show that they have the political will to make sure that IMO 2020 is a success in terms of human health, the environment, and a commercial level playing field, then that will set a very valuable baseline for tackling an even more difficult task, which is the task of drastically reducing and eventually eliminating greenhouse gas emissions from international shipping.

I want to turn next to how we can solve that greenhouse gas problem.

The IMO has adopted a very ambitious goal of cutting GHG emissions from shipping in half by 2050, even as cargo demand is expected to grow, and taking those emissions to zero by the end of this century.

Until now, regulations and voluntary industry measures have focused on making our fossil-fuel-based fleets more efficient, and a lot of progress has been made, with per-unit efficiency increasing dramatically over the past ten years. As encouraging as that progress is, the plain fact is that we will not cut greenhouse gas emissions in half or eliminate them altogether so long as we are burning fossil fuels. If we are to meet those objectives, and we must, then we have to identify and deploy a new generation of fuels. There is simply no other way to solve the problem, and over just the last couple of years the fact that we need a replacement for fossil fuels has become almost universally recognized and accepted.

If the only way to solve the GHG problem is to find new fuels, then the question becomes how do we identify those fuels and make them operationally and commercially viable? Here again, there is a growing consensus: identifying and deploying new fuels will require research and development efforts on a scale and on a schedule that is not currently taking place.

Recognizing that replacing fossil fuels is essential, and recognizing that R&D is essential to finding those fuels, the question boils down further to this: how do we generate the research and development necessary to solve the engineering challenge of decarbonizing international shipping?

Working closely with industry partners, and with a lot of helpful input from governments and NGOs, we think we have identified a way to create and sustain the R&D effort that must be undertaken if we are to reduce and then eliminate GHG emissions from shipping.

The solution that we are developing, and that we plan to propose soon for discussion at the IMO, is to set up an international research and development entity through the IMO to direct and fund the necessary R&D efforts. We are calling this proposed entity the International Maritime Research Board, or IMRB.

If the IMO adopts this approach, the IMRB would be a dedicated-purpose new entity under the supervision of the IMO, with substantial industry participation. The IMRB would be funded by mandatory industry contributions based on fuel use, which is something that the IMO already tracks. The money collected would be used to fund research that could be carried out by a wide range of entities around the globe, ranging from research institutions to national laboratories to independent institutions and companies. In addition to some basic science, the emphasis would be on evaluating which technologies have the greatest potential to be commercially feasible for powering long ocean voyages, and then doing the engineering work to get those fuels and technologies to the point whether they can be commercially viable.

One of the reasons that it is so critical that we create an institutional structure for this kind of research and development work is that it is simply not feasible for any one company or any one country to provide the resources and focus that are necessary to get the R&D done on a scale and on a schedule that would allow the industry to meet the IMO's greenhouse gas emissions reductions for 2050 and beyond.

The IMO's ambitious goals represent a critical international consensus on the shipping industry's role in combatting climate change. Now that the IMO has stated that common goal among the world's many nations, we need to shift gears from that political goal to a shared mechanism for guiding and funding the engineering work necessary to meet that goal. Even though there are research projects currently underway on new fuels, and those efforts should be supported and encouraged, the fact is that we are going to need something bigger and more sustained to make decarbonization of shipping a reality. We think that standing up the IMRB to pursue R&D on a global scale is the way to reach that goal.

One of the fundamental characteristics of the IMRB is that it would be designed to work itself out of a job and out of existence. That reflects the fact that the whole idea of the IMRB is to solve the root problem of greenhouse gas emissions by finding and deploying new fuels, not simply looking for further efficiencies from existing fossil-fuel-based systems.

We recognize in the short term that the IMO will continue to pursue regulations to encourage further emissions reductions in the existing fleet. The point here is not to displace those efforts, but to emphasize that the sooner we get started with a global research and development program to find replacement fuels, the sooner a phase-out of fossil fuels can become a reality. That is one of the reasons that we will urge the IMO to take up this proposal along with other

proposals that have been characterized as short-term measures. The pay-off from R&D will take a few years, but we have to start now to reap the R&D benefits as early as possible.

I would like to finish my remarks where I began, and by tying together the earlier IMO 2020 sulphur discussion with the greenhouse gas discussion. The low sulphur fuel regulations are designed to protect human health, and they don't have anything to do with greenhouse gases. But the sulphur rules and their expected costs do factor into the business case for making a major push to find the next generation of marine fuels. That connection is that the industry is continually faced with new and more costly regulations associated with the burning of fossil fuels. There is a high probability that whatever fuels end up replacing fossil fuels for shipping will have a related benefit of reducing or eliminating many of the air pollutants associated with fossil fuels that the supply chain is increasingly paying to mitigate. That means that there is a direct business case that supports finding the fuels of the future as soon as we can identify alternatives that are safe, operationally realistic, and commercially viable.

I thank you for your time, and I look forward to your questions.