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New global environmental rules will encourage container lines to scrap their older, less-efficient vessels. Photo credit: Shutterstock.com.

There's no consensus on the effect — if any — two new global environmental standards will have in blunting a wave of container ship tonnage ship owners will begin receiving late next year that could tilt the industry back into overcapacity as volume growth slows.

The forecasts of maritime analysts on the impact of the International Maritime Organization's (IMO's) Energy Efficiency Ship Index (EEXI) and Carbon Intensity Indicator (CII) rules, both of which go into effect on Jan. 1, 2023, range widely.

Drewry, for example, doesn't expect a significant impact on vessel capacity, while Lars Jensen, CEO of Vespucci Maritime and a JOC analyst, predicts the so-called IMO 2023 regulations could reduce effective ocean carrier capacity by up to 15 percent between 2023 and 2024. Shipping association BIMCO forecasts the EEXI and the CII will push out 10 percent of the available fleet capacity next year but will be insufficient to stem overcapacity.

From the design standard of EEXI alone, which is expected to spur carriers to sail slower, Maersk expects it will need to add 10 to 15 percent more capacity onto the water, while Hapag-Lloyd is planning similarly, but in the 5 to 10 percent range.

In other words, despite the rules taking effect in less than two months, the impact they'll have on tonnage is "still a mystery," as Jan Tiedemann, senior analyst at Alphaliner, put it.

There won't be a shortage of tonnage for container lines to deploy to keep their service schedules by having more ships but sailing slower. As of early October, ship owners had nearly 7 million TEU of capacity on order and approximately 21 million TEU in their active fleets, although some of those orders could be canceled if global volume growth slows further. Approximately 38 percent of ordered tonnage (2.6 million TEU) will be delivered next year, while another 40 percent (2.8 million TEU) comes online in 2024, according to S&P Global data. By comparison, shipyards have delivered vessels with an aggregate capacity of about 1.1 million TEU this year. S&P Global is the parent company of JOC.com.

Volume falling, capacity rising

At the same time, the outlook for container trade volume growth is narrowing. In an Oct. 20 global economic report, S&P Global said it expects Europe, the United States, Canada, and parts of Latin America to fall into a recession in the coming months. According to BIMCO, global container volume growth will end this year down 1 to 2 percent and is on track for a 3 to 4 percent recovery in 2023.

The EEXI rule won't have an immediate impact Jan. 1, as the timing of when ships over 400 tons must by certified for the standard depends on the timing of their first annual or intermediate survey by class organizations on behalf of the flag states. Ultimately, the rule will put pressure on carriers to sail ships slower, but modeling how many ships will pull back on the throttle is nearly impossible. That's because many ships are already slow-steaming, and any mandated limits will likely be below the current sailing speeds.

The designed cruising speeds of new ships under construction also plays a role. Some shipyards deem the "maximum" speed to be highest possible speed of a ship while others consider the maximum speed to be the vessel's cruising speed. There is a limit to which slow steaming makes operational sense, given the need to inject more vessels into a service string to keep some semblance of schedule reliability. There is a point, however, at which ship engines pollute more at super slow speeds as they aren't optimized for such leisurely transits.

For the CII rule, the impact won't truly begin to bite until 2024 because the reporting rules won't be enforced until the IMO has collected a year's worth of industry data. All ships of 5,000 gross tons and above are required to calculate and report their operational carbon intensity indicators, linking greenhouse emissions to the carrying capacity of ships. Ships will receive a grade of A, B, C, or D annually, and ship owners that notch two straight C or D grades must submit to the IMO a corrective active plan to make the ship more efficient. For some ships, retrofitting aging engines will become more expensive than scrapping them and deploying newer tonnage.

"The IMO will mandate ships that are not energy efficient to burn less fuel per ton mile by sailing slower," Tiedemann told a CrossStaff shipper conference in Barcelona in early October. "If ships are sailing 10 percent slower, you will need 10 percent more ships. But ships are already not sailing at their top speeds, so even if you mandate lower speeds, the effect on capacity of the IMO regulations could be zero."

Cleaner sailing without cargo

Container lines are less than thrilled about the CII. Hapag-Lloyd in October told maritime news outlet *Shipping Watch* the rule "does not make sense," but conceded that the IMO was unlikely to change how it calculates the grades.

The direction of global standards set by the IMO and other bodies are difficult to alter once they're set in motion. Without changes, the CII standard will fail to consider the cargoes a ship would be carrying when calculating energy efficiency and that a ship's deadweight goes unchanged. In other words, ship owners are penalized for carrying more containers.

Beyond that logical absurdity, the rules will put carriers that operate in container trades with rougher-than-normal sailing conditions or port congestion at a disadvantage. For example, a ship operating in the North Atlantic will have a poorer CII score than the same ship would have on a trade that didn't have to burn as much fuel to sail through inclement conditions approximately five months a year. Similarly, ships stuck outside of congested ports will have poorer CII scores than identical vessels that don't have to burn fuel while idling awaiting berth space.

Shippers should expect to pay higher rates due to new greenhouse gas emission rules, according to the United Nations Conference on Trade and Development (UNCTAD). New standards could push shipping prices on the trans-Pacific up 7.6 percent by 2030, according to an UNCTAD study released in June. Rates could be even higher if the new rules significantly dull the coming capacity injection.

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