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Container shipping navigates new hurdles in bid for a green fuel future

Maersk CEO Vincent Clerc says the future regulatory regime for zero-carbon shipping is shrouded in a "high level of uncertainty." Photo credit: perfect-picture-hunter / Shutterstock.com.

Peter Tirschwell | Aug 27, 2024, 11:27 AM EDT

The move announced by AP Moller-Maersk earlier this month to hedge its zero-carbon bets with a huge order for ships able to be fueled by liquefied natural gas (LNG), a fuel it had long dismissed, dramatically illustrated the crossroads the maritime industry finds itself in throughout 2024 on the road to a zero-carbon future.

Having committed to net-zero emissions in its operations by 2040, the most ambitious goal by a container line, Maersk had previously been all-in on methanol, with announced orders of 25 dual-fuel methanol vessels, five of which are in service. The about face by ordering 50 to 60 dual-fuel ships — some of which will be powered by LNG — illustrates the quandary Maersk, and by extension the industry, is in currently.

Although it has signed offtake agreements to ensure green methanol supply, Maersk had no guarantee the price for the fuel would fall over time, or — to the extent it remained higher than traditional bunker fuel — that shippers would voluntarily pay the difference or be forced to through a fuel tax.

The vast majority of shippers will not voluntarily pay a higher price to decarbonize the maritime leg of their containerized supply chains. That means in the absence of a meaningful fuel tax approved by the International Maritime Organization (IMO) — which is not a certainty — Maersk could be dependent on an expensive zero-carbon fuel source with no way to pass those costs along.

“There is a high level of uncertainty about both the availability of fuel and price of … green fuels in the future,” Maersk CEO Vincent Clerc said on an Aug. 7 earnings call. “There is a high level of uncertainty on how the regulatory regime is going to shape up.”

The uncertainty stems from this: even though the IMO last year committed the industry to zero emissions “by or around 2050,” there is no guarantee it will achieve consensus among member states necessary to issue regulations — particularly a fuel tax — strong enough to set the industry down a predictable path toward the 2050 goal.

In its 2050 announcement last year, the IMO said two types of regulations would ensure the goal is met.

The first is a “technical” component of regulations now in development that would possibly impose some kind of fuel standard on ship operators, similar in concept to the IMO 2020 low-sulfur fuel requirement. Such a requirement, in the absence of anything else, is weak in leaving carriers on their own to pass costs on to customers; for decades carriers have been unable to pass along higher traditional bunker fuel costs except in rare markets where supply and demand are in their favor.

The other “economic” component to the regulations would bridge the difference between traditional bunkers and higher-cost zero-carbon fuels via some kind of fuel tax or levy. Observers believe that only through a fuel tax will energy producers be willing to invest in production with confidence that the demand will materialize, and thus for supply at scale to materialize.

With no such regime yet in place, of 340 zero-carbon maritime fuel production projects announced, only “a few” have attracted private capital, according to the Copenhagen-based Global Maritime Forum.

“There’s an enormous amount of announced potential projects, [but] for those projects to reach a final investment decision, you need strong incentives, and you need a commercial case. And that commercial case is not there yet. Not at the scale where we need it to be,” Johannah Christensen, CEO of the Global Maritime Forum, told the *Journal of Commerce*.

The decision this month by Danish energy company Ørsted to scrap an ambitious methanol-producing project in northern Sweden was seen as a setback in maritime decarbonization.

“One of the big risks in policy measures that are purely technical [such as a fuel standard] is that they don’t give a robust enough signal to the market to invest in scalable zero-emission fuels,” Christensen said.

Focus on IMO

That is why the intense focus on the IMO rulemaking process expected to yield new regulation over the next two years is squarely on whether elusive consensus can be achieved around a fuel tax.

“Given the differing views, we think it is unlikely that the IMO will impose a high levy in the short term,” Tore Longva, director of decarbonization for DNV Maritime, told the *Journal of Commerce*. “However, an important part of the mechanism is the reward for eligible fuel where a small levy imposed on all emissions can be used to fund the initial use of eligible fuels.

“Another issue is whether revenues from a levy could be used for other purposes to mitigate the impact of more expensive transportation,” Longva added. “This would be important, in particular, for small island developing states and other countries where the impact of more expensive transport could be significant.”

That is why observers say the IMO ultimately has no choice but to approve an economic tool, or its 2050 commitment will be all but meaningless.

“What’s the point of a setting an ambition if you’re not going to support it with a set of tools that’s going to get us to reaching that ambition?” Christensen said. “It will be very, very disappointing if whatever measures get put in place aren’t capable of meeting the goals that have been set.”

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