

Green fuel mechanism 'a rifle shot' at addressing fuel pricing gap: WSC



The green balance mechanism proposed by the WSC aims to equalize the average prices of fossil fuels and lower-emission alternatives. Photo credit: GreenOak / Shutterstock.com.

Greg Knowler, Senior Europe Editor | Feb 15, 2024, 9:07 AM EST

The World Shipping Council (WSC) unveiled a pricing mechanism Thursday designed to close the yawning cost gap between fossil fuels and green alternatives that threatens to undermine efforts to reach the shipping industry's global greenhouse gas (GHG) emissions targets.

“This is a rifle shot to say we want to make sure there's enough money to bridge that price gap between fossil fuels and green fuels, but we don't want to overcorrect to where we're simply putting cost burden on the transportation system,” WSC President and CEO John Butler said at a press conference to outline the group's so-called Green Balance Mechanism proposal.

The proposal, submitted to the International Maritime Organization (IMO) ahead of the Marine Environmental Protection Committee (MEPC) 81 meeting in March, will join several other pricing mechanisms that will be discussed by member states at the gathering.

Through the Green Balance Mechanism, fees are taken from fossil fuels used by carriers and allocated to those using green fuels to equalize the average cost of the fuels. The greater the GHG emission reductions a fuel delivers — on a well-to-wake lifecycle basis — the greater the financial allocation received.

Shipping is responsible for 3% of global GHG emissions. In July last year, the IMO updated its emissions targets, with the global shipping industry now aiming for a 20% to 30% reduction in GHG emissions by 2030, 70% to 80% by 2040 and 100% by 2050.

Thirsty shipping industry

But a huge challenge to reaching those targets is the availability of low- and zero-carbon fuels. Globally, shipping uses approximately 230 million tons of fuel per year while current production of truly green fuels is effectively zero compared with total current fuel usage.

According to a report by the United Nations Conference on Trade and Development (UNCTAD), decarbonization will require additional investments in vessels — beyond what is already on the order book — of between \$8 billion to \$28 billion per year out to 2050, with investments of \$28 billion to \$90 billion annually out to 2050 required to create the fuel infrastructure.

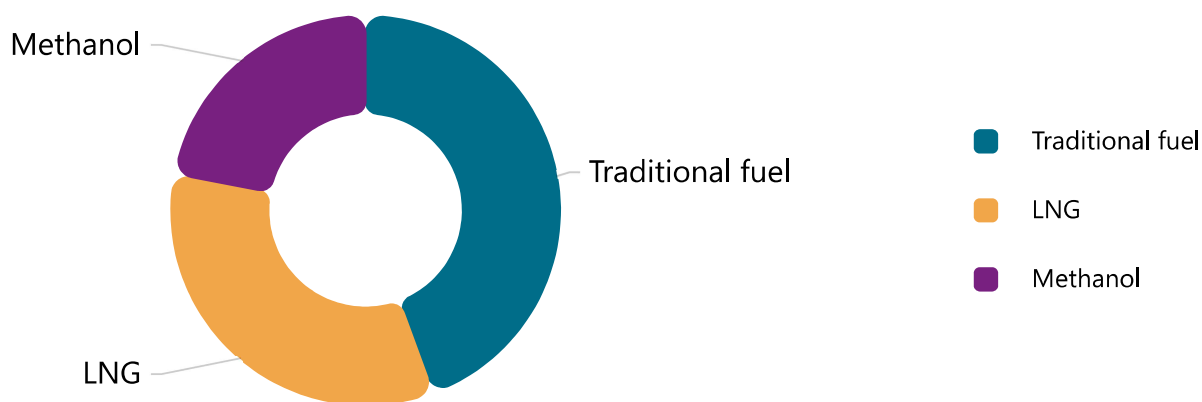
“A core challenge is how to craft a global greenhouse gas pricing regulation that can bridge the price gap between the cleanest fuels and fossil fuels, driving investments in green fuels without imposing an outsized cost on the global economy,” Butler said.

“Any regulation that comes out of the IMO, in order to be effective, absolutely has to set up the economic conditions where it is commercially viable, both to use these new fuels from the carrier side, and also from the producer side to produce and put these fuels on the market,” he added.

Alternative fuel container ships now more than half the total orderbook

Global TEU capacity of container ships on order capable of running on methanol, liquefied natural gas (LNG), and traditional marine fuel





Source: S&P Global

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Accepting higher costs

Jeremy Nixon, CEO of Ocean Network Express (ONE) and co-chair of the WSC, said it was important to recognize that shipping is going to be more expensive using green fuel.

“For the next 10 to 20 years, the capital cost of building the [dual-fuel] ships will be higher, and the operating costs of the new fuels will also be higher because it costs more to produce them and they are less energy intensive than the older fuels,” Nixon told reporters during the briefing.

“The key point that we make in this balancing concept is that we make sure it’s no more expensive than it needs to be,” he added. “It’s only as expensive as the cost of the fuels.”

Bryan Wood-Thomas, vice president for environment and climate at the WSC, said several proposals were now before the IMO and the most effective agreement would be one that draws on the best ideas contained in each submission.

“We’re hoping to see a constructive dialogue that tries to capture the best points of different proposals and bring them together into what hopefully will be the most

effective regime we can get agreement on,” he told reporters.

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