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Likelihood of IMO fuel standard set to reshape container shipping market

Maersk Chairman Robert Uggla said the carrier is "...dependent on customers to support and pay for" the energy transition to clean fuels. Photo credit: perfect-picture-hunter / Shutterstock.com.

Peter Tirschwell | Mar 24, 2025, 11:28 AM EDT

What happens at the International Maritime Organization's (IMO's) Marine and Environment Protection Committee (MEPC) meeting in early April will have profound implications for shippers, dwarfing the impact, for example, of proposed fines on Chinese ships calling at US ports.

The reason is the possibility, if not the likelihood, that IMO negotiators will fail to agree to a meaningful carbon tax on shipping, instead choosing to achieve the organization's goal of net-zero emissions by or around 2050 via a fuel standard. IMO watchers say the standard is all but certain to gain the necessary support of member states in April.

Opposition by certain powerful member states to a fuel levy makes it "exceedingly unlikely" that the tax will be part of the final MEPC agreement, Eirik Nyhus, environment director at the classification society DNV, said on a recent podcast.

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Here is why that is critical: A fuel standard mandating a reduction in carbon intensity over time to reach the 2050 goal is similar conceptually to the IMO 2020 low-sulfur fuel requirement. The message to shipowners was, and would be again: "Here's the requirement, and if it means higher fuel costs it's on you to mitigate those costs or pass higher costs on to your customers."

That is why, according to S&P Global Market Intelligence, 25% of container ships are now fitted with scrubbers that remove sulfur from vessel emissions while enabling ships to run on traditional bunkers versus higher-cost low sulfur fuel oil.

The message to the industry would be identical if the IMO failed to reach consensus on a carbon tax, which is controversial among IMO member states, and proceeded with a fuel standard-type regulation to put teeth behind its 2050 goal. The showdown will occur at the 83rd MEPC meeting on April 7–11.

How would carriers respond to a fuel standard?

A fuel standard, on the other hand, is not seen as controversial.

"There appears to be broad support across the numerous member states that we will agree to a legally binding greenhouse gas intensity limit for the fuels themselves which would take effect in 2028 and become increasingly stringent as you move to 2050," Bryan Wood-Thomas, vice president for environmental policy at the World Shipping Council (WSC), told TPM25 in early March.

Why the impact is so potentially profound is the way carriers would likely respond to a scenario in which a fuel standard is imposed on them — to increasingly use fuels that at least today are much higher priced than traditional bunkers — but no automatically higher cost is imposed on shippers to pay.

Carriers would have no choice but to go all out to protect their interests, which, practically speaking, means flexing their muscles on capacity to keep the market as tight as possible and rates as high as possible to offset the higher cost of zero- or low-carbon bunkers.

That is increasingly familiar territory for carriers. The trajectory of the past 25 years of container shipping shows carriers steadily ratcheting up capacity management through their own actions — slow steaming, idling, blank sailings, scrapping —

increasingly aided by external phenomena in the form of pandemics, geopolitics and climate change.

“Since 2019, carriers have built a revenue model around inefficiency,” said Peter Creeden, a longtime senior Hamburg Sud operations executive now leading Sydney-based consultant MPC International. “Their focus is not on supply chain efficiency but on leveraging inefficiencies to sustain profitability.”

‘Dependent on customers to … pay for’ energy transition

The incentive for carriers to act to mitigate periodic waves of overcapacity is clear: Costs of alternative fuels will be higher for longer because major energy producers have made it clear that in the absence of a fuel tax — what they consider to be a bona fide demand signal — they will limit investments in production capacity.

The possibility that methanol prices would remain high due to a high level of uncertainty regarding regulation, said Maersk CEO Vincent Clerc, led the company last year to pivot its fleet renewal to LNG ships, a fuel it had long disparaged as inadequate in the energy transition.

Underlying the need of carriers to ensure market advantage to fund any IMO-mandated energy transition is a lack of uptake from shippers to fund the transition themselves. Maersk Chairman Robert Uggla told shareholders on March 18 it is “clear that we are dependent on customers to support and pay for” the energy transition, and that “the biggest challenge … we face [is] the cost gap between clean and traditional fuels.”

Without the cost gap being closed or narrowed — the point of a fuel tax — the uptake among customers is, and will likely continue to be, limited.

Hapag-Lloyd CEO Rolf Habben Jansen, meanwhile, has reported progress with the carrier’s biofuel-based sustainability product Ship Green that allows shippers to decarbonize 25%, 50% or 100% of what they move with the liner. Volumes last year doubled to 200,000 TEUs, or 1.6% of the carrier’s total volume.

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