

Hong Kong Shipowners Association

67th Annual General Meeting

22 November 2023

(Restricted circulation to members only until after the Annual General Meeting)

2023 Association Annual Review - Managing Director's Report

In 2023, as usual, there were many challenges and uncertainties in shipping. But some of these can also represent massive opportunities for our membership. As we continued to receive delegations from different parts of the world, we were often told by the visitors that the Hong Kong Shipowners Association, with its active participation in the global arena and its many social and technical functions held throughout the year, remained the “Voice of Asia” and a “super-connector” between East and West.

This Annual Review explores several key matters that occupied the Association during the year and reports on its usual operations.

Environmental and Technology Issues

Reducing Greenhouse Gas (GHG) Emissions

EEXI, CII and SEEMP

The Energy Efficiency Existing Ship Index (EEXI), the Carbon Intensity Indicator (CII) and the Ship Energy Efficiency Management Plan (SEEMP) Part III came into force in January 2023 for ships of at least 5000 GT. Global studies have found that the CII depends much more on voyage type than ship efficiency. At MEPC 80, the International Chamber of Shipping (ICS) tabled a motion that the CII was currently not fit for purpose and requested that the IMO issue a circular stating that the CII was still under review, as the revised CII would become a full statutory requirement in January 2026. The IMO agreed to set up a correspondence group to review it by January 2026.

A proposal to introduce Phase 4 of the EEXI was tabled for discussion at MEPC 80 but was deferred to MEPC 81. To meet the EEXI requirements, many ships have applied an engine power limitation (EPL) or shaft power limitation (SHaPoLi) as an over-ridable power limitation. The ShaPoLi system, approved at MEPC 80, require ships to log detailed reasons for increasing propulsion engine power above the EPL. Recently allowances to override the EPL by up to 60 minutes have been required to meet demands from pilots in the USA to have full power always available, especially to handle crossing of busy traffic lanes and when encountering heavy weather. The ICS is planning a paper for MEPC 81.

Carbon capture

Papers were submitted to MEPC 80 promoting carbon capture to reduce CO₂ emissions, ashore when making low emission fuels and for reducing carbon capture on ships, and one proposing using carbon capture systems on shore. They were not accepted because of disagreements over the allocation of captured CO₂, its disposal and whether it should be considered part of the fuel life-cycle analysis framework or a separate workstream.

Use of biofuels and blends as fuels

MEPC 80 approved interim guidelines for the use of biofuels and biofuel blends to reduce GHG, with a blend of not more than 30% by volume, thus providing the industry with guidance related to procuring, storing and using biofuel blends while comprehensive guidelines are being prepared.

2023 IMO GHG strategy

MEPC 80 adopted a new 2023 IMO GHG strategy for reducing GHG emissions from ships. The new objectives are generally to reach the net-zero target by about 2050, and to reduce GHG emissions from international shipping by 20%, striving for 30%, by 2030 compared to emissions in 2008 and to reduce total GHG emissions from international shipping by 70%, striving for 80%, by 2040 compared to 2008 levels. The final report on the impact assessment of the 2023 GHG Strategy will be reviewed at MEPC 82. The new mid-term measures are expected to enter into force in 2027.

Transition to low- and zero-emission fuels

To meet the 2023 GHG strategy, new technical and economic measures are needed, as well as suitable fiscal measure to subsidise the cost of the new low- and zero-emission fuels, which will be considerably higher than the cost of current fossil fuels. Some delegations submitted plans at MEPC 80 suggesting penalising ships that cannot use low- or zero-emission fuels and rewarding ships that can. But this would quickly put the penalised ships out of business. Some delegations proposed levies of up to US\$300/tonne of GHG emitted, some will accept only US\$25–\$50/tonne, while others do not agree to any levy.

Global fuel standards

Another fiscal measure being considered as an alternative to a levy is a global fuel standard with ships that cannot meet the standard being required to buy a defined contribution from an IMO GHG Fund.

The delegates at MEPC 80 discussed a regulatory mechanism to govern the amount carbon or GHG equivalent permitted in marine fuels by requiring fuels to have progressively lower GHG content. The GHG included are carbon dioxide (CO₂), methane (CH₄) and nitrous oxide (N₂O).

During the initial transition period, two flexible mechanisms are proposed for ships that cannot meet the targets: (i) ships that exceed the targets could get surplus rewards that could be traded with non-compliant ships; and (ii) non-compliant ships could pay a defined contribution to a IMO GHG fund.

Other Environmental Matters

Fit-for-55 Package

The *fit-for-55 policy* of the European Union (EU), aiming for a 55% reduction in carbon emissions by 2030, will affect ships visiting EU ports from January 2024. The EU's Emissions Trading Scheme requires ship owners to purchase allowances to cover CO₂ emissions on voyages to the EU. It will apply initially to ships over 5000GT and from 2026, to ships over

400GT. Initially only CO₂ emissions will be included but from 1 January 2026 methane and nitrous oxide will be added.

The FuelEU Maritime scheme, which will come into force on 1 January 2025, aims to reduce ship emissions by increasing the use of sustainable alternative fuels by ships visiting EU ports. The proposal requires ship operators to comply with the maximum limits of GHG intensity of the energy used on board. The limits will become increasingly stringent over time: 2% from 2025 to 2030, 6% up to 2035 and 14.5% to 2040.

Companies that do not comply with the rules by 1 May of the following year will have to pay a penalty, which will go into a green fuel fund. Ship owners can pool ships to help one another with compliance, provided the ships in the pool have the same verifier. Passenger ships and container ships must use onshore power unless they use an alternative zero-emissions technology.

Ballast Water Convention

All ships must meet the IMO D2 standard by 8 September 2024, but ships going to the US must also meet US Coast Guard regulations. New IMO Ballast Water Convention amendments were agreed at MEPC80. They should be ready for adoption at MEPC85 and will take effect in early 2027. More extensive ballast water record-keeping and reporting will be required on 1 February 2025.

Challenging ballast water conditions

Liberia, supported by the ICS, tabled a paper at MEPC 80 about managing challenging water conditions, proposing that when such conditions are encountered, ships should be allowed to take on ballast, bypassing the Ballast Water Treatment System, and replace the water in the deep sea. Despite strong support, there was no consensus owing to the difficulty of clarifying challenging water conditions and how to measure them. The ICS is proposing a major initiative at MEPC 81 to try to resolve this.

Bio fouling guidelines

New bio fouling guidelines were adopted at MEPC 80 to provide useful recommendations to minimize biofouling for all types of ships and were directed at various stakeholders. The only places that have put the guidelines into law to date are New Zealand, Australia and the US State of California, but more are expected to follow.

Hong Kong Convention for the Safe and Environmentally Sound Recycling of Ships

Following the ratification by Bangladesh and Liberia, the recycling convention was approved at MEPC 80. It requires all ships currently without an Inventory of Hazardous Materials to implement one before 26 June 2025.

Reduction of underwater noise

The “Revised Guidelines for the Reduction of Underwater Radiated Noise from Shipping to Prevent Adverse Impacts on Marine Life” took effect in August 2023.

RightShip

The Association organised a meeting in May 2023 to discuss member concerns about the operation and transparency of the mechanism, which were subsequently conveyed to the ICS in time for a meeting with RightShip in early September. The ICS issued a summary of the meeting and RightShip replied in detail to the Association’s report.

Labour Affairs Issues

Crisis in Eastern Europe

The ongoing conflict in Eastern Europe has had a significant effect on the maritime industry, in particular the hardships faced by seafarers, especially those from Ukraine.

On 21 April 2023, the IMO issued a circular letter from the Government of Ukraine, which included an extension of the validity of the SEA, Medical Certificate and Seafarer's Identification Document for Ukrainian Seafarers aboard vessels until 31 December 2023.

The Black Sea Grain Initiative, a critical programme for ensuring the secure transit of merchant vessels carrying grain, foodstuffs and fertilisers to and from three key Ukrainian ports took effect, but Russia's warning that ships heading to these Black Sea ports would be viewed as potential military targets led Kyiv to quickly establish a temporary shipping route to support grain exports. One of our members used the "humanitarian corridor" announced by the Ukrainian government to leave the war-ravaged port of Odesa, where it had been confined for 539 days, underscoring our member’s commitment to the well-being of seafarers and its responsibilities at sea, and setting a positive precedent for other ships trapped in Ukraine.

Brazilian Enforcement of the Seafarer’s Identity Document

In 2015, Brazil ratified ILO Convention 185 (C185), which focuses on the Seafarer's Identity Document (SID), but owing to internal considerations and COVID-19 disruptions, it temporarily suspended the enforcement of the SID requirement for foreign national seafarers. In May 2023, Brazil resumed enforcement of the C185-compliant SID, the only SID recognised by Brazilian immigration. Seafarers without a C185-compliant SID face heavy fines.

Seafarers with a valid ILO No. 185 SID can stay up to 180 days without a visa if they enter Brazilian territory on a vessel or intend to embark on a vessel in Brazilian waters. They can obtain temporary work visas for stays exceeding 180 days on foreign-flagged vessels, and work visas are available for service on Brazilian-flagged vessels, regardless of the employment period. Seafarers without a valid ILO No. 185 SID must acquire a business visa for stays of up to 90 days per migratory year, unless exempted based on nationality. Alternatively, they can obtain a temporary work visa for stays exceeding 180 days on foreign-flagged vessels or cruise ships, or for stays exceeding 90 days a year on a vessel other than a foreign-flagged vessel or cruise ship.

This issue will be discussed in an ILO Tripartite Committee meeting. The Association has gathered information on fines from its members and is working with the ICS to present the matter at the upcoming ILO meeting. We will continue to monitor developments in Brazil and engage actively international forums to ensure compliance with the evolving SID requirements.

Liability Issues

European Environmental Liabilities

The European Commission (EC) proposed amendments to the EU Ship Source Pollution Directive (SSPD), expanding its scope to include additional MARPOL annexes and Exhaust Gas Cleaning System Residue discharges. Criminal penalties were removed from the SSPD, which now focuses on administrative penalties, but criminal penalties may still apply under the Environmental Crime Directive for intentional or seriously negligent breaches.

Industry organisations collaborated on a joint position paper addressing key points related to the proposed amendments, including clarification on Exhaust Gas Cleaning System Residue, excluding air emissions standards from future SSPD reviews, and aligning liability exceptions with MARPOL. The final position paper is being reviewed by members, and discussions with the European Parliament are expected to commence late this year. The proposed SSPD amendments are part of a broad package of amendments related to maritime safety directives, requiring consideration by both the Parliament and the Council.

The EC's evaluation of the Environmental Liability Directive is pending.

Use of "New Fuels"

A working group initiated by the Pollution Committee of the International Group of P&I Clubs (IG) is focusing on liability and compensation for pollution damage resulting from incidents involving alternative fuels.

Security Situation

The threat profile in the Black Sea has increased since the termination of the grain initiative, with both sides in the conflict declaring merchant vessels potential military targets. A Russian-flagged tanker was attacked off Novorossiysk, and the Palau-flagged bulk carrier *Sukru Okan* was boarded in the southwestern Black Sea. About 60 ships remain trapped. A container ship sailed from Odesa without interference, but another trapped vessel was turned back after attempting to leave the no-sail zone imposed by Russia since the start of the conflict. The threat of drifting mines and collateral damage from strikes against port infrastructure remains.

There are an increasing number of aggressive activities in the Persian Gulf, the Gulf of Oman and the Strait of Hormuz, including tanker boardings. A transit corridor has been established through the affected waters under the supervision of the US Navy and the International Maritime Security Construct.

Piracy in the region is at a historical low, partly because criminal groups are focusing on oil-related crimes in Nigeria and partly because of security activities by the Nigerian authorities.

There are serious maritime implications from the conflict in Israel. The port of Ashkelon is closed owing to its proximity to the Gaza Strip. A storage tank in the port was hit by a rocket. Many rockets have reportedly landed in the sea. One oil major has shut down operations on one of its platforms.

Shipping traffic has been redirected north to Hera and Haida, and so far, the conflict has not had an impact on ships transiting the region. Some flags have raised the ISPS level for Israel, but Israeli ports have maintained ISPS Level 1. The main threat is from collateral damage, and it is strongly recommended that voyages to Israeli ports and close to Israeli waters be thoroughly threat assessed to reduce the risks to ships and crews.

Local Affairs

Public policy initiatives

In its submission to the Chief Executive in the 2023 Policy Address consultation, the Association continued to pursue (i) the establishment of a statutory maritime body for vision and results, (ii) the introduction of measures to attract more commercial principals, including commodity traders, to come/stay in Hong Kong, (iii) the development of Hong Kong as a green fuel bunkering hub, (iv) the promotion of Hong Kong, together with the rest of the Greater Bay Area, as a maritime innovation centre, and (v) the implementation of the Hong Kong recycling convention as early as possible. In the Policy Address, the Administration undertook to develop a green maritime fuel bunkering centre and to formulate an action plan to promote maritime and port development within the year. The Association is being consulted on these exercises.

Hong Kong Ship Registry

The Association membership has been extensively engaged in a review being conducted by the Hong Kong Marine Department on the services of the ship registry, with many significant improvements being made and expected to be made within the year. Where necessary, legislative amendments might be introduced.

Association Operations

In the past 12 months, despite the pandemic, the Association has maintained smooth operations in pursuing its mission and goals. The **Executive Committee** met six times to set the work plans of the Association and to give policy direction to the secretariat on major issues at all levels – local, national, regional and international. The four standing sub-committees were proactive in monitoring industry developments and exchanging views on issues of interest to members. The new Nominations Sub-committee commenced work in September.

To facilitate the work of the various sub-committees, the Executive Committee also set the (formal) terms of reference of the individual sub-committees.

Marine Sub-committee. The sub-committee held five meetings during the year, in which members discussed many current technical and environmental issues that could have a great impact on the safe, efficient operation of ships. These matters included the new IMO 2023 GHG strategy and short- and medium-term measures, ballast water issues, bio fouling, sewage and grey water issues, and garbage and plastic management, container fires and losses, maritime security, navigational safety, the “Hong Kong Convention”, and various matters relating to ship construction and design.

Maritime Personnel, Education and Training (MPET) Sub-committee. The sub-committee held three meetings during the year to discuss issues affecting seafarers and their welfare, the education and training of shore staff, and career opportunities for young people in the maritime industry. The great majority of the efforts during the year were focused on the ongoing crew change issues in eastern Europe, China and Brazil.

Insurance and Liability (I&L) Sub-committee. The sub-committee met twice and provided a useful forum for discussing the impact of the ongoing pandemic on maritime insurance and liability. Also discussed were the new United Nations Convention on the Law of the Sea concerning the conservation of biodiversity on the high seas and the Beijing Convention on Judicial sale of ships, as well as various sanctions relevant to shipping.

China Sub-committee. The sub-committee met five times during the year to discuss various China-related issues of interest to the shipping community. Big- and small- scale delegations visits were also arranged to Beijing, Shanghai and the Greater Bay Area (GBA) to meet with the stakeholders, including government and regulatory authorities, and exploring possible areas of co-operation. With the support of Association membership, a Spring luncheon was held in February; the 2023 Greater Bay Maritime Conference was held in Guangzhou in May, at which a memorandum of co-operation was signed between the Association and the Guangzhou Navigation College; a research study about shipping business opportunities in the Shanghai Lingang New Area was completed; a Shipping Prosperity Index with the Shanghai International Shipping Institute was released on a regular basis; design continued on a maritime education programme for the new Shenzhen Ocean University; and a joint National Day cocktail party with other local shipping associations was held in Hong Kong in September. The sub-committee has also established contacts with the Central Government authorities on matters relating to Chinese consular protection for Hong Kong registered ships and seafarers.

Nominations Sub-committee. The sub-committee identified, for the consideration of the Executive Committee, some potential names for new officers and members of the Executive Committee to be put to the AGM.

Association Golf Society. During the year, the Hong Kong Shipowners Association Golf Society held two golf tournaments for the enjoyment of members and for social networking.

Asian Shipowners Association (ASA). The Hong Kong Shipowners Association (HKSOA) took over the rotational chair of the ASA in May this year, following the AGM held in Shanghai. The plan is to host the three-day AGM in Hong Kong on 27 to 29 May 2024, which will include the 2024 International Shipping Forum. As the Chairman of the ASA Ship Insurance and Liability Committee (SILC), the HKSOA hosted two SILC meetings respectively in Hong Kong in March and in Shanghai in May, and will host another SILC meeting in Hong Kong in November during Hong Kong Maritime Week.

Hong Kong Maritime Week (HKMW) 2023. In addition to hosting the annual cocktail party, the ASA SILC meeting and a GBA-related event, the Association will support many other HKMW events, including the World Maritime Merchants Forum and the Asian Logistics, Maritime and Aviation Conference.

During the year, despite the continued restrictions because of the pandemic, the Association managed to host, on average, three to four social/technical events for members each month, including the popular Table Tennis Tournament and Fun Days, and the finale of the **HKSOA 65th Anniversary celebrations** – the gala dinner, which was very well received, with over 500 members and key personalities from different parts of the world enjoying a most memorable evening.

New Members

On behalf of the Association, I would like to extend a warm welcome, once again, to the new members who joined our big family in the past year:

Claims Consultants Limited
Haida United Marine Tech-Services Co., Limited
Tamar Ship Management Ltd
Seacon Ships Management Co., Limited
Airserve Marine Travel Pte Ltd
GCIQC Quality Certification Services HKG Limited (Geo Chem)
SeaKapital Limited
Oneglobal Broking Hong Kong Limited
Northstar Ship Management Ltd
Purus Marine LLC
Eversea Shipping Company Limited
Xinglun Group Limited
Tecway (HK) Limited
Hostmost Engineering Ltd
MIT Shipbroker Limited
Maritime Knowledge Ltd, Marine PALS
Howden Speciality Ltd

Conclusion

In closing, I would like to thank the Association Chairman, Mr Wellington Koo, JP for his steer and guidance. I would also like to thank all the members, in particular the members of the Executive Committee, sub-committees and 65th anniversary task force, for their dedicated service and valuable support. Of course, a big thank-you to my colleagues, Martin (Cresswell), Nittin (Handa), Gilbert (Feng), Peggy (Kan), and Harry (Chu). The Secretariat will continue to promote and protect the interests of Association members.