

**Hong Kong Shipowners Association**

**68th Annual General Meeting**

**20 November 2024**

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

### **2024 Annual Review of Association Operations**

2024 was both a challenging and fruitful year for the Hong Kong Shipowners Association. It was challenging because the shipping industry continued to face many new issues, given the fast-changing geopolitical environment and the more-demanding regulatory requirements. And it was fruitful because the Association made certain significant achievements at all levels – local, national, and global.

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**

Short-term measures. 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 greater than 5000 GT. Global studies have found that the CII depends much more on voyage type than ship efficiency. The International Maritime Organisation (IMO) decided at MEPC82 that a gap analysis was the best way forward to improve the CII and came up with a two-phase approach. The first phase is expected to enter into force in January 2025. The second phase, comprising two items *The impact of idle and port waiting time* and *Impact of short voyages*, is expected to come into force in January 2027. If these two items can be resolved and moved into the first phase, the CII might have a chance of being a meaningful tool to lower greenhouse gas emissions from January 2025 onwards. If not, the mid-term measures, which have a target implementation date of January 2027, could well eclipse the CII with unknown consequences.

The Association is concerned about the lack of urgency to finalize the CII issues, especially as charterers, owners, banks, financial institutions and insurers that signed up to the Poseidon Principles continue to put a great deal of emphasis on the CII.

Mid-term measures. There was considerable work at MEPC82 to advance the measures, but many issues still need to be resolved. It is believed that the 2030 goals can be achieved with the short-term measures if enough ships use LNG and biofuels, but the 2040 goal of a reduction in GHG emissions by 70%, striving for 80%, and the net-zero goal of 2050 can be achieved only if suitable mid-term measures are approved in 2026, with planned implementation in January 2027. Previously, four different schemes were promoted, but they were reduced to two basic schemes.

The first scheme, as advocated by the International Chamber of Shipping (ICS), supports a universal fixed GHG levy contribution system, which involves setting up an IMO Fund to support a just and equitable transition in developing countries to help them manage climate change. The second scheme supports a GHG reduction system using a Global Fuel Index (GFI), with increases in a predetermined manner. Ships that fail to meet the required standard would be penalised, and an incentive would be paid to ships using new greener fuels to help offset their higher costs. The advocates believe that this idea is better than the levy as it might be easier to adjust the GFI for certain routes where high freight rates would negatively impact poor countries, especially regarding transporting food and fertilisers.

Although the two schemes are still a long way apart, there is some optimism for a compromise, so that one overall scheme can be developed for approval at MEPC84 with implementation in January 2027.

### **Other environmental matters**

#### **Fit-for-55 policy**

The *fit-for-55 policy* of the European Union (EU), aiming for a 55% reduction in carbon emissions by 2030, started with the EU's Emissions Trading Scheme in January 2024. This requires ship owners to purchase carbon allowances to cover CO<sub>2</sub> emissions on voyages to the EU. Many Association members initially experienced considerable delays and difficulty setting up an operator holding account. With the Association's assistance, the problems were mostly overcome.

The second related scheme, the FuelEU Maritime, which will come into force in January 2025, requires ships of 5000grt and above to reduce emissions by increasing the use of sustainable low- or zero- emission fuels for voyage to EU ports and between ports in the EU. The limits will initially be low, but they 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 May 2026 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 if available, unless they use an alternative zero-emissions technology.

#### **Ballast Water Convention (BWC)**

The experience-building phase of the BWC came to an end in September 2024, when ships over 5000grt had to meet the D2 standards. Although over 40,000 ships now have approved IMO ballast water treatment systems (BWTS), there are many variables and some work better than others.

Since ships may not be able to meet D2 standards in all conditions, some high-ambition IMO Member States are considering alternative means of compliance. These options include (i) port treatment facilities, (ii) mandating the use of Ballast Water Exchange + Ballast Water Treatment, for all ships, and (iii) increasing the ballast water exchange requirement from three times to five. The ICS and the Association are concerned that the best available technology cannot meet the D2 standards in challenging water conditions, so it would be unfair to punish ships based solely on a single non-compliance event in one port. A fairer approach would be

to penalize ships only if they fail to comply with D2 standards in multiple ports over a certain period.

Another issue is that there is often a considerable delay in the supply of spare parts and substitutes. There was considerable discussion about this at MEPC82, especially about which parts are considered minor and which major. The former require only a simple test of the system to confirm whether the system is working properly, but if major modifications are carried out, the BWTS would have to be reapproved, which would involve substantial work.

Association members have advised that like ship owners from many other jurisdictions, for many of their ships, they were finding it difficult to comply with the D2 requirements of the BWC. To deal with this, many dispensations have been issued from Flag states but some ports in northern Europe and the Americas are refusing to accept them and require ships to go deep sea to carry out ballast water exchange over five times, which can take up to a week.

## **Labour Affairs Issues**

### **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). Owing to internal considerations and COVID-19 disruptions, Brazil 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.

This matter is expected to be discussed in an ILO Tripartite Committee meeting. The Association gathered information on fines from its members and has been working with the ICS to present the issues to the meeting. Meanwhile, at the Association's request, the ICS raised the matter with the various Brazilian authorities and the IMO representative from Brazil. The ICS subsequently met with the Minister of Employment of Brazil, with a view to sorting out the matter.

## **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 the liability exceptions with those in MARPOL. 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 European Parliament and the Council of the European Union.

### **Use of new fuels**

The ICS secretariat is participating in the IG Pollution Committee's Alternative Fuels Working Group (WG). The WG is focusing on liability and compensation for pollution damage resulting from incidents involving the use of alternative fuels. The WG has identified biofuels, LNG, LPG, hydrogen, ammonia, methanol and batteries as the primary alternative fuels to be considered. The WG may also explore the distinction between "alternative fuels" and "new technologies", with batteries and nuclear energy falling into the latter category.

The International Tanker Owners Pollution Federation (ITOPF) was tasked with producing a report on the nature of and potential liabilities arising from a spill of each of the identified alternative fuels. The WG aims to assess whether the current definition of "pollution damage" in the Bunkers Convention is sufficient to cover such incidents. Reports on LNG, hydrogen, and methanol fuels were provided by ITOPF. The high volatility of these fuels results in different claims and costs than hydrocarbon spills. While clean-up and preventive measures may be minimal, there are risks of fire and explosions, property damage, cryogenic damage (in the case of hydrogen and LNG), personal injury, loss of life and toxic vapours (in the case of methanol).

Amending the HNS Convention to include the use of hazardous and noxious substances (HNS) as bunker fuel may face resistance from the chemical industry. Additionally, amending the Bunkers Convention would bring into focus the question of limitation, especially levels under the Limitation of Liability for Maritime Claims (LLMC). Further work will be undertaken to map out an HNS release, explore existing HNS-related claims data, and address concerns about high-value claims exceeding the existing LLMC limits. ITOPF will also assess additional risks associated with the carriage, delivery and use of these substances as bunker fuel on vessels other than specialist carriers.

### **Security situation**

Houthi action against shipping and the situation in Lebanon, Gaza and Ukraine remain to be major concerns for the shipping community. Particularly in Ukraine, there has been an increase in strikes against Ukrainian ports, resulting in damage to ships. Collateral damage from strikes against port infrastructure remains a threat, but it is very unlikely that either combatant will attack merchant shipping. The threat from floating mines in the western Black Sea remains. Turkey, Bulgaria and Romania are disposing of them where they are identified.

AIS and GPS spoofing is more widespread than previously thought. There has been a tenfold increase in this activity since 2023, and this is not restricted to areas of conflict. There is also activity in the Baltic, Mediterranean and South China seas. There is a general feeling that industry guidance may be necessary.

## **Local Affairs**

### **Policy Address initiatives**

We fully support the national strategic plan to consolidate Hong Kong's position as an "international finance, shipping and trade centre". Again, this year, we saw the results of the advocacy work and lobbying efforts of the Association. In its submission for the 2024 Policy Address consultation, we made innovation and reform recommendations in five areas: (i) Green Shipping, (ii) Commodity Trading, (iii) Maritime Services, (iv) Global Partnerships, and (v) an Institutional Framework. The Administration accepted many of the recommendations of the Association.

The various new policy initiatives on Commodity Trading, including the creation of a commodity trading ecosystem in the city, are a big step in the right direction. Clearly, wider integration of financial services with the maritime industry would help attract more commodity traders to Hong Kong, thus promoting not only the finance and trade, but also maritime and port development.

We welcome the many new and practical Green Shipping measures by the Administration, including construction of a green shipping corridor and co-operation with ports in the Greater Bay Area, to develop Hong Kong as a green fuel export center and bunkering hub. We are pleased to see the progress of related infrastructural works and ship registry enhancement works. A large volume of green fuels will be required worldwide in the future, and China is a major producer of green fuels. As part of China, with a solid foundation and a good reputation in ship ownership, ship management and related maritime services, Hong Kong can play a leading role in global efforts to switch to green fuels and be a big contributor to the building of "Ecological Civilization".

We support the multi-pronged approach of the Administration to promote high value-added Maritime Services, such as marine insurance, ship broking and financing and maritime arbitration, while supporting the "commercial principals" (ship owners, managers and operators, which drive the maritime and port business).

We will continue to support government efforts to tell the Hong Kong story through Global Partnerships. As the "Voice of Asia" and the host of the ICS's first overseas office, the HKSOA has used its unique role to effectively forge global partnerships.

The Administration is planning to enhance its Institutional Framework, with the re-constitution of the existing Hong Kong Maritime and Port Board into the "Hong Kong Maritime and Port Development Board". It has been the consensus of the industry for many years that Hong Kong needs an independent, industry-led body. The appointment of a non-official to take up the chair of the new organization and the strengthening of its research, promotion and talent development functions are certainly the right steps forward.

## **Hong Kong Ship Registry**

The Association has been extensively engaged in a review conducted by the Hong Kong Marine Department on the services of the ship registry. In June, the Department launched a new programme during an Association luncheon event to provide financial incentives to promote green shipping. For Hong Kong ships that meet certain requirements, an annual subsidy of \$20,000 will be granted for a maximum of three years.

## **Update of the Talent List**

To attract quality talent to support Hong Kong's development as a high-value-added and diversified maritime sector, the Association has been working with the Administration to enhance the talent list and expand its coverage. The Association has provided several recommendations and other inputs on the industry segments and occupations (ISO). Some recommendations are related to maintaining the four existing ISOsL (i) shipping finance professionals, (ii) marine engineers and superintendents of ships, (iii) naval architects, and (iv) specialist insurance professionals. The Association also suggested adding professionals handling ship sale and purchase, and chartering and commercial operations, as well as marine technical service personnel. These new ISOs could add value to Hong Kong's maritime sector and attract the necessary talent and experts.

## **Association Operations**

In the past 12 months, the Association maintained smooth operations in pursuing its mission and goals. The **Executive Committee** held six regular meetings, mainly 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. In a special meeting, the Committee also accepted an invitation to join the newly established Hong Kong Chamber of Shipping. The Association will continue to support any efforts that help enhance Hong Kong's status as an international maritime centre and strengthen Hong Kong's leading position as a gateway to our Country.

**Marine Sub-committee.** The sub-committee held five meetings during the year to review various safety, environmental, technical, operational and regulatory issues affecting shipping. These included GHG reduction initiatives, the EU Fit-for-55 measures, the Ballast Water Convention, bio-fouling, bunker fuel quality, RightShip, and the "Hong Kong Convention" on ship recycling. Members' comments provide valuable feedback to the ICS, our Government representative on the IMO, and class societies.

**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 majority of the efforts during the year were focused on the crew SID issue and other local regulatory proposals for maritime personnel in Hong Kong.

**Insurance and Liability Sub-committee.** The sub-committee met twice and provided a useful forum during the year for discussing the impact of the ongoing pandemic on maritime insurance and liability. The subcommittee also hosted the Asian Shipowners Association's Ship Insurance and Liability Committee annual and interim meetings in May and November respectively in Hong Kong.

**China Sub-committee.** The sub-committee met three times during the year and hosted a Spring Dinner and several delegation visits, including a visit of September to Beijing to meet with government authorities and industry stakeholders and to join the National Day celebration activities. The sub-committee also organised the 2024 Greater Bay (Qianhai) Maritime Development Conference, committed to a shipping research project for Qianhai Shenzhen, gave inputs during the establishment of the Shenzhen Ocean University, and offered advice on the proposed formation of the Qianhai – Hong Kong Shipping Development Consultative Committee.

**Nominations Sub-committee.** From time to time, the sub-committee helped the Executive Committee identify potential candidates to serve as the Association's institutional representatives on external organisations.

**Association Golf Society.** During the year, the HKSOA Golf Society held a Spring tournament and an Autumn tournament. During the maritime week, a special tournament will be held for the Hong Kong Maritime Week Cup.

**Hong Kong Maritime Week (HKMW) 2024.** The Association will host/co-host several major events during the week, including the Association Annual Cocktail, the ICS Hong Kong Global Maritime Trade Summit, and the World Maritime Merchants Forum, among others.

**Global and regional partnerships.** In May this year, the HKSOA hosted the AGM and International Shipping Forum of the Asian Shipowners' Association, a mega event attended by over 700 shipping representatives from different parts of Asia and key personalities from the international sector. The three-day programme, including the "Night Vibes Hong Kong" gala dinner, was very well received.

In November, with the support of the HKSAR Government and the HKSOA, the ICS will host the Hong Kong Global Maritime Trade Summit during the maritime week. Through the platform, together with the international community, we will pursue a global rules-based regulatory environment, free trade and a level-playing field – values that Hong Kong has always treasured and that are in the interest of all.

## **New Members**

The following new members joined the Association in the past year:

The Sailors Home and Mission to Seafarers (The Mariners)  
Sino Cosmos Ship Management Limited  
Andrew Moores & Associates Ltd  
McKinsey & Company, Inc. Hong Kong  
Express Marine Electronics Company Limited  
Asian Express Shipping (Hong Kong) Limited  
Pacific Gas (Hong Kong) Holdings Limited  
Teamhead Marine Surveyors Co Ltd  
Huwell Services Limited  
Bank of America N.A. Hong Kong Branch  
Ocean Treasure Shipping Limited  
Lockton Companies (Hong Kong) Limited  
CCB Shipping and Aviation Leasing Corporation Limited  
Kongsberg Maritime Hong Kong Ltd  
Seascope Insurance Services (Hong Kong) Ltd.  
Continental Kapital Shipping Company Limited  
Societe Generale Hong Kong Branch  
Junma Services Pte. Ltd.  
BCD Travel Hong Kong Limited  
LENOL DMCC  
Station Satcom Pte Ltd  
Affinity Tankers and Energy (HK) Limited  
PR Network  
Xin Yuan Enterprises Group Limited

## **Conclusion**

In closing, I would like to thank the Association Chairman, Mr. Angad Banga, JP for his steer and guidance. I would also like to thank all the members, in particular the members of the Executive Committee and sub-committees, 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.