IMO'S NET-ZERO FRAMEWORK

Indian shippers expect freight, fuel prices to rise

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After a major net-zero carbon emissions framework was agreed upon by the International Maritime Organization (IMO), India sees the upcoming carbon levy — the first in global shipping — raising fuel and freight costs for its own fleet.

However, the Directorate General of Shipping (DGS) says there is no cause for concern.

The DGS — the country's shipping regulator — has said that added costs would be well within the industry's comfort zone, adding that the India-Singapore proposal agreed upon by the United Nations' maritime body (IMO) will save the sector over $2 billion till 2030 as compared to the European Union's proposal.

"The total compliance cost is projected at $87–100 million annually by 2030, assuming partial reliance on remedial units. This is equivalent to a 14 per cent increase in fuel cost and 5 per cent rise in freight rates — well within the industry's operating margins," it said in a guidance note to maritime stakeholders.

The regulator has asked all shippers and stakeholders to review and initiate necessary preparatory measures on monitoring ship-level fuel intensity data. It also called for reviewing procurement strategies for low green house gas (GHG) fuels, enhancing technical training on greenhouse gas fuel intensity (GFI) methodologies, planning green infrastructure upgrades at ports and engaging with classification societies for early compliance assessment.

Out of India's fleet of 1,524 registered vessels, only 212 ships (13.9 per cent) qualify as foreign-going and above 5,000 GT. Of these, around 135 ships are regularly engaged in overseas trade and would be subject to GFI compliance. However, foreign vessels used by Indian exporters would also be subject to additional costs from this regime, and as such, the DGS has asked traders to factor GHG compliance in chartering decisions to minimize long-term freight inflation risks.

On April 11, India and 62 other countries adopted the net-zero framework for the shipping industry.

Approved by the Marine Environment Protection Committee during its 83rd session (MEPC 83), the measures include a new fuel standard for ships and a global pricing mechanism for emissions.

The GFI-based measure is a GHG reduction mechanism requiring ships above 5,000 gross tonnage (GT) on international voyages to progressively reduce the GHG intensity of fuels used. The mechanism was proposed by India and Singapore.

The integrated GHG pricing mechanism promotes energy transition of international shipping while contributing to a level-playing field and a just and equitable transition, the DGS said.

The European Union had sought a flat carbon levy proposal, which called for a uniform levy of $100 per tonne of carbon dioxide emitted. This is "primarily to create a price signal but without an equitable redistribution mechanism," according to the DGS.

It said, "It (India-Singapore mechanism) limits the country's compliance cost to under $100 million annually, in stark contrast to the estimated $1.5-2.4 billion annual impact under the flat levy approaches."

The regulator will come up with a disaggregated national-level implementation guidance on the proposed carbon levy on ships based on upcoming IMO decisions.

The GFI regulation is expected to enter into force in March 2027.

CARBON COURSE

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- Said likely added costs would be well within the industry's comfort zone