5th annual report
July 2016
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Shippers create the demand for international transport services

I am delighted to introduce the Annual Report for 2016 outlining the activities of the GSF over the past 12 months. The past year has been highly challenging, particularly with the implementation of the new container weighing rules which entered into force on 1 July 2016.

The GSF played a leading role in the International Maritime Organization (IMO) through our membership of the International Cargo Handling Co-ordination Association (ICHCA) in influencing the shape of the rules. As always when dealing with international organisations, such as the IMO, the final Verified Gross Mass (VGM) rules represent a compromise thrashed out in IMO. But it is a good compromise for GSF and shippers because it includes the so-called method 2 calculated weight option promoted by GSF. This will provide much needed flexibility for shippers to be able to comply with the new rules according to national implementation arrangements.

There is no doubt that the new VGM rules will present a major challenge to the maritime supply chain, and also for governments many of whom at the time of preparing this annual report have yet to issue implementation and compliance guidelines for shippers. I therefore welcome the IMO’s recent circular to member states to take a ‘flexible’ approach in the first three months to ensure a smooth transition to the new rules.

A key priority in 2015 was to extend our influence with the main UN agencies, such as IMO, the International Civil Aviation Organization (ICAO), the UN Committee for Trade and Development (UNCTAD) and the World Customs Organization. We have made considerable progress in that regard. Our influence is growing within these organisations, and it is encouraging that the new Secretary General of ICAO, Dr Fang Liu, has invited GSF to become directly involved in developing its air cargo initiatives.

Following the December 2015 United Nations Climate Change Conference in Paris, I believe pressure will mount on the IMO and ICAO to develop meaningful proposals to combat shipping and aviation emissions. The GSF is currently represented on
the IMO correspondence group which is working on a carbon dioxide (CO₂) data collection system. The GSF is pressing for additional data elements to include transport work so that shippers will be able to accurately measure their maritime emissions and determine the energy efficiency of vessels. IMO is unlikely to go this far, but it puts down a future marker when IMO gets round to developing a Market Based Measure (MBM) to reduce maritime emissions.

On behalf of the GSF members, I would like to thank my colleagues on the Board of Directors, Bruce Carlton of the US National Industrial Transportation League and James Hookham of the UK Freight Transportation Association, and Adamou Saley Abdourahamane, Secretary General of the Union of African Shippers’ Councils for their expert input and strong support for the GSF. I would also like to acknowledge the outstanding work of our Secretary General, Chris Welsh MBE, and his support team on behalf of shippers around the globe. I would also congratulate Mr Welsh on receiving an MBE award from Her Majesty, Queen Elizabeth II earlier this year in recognition of his services to shippers and the shipping industry.

While the GSF has made considerable progress, I still believe we can be more influential. Often international regulators do not fully appreciate that it is shippers that create the demand for international transport services. I am therefore determined to create this theme in all the work we do and in our representations to the international agencies.

R H Ballantyne, PEng
President, Freight Management Association of Canada and Chair, Global Shippers’ Forum
GSF Board and Secretariat

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Ms Pauline Bastidon
Policy Advisor – International Rail Policy and Head of Brussels office

Mr Chris Yarsley
GSF Permanent Delegate to the EU, Brussels office
The GSF is committed to working with our supply chain and governmental partners to improve the performance of the freight and logistics supply chain and in promoting safe, efficient and sustainable transport systems.

In 2011 GSF joined the International Cargo Handling Co-ordination Association (ICHCA). Through our membership of ICHCA, GSF has been able to play a full part in the International Maritime Organization (IMO) discussions on the new container weight verification rules and current IMO discussions on maritime emissions. GSF has also benefited from participation in wider internal ICHCA discussions on maritime policy matters. This has influenced GSF’s policies and, at the same time, has enabled GSF to have a direct input into ICHCA’s policies. The GSF would like to thank ICHCA and its staff for the support and close cooperation between both organisations throughout 2015 and 2016.

Developing industry best practice and improving standards is a key function of a global trade association. During 2015-16, GSF has worked in partnership with the World Shipping Council (WSC), TT Club of insurers and ICHCA to give advice and assist with implementation of the new IMO Verified Gross Mass (VGM) rules which entered into force on 1 July 2016. The four organisations have worked collaboratively to provide broad industry and supply chain guidance and understanding of the rules through two FAQ publications jointly launched in December 2015 and July 2016. The publications have won wide acclaim from governments and industry stakeholders, including the IMO Secretary General Kitack Lim. The GSF is highly appreciative of the support WSC, TT Club and ICHCA have given in working with GSF to bring the best possible advice on implementation of the VGM rules to shippers.

Similarly, GSF would like to thank the Baltic and International Maritime Council (BIMCO) in developing a joint BIMCO/GSF standard contract which we launched in 2015. This provides carriers and shippers with a fair and balanced contract for container shipments for the first time. It is particularly gratifying to see that the contract is gaining traction with many shippers and carriers increasingly using the boilerplate contract as a framework for their contractual agreements.

Throughout 2015 and this year the GSF has continued to work with the International Air Transport Association (IATA), the International Federation of Freight Forwarders Associations (FIATA) and the International Air Cargo Association (TIACA) on making improvements to the air cargo supply chain. As a result, we developed a clear campaign plan to roll out cargo industry improvements and to enhance our influence with ICAO and the World Customs Organization (WCO) on a range of policy issues, including trade facilitation, customs and security procedures.

In June 2015, GSF was delighted to welcome the Sri Lanka Shippers’ Council into membership. GSF membership now stands at 32 national and regional shippers’ organisations from all the major regions in the World.

The 2015 Annual General Meeting was hosted by the Freight Management Association of Canada, in Toronto on 6-8 June. The meeting was attended by senior officials from ICAO, UNCTAD and the Canadian government. A highlight of the AGM was a logistics field trip to the port of Hamilton and the Welland Canal which links the Great Lakes Ontario and Erie and the St Lawrence seaway.

The 2016 Annual General Meeting will be held in Colombo, Sri Lanka from 28-30 June. The Board has invited Mr Sean Van Dort, Chairman of the Sri Lanka Shippers’ Council to join the GSF Board. The GSF Board will come up for re-election by the membership at the AGM.
On 31 December Don Armour retired from the GSF secretariat. Don was GSF’s transport safety adviser, and played an important role in developing GSF best practice advice on the IMO/ILO/UNECE CTU Code and the IMO verified gross mass rules. In October 2015, Alex Veitch was appointed Head of Policy for the GSF. With a background in working for Non-Governmental Organizations (NGOs) at an international level, Alex will play an important part in leading GSF’s policy initiatives going forward. Also, Pauline Bastidon joined the GSF team to head up our Brussels operations. Working with Alex, Pauline will play a key role in representing GSF positions to the EU in conjunction with Chris Yarsley, GSF’s Permanent Delegate to the EU.

Chris Welsh
Secretary General
The emerging maritime market

Shipping mergers
The container shipping industry, and most other sectors of the shipping industry, have been in turmoil since the financial crisis of 2008. While some container lines appear to have fared better financially than others, shipping analysts have consistently reported substantial losses for the industry as a whole in 2015 with expectations that this trend will continue in 2016. The full scale of the financial state of the industry can be difficult to determine due to the somewhat opaque nature of financial reporting due to the sector’s ownership model, but the financial position has clearly been extremely challenging.

The financial and trading position has been affected by two key factors: the slowdown in the Chinese economy resulting from a slow recovery in the key OECD economies; and unparalleled investment in container ships, particularly in the so-called mega vessels of 18,000 plus TEUs category of ships. The latter created a significant imbalance in supply and demand which has adversely affected profitability of the sector.

In the first half of 2016 there seems little sign of international trade rebounding and economic forecasters are predicting growth in the Chinese economy of approximately 6.5 per cent from the 15 per cent plus growth rates that has been the key catalyst for worldwide demand in recent years. Consequently, there seems little prospect of a recovery of rates or a reversal in the financial fortunes of the lines in 2016 or in the immediate future.

This scenario has put severe pressure on the mega ship business model, a model that has been challenged by bodies such as the International Transport Forum (ITF), an OECD transport think tank and shippers for its failure to demonstrate promised service enhancements. Ultra large vessels are dependent on near full utilisation factors to achieve cost reduction and the necessary economies of scale so crucial to the business model’s success. The industry’s response has been to forge new and ever larger alliances to shore up the business model. Since the failure of the proposed P3 Agreement to gain regulatory approval, largely on competition grounds by Chinese regulators, there has been ongoing attempts at realignment of alliances by the so-called ‘super league’ of larger carriers. This has, in part, been due a number of recent mergers and acquisitions and demands from regulators and competition authorities to make adjustments on competition grounds. For example, with regard to the CMA-CMG acquisition of NOL/APL, the European Commission competition authorities sought key changes to CMA-CGM’s alliance and vessel sharing agreements as a result of possible competition restrictions arising from NOL/APL’s former alliance and vessels sharing agreements. In response to the Commission’s ‘market test’
arrangements, the GSF welcomed the changes sought by the European Commission, in particular the condition that NOL would have to leave the G6 global alliance to ensure effective competition on the North Europe to USA and North Europe to Middle East trades. The GSF said in its response to the acquisition market test its main concern was the trend towards concentration in the global container market did not result in the elimination of effective competition for shippers.

In addition to the recent CMA-CGM takeover of NOL/APL, earlier this year China’s two largest container lines China Shipping and Cosco merged to form the China Ocean Shipping Group, and at the time of writing this report there is high speculation that Korea’s two struggling medium sized carriers Hyundia and Hanjin will merge.

These developments suggest that the recent changes to the alliance structure will undergo further re-structuring in 2017. The immediate impact for shippers is that the Ocean Three, G6 and CKYHE will be restructured following CMA-CGM’s (a member of the Ocean Three alliance) takeover of G6 member NOL/APL, and that the newly merged China Cosco Shipping Company, a partner in both the Ocean Three and CKYHE, will form a new alliance, possibly with Evergreen and OOCL. The net effect will be to reduce the current four alliance structure (2M, G6, CKYHE and Ocean Three) to three main alliances.

The key concern for shippers in the medium to longer term, as previously stated, is the threat of consolidation and concentration of the liner shipping industry. The most immediate effect is the uncertainty and disruption caused to the maritime supply chain. The constant re-jigging of alliance partners creates a variety of problems for shippers. The most obvious problems relate to changes in shipping schedules, ports of call and rotation. This can cause havoc for a shipper’s finely balanced sourcing strategy, for example specific service provisions and performance criteria, including lead times to markets which underpin just in time transport and logistics arrangements. These not so apparent problems often revolve around a shipper’s choice of carrier. Shippers with long-term commitments to a particular market will have often carefully selected carriers to meet their specific needs. Changes in alliance partners can severely disrupt carefully homed customer-supply partnerships developed over time when a new alliance partner does not conform to the business outlook or meet the specific needs of the shipper. This is a much overlooked aspect of the ongoing machinations surrounding alliance reconfigurations, and one that seems a low priority for the carriers, confirming the perception amongst shippers that service and customer interests are secondary to carrier operational considerations.

In May 2015 the ITF/OECD issued an influential report on mega ships and alliances (see pages 12-13). The report drew attention to the problems created by so-called mega vessels. It highlighted the non-alignment of carrier interests with those of other stakeholders in the maritime supply chain, most notably their customers’ shippers, but also ports and port terminal operators and other stakeholders crucial to the performance of the container maritime supply chain. The report also noted the adverse effect on related infrastructure industries, not only ports but the operational challenges presented in hinterland infrastructure and landside transport in distributing high volumes of freight on ever congested road and rail infrastructure. The report also highlighted that
although the opportunity existed for carriers to reduce their port to port costs the mega vessels imposed external costs on others including governments often responsible for landside infrastructure investment.

More seriously for shippers the ITF/OECD report pointed to the potential further consolidation in the container shipping market which could lead to harmonised freight rates and a loss of competition. It challenges the assumption that because rates are currently low that consolidation did not raise serious competition policy concerns, not just for shippers but for ports and port terminal operators because of the enhanced buying power of mega vessel operators and the alliances. Challenging the current EU competition policy approach of seemingly giving the green light to mega vessel alliances, ITF/OECD said “we expect public authorities to focus on assessing the effects on the economy as a whole rather than facilitating the creation of a national or supranational shipping champion” in a clear reference to apparently supporting Europe’s main carrier interests, Maersk, CMA-CMG and MSC.

GSF response to alliances and VSAs
The GSF has broadly supported traditional Vessel Sharing Agreements (VSA) on the basis that they can potentially provide the opportunity of achieving cost saving and for shippers to be able to share in the benefits of a wider range of services. But shippers’ support has always included important caveats. Where shippers become concerned is when VSAs have market shares over the 30 per cent threshold for automatic exemption, set by the EU consortia block exemption, or when VSAs become more integrated and include information exchanges on costs and future investment and longer-term business strategies in the market. GSF’s support is conditional on genuine head-to-head competition on price and service both within alliances/VSAs and in the markets in which VSAs operate. The combination of fewer and larger alliances in a considerably more consolidated market therefore raises the competition bar. Much depends on the extent of consolidation and whether the reshaping of the market leads to oligopoly. Shippers’ acceptance of alliances would be much less sanguine and this would almost certainly lead to calls for competition investigations and regulatory intervention by shippers. In response to these concerns the GSF has closely liaised with regulators in the US and competition authorities in Brussels. The US Federal Maritime Commission (FMC), as a consequence, has closely monitored VSA alliance agreements, particularly their impact on rates and services. DG Competition in Brussels has said it will monitor the impact of alliances, placing responsibility on the alliance parties to carefully self-assess whether the alliance agreements are likely to infringe EU competition rules. The Commission could instigate an investigation on its own initiative or on the basis of a complaint made by shippers.

The GSF has established the following alliance monitoring criteria which it is urging regulators and competition authorities to take into account.

- Capacity changes by key trade lane (additions and withdrawals)
- Price changes in line with capacity adjustments measured against key trade rate indexes
- Transit times
- Frequency and withdrawals of services on key trade lanes and port pairs
- Bunker prices per TEU
- Ancillary charges per TEU

The current problem, however, remains the mega ships and extended alliance business model. The core of the problem is the investment in these enormous vessels relative to world trade demand for the capacity. In an effort to reduce operating costs carriers have got the capacity dimension wrong.

In addition to the potential competition problems posed by the mega vessels and the reduced choice presented by fewer larger alliances, a key
concern of shippers has been the misalignment between shipping line objectives and those of their customers and other stakeholders such as port terminal operators. Vessel bunching, peaks and troughs, void sailings, reduced schedule reliability and terminal congestion have caused serious disruption to shippers’ supply chains and inventory management, even to the extent of undermining ‘just in time’ distribution systems.

GSF believes that in the current challenging trading climate there should be greater meaningful dialogue between carriers, shippers and other key stakeholders in the maritime supply chain. This, GSF believes, would allow carriers to test their business model assumptions and develop a clearer understanding of trading prospects and the needs of shippers in terms of capacity and service. It would, in short, assist in greater alignment of stakeholder interests leading to the development of more efficient and sustainable maritime supply chains and shipping services. The GSF has identified the following six requirements to help achieve greater alignment of shipper/carrier interests.

Carriers should:

- be more open regarding their proposed business models and costs in order to facilitate more equitable commercial agreements
- enhance transparency in the flow of information, so that shippers can respond to short-term changes
- develop collaborative partnership relationships with shippers
- develop a more in-depth knowledge of the supply chain to enhance greater understanding on how carrier decisions impact the supply chain and end customers
- align their interests with those of their customers and other stakeholders in the supply chain
- develop real customer focus
OECD mega ships report
The OECD has led the international discussion around competition issues in the maritime sector, first through a seminal competition report in 2002, and a follow-up report in 2015 which reviewed progress and also analysed the impact of mega vessels and in particular alliances on competition. This section summarises the key points of these reports.

OECD Report 2002 – Competition Policy in Liner Shipping
Note: This summary of the 2002 report is quoted from the 2015 OECD report, also entitled ‘Competition Issues in Liner Shipping’.

In 2002, the OECD issued an influential report concerning ‘la raison d’être’ of liner shipping conferences. The report challenged the alleged uniqueness of the liner shipping industry, stating that “liner shipping is about as ‘different’ from other industries as, for example, trucking is to freight air services or freight air is to rail freight – with the exception that price fixing is allowed in liner shipping and nearly universally disallowed in these other industries”.

The report concluded that there was no evidence of the alleged benefits of liner shipping conferences, as the increased competition the sector experienced following competition-enhancing legislation had not yielded the trade instability that market players predicted but rather delivered service innovation and quality also having led to some of the steepest declines in observed freight rates. Nonetheless, “carriers have not lost the price fixing reflex” and hardcore rate-fixing keep freight rates from becoming aligned with those of the most efficient carriers.

Furthermore, the report highlights that capacity agreements that go beyond operational groupings or which account for a high market share can have yield anti-competitive rates through reducing overall capacity. The report thus recommended that limited antitrust exemptions should not be allowed to cover price fixing and rate discussion and that capacity agreements should be carefully scrutinised to determine the distortion they can potentially generate in the market.

Since the OECD (2002) report, several countries undertook reviews of their regulatory frameworks. The most relevant of these reviews was that undertaken by the European Commission (EC) which culminated, on 25 September 2006, with the repeal of Council Regulation 4056/86 that previously granted a block exemption to liner shipping conferences, with a two-year transitional period where conferences were still allowed.
OECD Competition Report 2015 – key conclusions

Following this extensive analysis, the 2015 report concluded that “more than a decade after its publication, and the changes that have taken place, the recommendations contained in the [2002] OECD report remain still relevant. While many countries still retain antitrust exemptions to liner shipping conferences, no solid evidence has been brought to support them.”

The recommendations of the report focus on concerns raised by alliances and cooperation agreements. The report accepts that “alliances can be beneficial and bring about important efficiencies. Nonetheless, important issues remain which call for a vigilant eye from competition authorities and regulators”.

In particular, the report stresses the need for a global approach to market consolidation. A few main players, active globally, account for a substantial share of capacity in the main trades. Some jurisdictions regulate price-and-capacity setting; others do not. This heterogeneity of regulation increases the risk of non-compliance, and can distort global trade. The P3 alliance is illustrative of how the same deal can be analysed under different proceedings in different jurisdictions, with distinct decisions being reached.

Other concerns and recommendations included the following.

- Exchange of information: Concerns with exchange of information are aggravated by the elaborate map of cooperation agreements among firms in the industry.

- Strategic alliances: Competition authorities and regulators should carefully scrutinise the impact of strategic alliances on competitive conditions, striking the right balance between the efficiencies they entail and their potential anticompetitive effects.

- Mergers and acquisitions: Merger control should take into account the impact of cooperative arrangements on competition conditions in the relevant trade lanes, avoiding a move towards excessive concentration and interdependency.

The OECD report also describes the growth in mega vessels, and the consequent impact on ports, terminals and competition. The OECD notes that the investment in mega vessels has partly driven the increased vertical integration in the maritime sector (between carriers, ports and terminals) which while promoting efficiencies can also have negative implications for competition.

In addition, the growth of mega vessels, together with slow-steaming and increased use of transhipments (and a number of other factors) have reduced the role for smaller, regional ports, decreasing connectivity, which is an important contributing factor to economic growth.

Finally, the report concludes that “the great financial effort necessary to invest in these mega-vessels introduces another form of entry barrier in the most important ocean routes, and the exploitation of the economies of scale of the ultra large containerships may be actually earned only by the biggest liner carriers.”

More broadly, mega vessels are intrinsically linked to the growth of strategic alliances and proliferation of cooperation agreements, with the competition issues summarised above, because carriers seek to maximise the use of capacity during the current extended period of low demand.

GSF welcomes the OECD’s ongoing work on competition in the container shipping sector.
Their recent competition report highlighted the dangers of consolidation, mega vessel dominance and the growth of alliances and is a timely reminder to competition authorities and regulators to be vigilant. In this Annual Report GSF outlines its broad response to these developments and makes a number of important recommendations to regulators and the liner shipping industry (see pages 9-11).

During 2016, GSF will publish a new report which it will use to contribute to the debate about the future structure and operation of the container shipping market (see below).

Maritime competition

Competition issues in liner shipping
Thirteen years on from the publication of the OECD 2002 report on liner shipping, the OECD Competition Commission has produced a new detailed assessment on the state of competition in the liner shipping sector. Published in May 2015, the OECD’s report reasserts the key finding of its earlier study; namely that there is no justification for the continuation of price fixing, carrier discussion agreements or tariff coordination in liner shipping. Moreover, the report, importantly, updates its earlier 2002 analysis to take into account changes in the liner shipping market, including the impacts of heightened consolidation, the introduction of mega vessels (18,000 plus TEUs), concerns about information exchange, strategic alliances and mergers and acquisitions.

The GSF welcomes this updated assessment and strongly believes that maritime regulators and competition authorities internationally should seriously take note of the OECD’s observations and recommendations with regard to the application of competition policy to the liner shipping sector. It is, for example, regrettable that the liner shipping industry continues to defend unwarranted antitrust exemption for pricing and tariff agreements, including the exchange and sharing of information on prices and costs in conference and carrier discussion agreements. The GSF totally refutes assertions made by the shipping industry that such agreements confer benefits to other parties, in particular shippers on the unsubstantiated grounds that pricing and carrier rate discussion agreements provide stability or enhanced quality of services.

The GSF, in cooperation with shippers’ organisations and its member associations in Asia, continues to campaign for such exemptions to be removed. It is, therefore, highly regrettable that Singapore has decided to ignore the OECD’s detailed analysis and recommendations by extending the existing block exemption for conference and discussion agreements to either fix rates and surcharges or discuss cost and prices...
with a view to aligning prices in the market by carriers. In light of the OECD’s report, the GSF calls on governments to repeal antitrust exemptions provided for conference and carrier discussion agreements to ensure the proper functioning of shipping markets and fair competition for shippers upon which international trade depends.

More encouragingly, the Australian Competition and Consumer Commission (ACCC), which is undertaking a more general review of Australian competition policy, has recommended the repeal of the country’s current antitrust exemption for liner agreements and discussion agreements, following publication of the Review Panel’s recommendations in 2015. In the so-called Harper Review, the Commission accepted submissions made by the GSF and Australian Peak Shippers’ Association (APSA) that the international treatment of liner shipping had changed internationally, particularly with the withdrawal of the antitrust immunity by the EU in September 2006. The approach taken by the Australian ‘root and branch’ review of policy closely mirrors that of the UK and EU. However, significantly, the proposals will not give an automatic exemption for consortia and discussion agreements. It is envisaged that carriers will have to submit applications for individual exemption for such agreements. The details of the exemption process is currently being discussed by the ACCC, the Ministry of Transport, the Australian Peak Shippers’ Association and other stakeholders.

The Australian review broadly follows the conclusions of the New Zealand Productivity Commission which also recommended the withdrawal of antitrust immunity for carrier pricing and discussion agreements. This is being taken forward in a Commerce Bill which is presently deadlocked in the New Zealand Parliament. The GSF and the New Zealand Shippers’ Council (NZSC) met transport, trade and competition ministers in Wellington in September 2015. The ministers confirmed their intention to enact the bill and implement the antitrust reforms.

In addition to the reforms currently taking place in Australia and New Zealand, Hong Kong introduced new competition laws (Competition Ordinance (CO) Law) in 2015. The CO law does not provide an automatic exemption for the liner shipping industry. The Hong Kong Shippers’ Council (HKSC) and the GSF have welcomed the introduction of the new competition law. The GSF and HKSC is opposing an application by the Hong Kong Liner Shipping Association (HKLSA) for a block exemption for liner shipping agreements. The GSF is continuing to give support to the HKSC in its opposition to the block exemption application.

Moreover, the Japan Fair Trade Commission is reviewing the Japanese antitrust exemption last reviewed in 2011. The GSF met JFTC officials in London in September 2015. Following their initial investigation they are proposing to remove antitrust immunity for liner conference and discussion agreements. The JFTC will start a formal review in 2016 and has invited the GSF to participate in the review.

Since the repeal of the liner conference block exemption in September 2008, the EU Commission and the US Federal Maritime Commission (FMC) have conducted reviews on the impact of the EU repeal. The EU found no negative impacts and the FMC study concluded that it had not adversely impacted US trades or had a negative impact on trading conditions or rates. A study on terminal handling charges carried out on behalf of the European Commission in 2009 identified that terminal handling charges (THCs) had reduced significantly throughout Europe following the removal of the liner conference block exemption as a result of individual lines having to quote individual THC charges, rather than relying on conference THC tariffs applied by liner conferences pre-2008. This was in stark contrast to THCs in Asia where THCs continue to rise due to antitrust immunity.

**Price signalling**

In 2010 the UK Freight Transport Association (FTA) (incorporating the British Shippers’ Council (BSC)) asked the European Commission to undertake an investigation into whether general rate increases (GRI) announced by carriers
in 2009/10 amounted to price signalling in contravention of EU competition rules. The BSC maintained that carriers in a number of EU trades had announced similar GRIs within days of each other. Throughout 2009 and the early part of 2010 carriers introduced GRIs at short notice at three-monthly intervals. As carriers were applying almost identical rate increases at the same time, shippers operating outside of formal contract agreements had limited bargaining power to negotiate reductions.

The European Commission opened formal proceeding against 14 lines in 2011. In its preliminary assessment, the EU Competition Commission expressed concern that “the rate announcements may allow the parties to explore each other’s pricing intentions and to coordinate prices without incurring the risk of losing customers, whether they can reasonably implement a price increase and thereby reduce strategic uncertainty for the parties and diminish the incentives to compete”. The Commission said that this may have amounted to a “concerted practice”.

In its response to the Commission’s preliminary analysis, the FTA said it shared the Commission’s competition concerns. FTA said it was consistent with the Commission Horizontal Guidelines on the application of EU competition rules which explicitly state that a concerted practice may be present in a situation where a public announcement was followed by public announcements by other competitors and the announcements were used as “a strategy for reaching a common understanding”.

In its response to the Commission’s market test of commitments made by the 14 shipping lines, FTA said it supported the Commission’s intention to adopt a decision making the lines’ commitments binding, in particular that:

“The parties offer to stop publishing and communicating GRI announcements, ie changes to the prices expressed solely as the amount or percentage of the change.”

While FTA submitted that no further commitments were necessary to remove the competition concerns identified by the Commission. The FTA agreed with the Commission that where carriers chose to make rate announcements, it was necessary for them to give additional commitments as to the nature of the timing of the price announcements in order to ensure that the price transparency will benefit shippers, as well as carriers, and to ensure that the processes announced are committal and do not involve any of the other potential concerns associated with GRIs identified by the Commission in its preliminary assessment as set out above.

Subject to formal approval following the Commission’s market test of the commitments
made by shipping lines, the commitments will effectively end the historic practice of carriers implementing GRIs. The commitments therefore mark an important milestone in the transition to a fully competitive market. It is also a key message to regulators and competition authorities around the world, especially in those areas where carriers continue to fix tariffs, that open and competitive markets not only provide greater pricing transparency but prices that are more reflective of actual market conditions.

**Surcharges**

The levying and imposition of pre-shipment charges and surcharges remains a key issue for shippers in Africa, Asia and much of the developing world. The problem is either nonexistent or minimal in Europe, North America and Australasia, mainly due to the superior bargaining power of shippers and antitrust laws and regulatory measures which have largely removed the problem. The removal of unjustified surcharges in Europe, however, was hard won, and it was only through legal action by shippers, most notably in the FETTCSA case, that the European Commission in the mid 2000s determined in a statement of objections that the alignment of surcharges by the then Far Eastern Freight Conference and a number of independent lines in the Asia-Europe liner market was unlawful. The carriers dropped their surcharges agreement under the threat of legal action and the possibility of heavy fines for breaches of EU competition law. It is also notable that following the removal of antitrust exemption for carriers in Europe in 2008 within months terminal handling charges which were previously fixed by liner conferences dropped dramatically as carriers had to set their own individual prices. THC's were not reduced in Asia where antitrust exemption remains in place however.

The same pattern followed with the introduction of the new mandatory container weight verification rules on 1 July 2016. Within days of implementation of the new rules GSF was inundated with complaints from shippers’ organisations in Africa and Asia of new ‘administration' fees and add-on charges for unspecified and dubious ‘services' being imposed on shippers. In Europe there appear to be few such problems. What can be learned from this is that where shippers have a degree of bargaining power, appropriate antitrust laws and a competitive market, the problem of add-on charges and surcharges largely disappears. As a result, GSF is working with member associations in Asia and Africa to tackle the problem. In December 2015 GSF attended the World Trade Organization (WTO) China Round Trade Facilitation Conference in Nairobi. In a joint UNCTAD/WCO session GSF noted that the levying of surcharges amounted to a non-tariff trade barrier and was damaging to the development of international trade. It is also likely to be a contributory factor to the fact that international transport costs for countries in Africa and Oceania are, according to UNCTAD, 40-70 per cent more on average than developed countries.

In 2016/17 the GSF will intensify its campaigning activity to tackle the problem of unjustified add-on charges and surcharges, including:

- supporting GSF members in their campaigns to withdraw antitrust immunity for shipping services where such exemptions exist
- promoting fair and equitable contracts through the GSF/BIMCO container contract
- challenging service providers directly to justify their add-on services and surcharges
- promoting the use of Incoterms and the use of the FCA term between buyers and sellers to enhance the joint bargaining power of shippers
- exploring the opportunity of collective buying agreements through shippers’ associations, subject to antitrust laws
- working with international bodies such as UNCTAD, WTO, OECD and the World Bank to undertake further analysis of the potential barriers to trade resulting from add-on charges and surcharges
IMO rules on container weight verification

Container weight verification

One of the most important issues for GSF during 2015/16 was the change to the Safety of Life at Sea (SOLAS) regulation regarding the verified gross mass of a container carrying cargo, which was adopted at the 94th IMO MSC (International Maritime Organization Maritime Safety Commission) session in November 2014 for entry into force on 1 July 2016. This amendment requires mandatory verification of the gross mass of a container prior to loading on vessels. Although some exemptions are included (for roll-on/roll-off vessels on short international journeys amongst others), the vast majority of containers loaded for export will fall under this new regulation.

Background to the regulation

The consequences of misdeclaring the gross mass of a packed container can be far-reaching. Should a discrepancy between the declared gross mass and the actual gross mass of a packed container go unnoticed, it could have an adverse impact on the safety of the ship, seafarers and shoreside workers, by leading to incorrect vessel stowage decisions and potentially collapsed container stacks or loss of containers overboard.

In 2011, work started at IMO on the development of measures to prevent loss of containers. In view of marine casualties and incidents in which misdeclared container mass had been a contributing factor, one strand of the work was the possible establishment of a requirement that packed containers be weighed to obtain their actual gross mass prior to vessel loading. The work culminated in the approval of the guidelines regarding the verified gross mass of a container carrying cargo (MSC.1/Circ.1475) and the adoption of amendment to SOLAS Regulation VI/2 to require the mandatory verification of the gross mass of packed containers (resolution MSC.380(94)).

The amendments introduce two main new requirements.

1. The shipper is responsible for providing the verified weight by stating it in the shipping document and submitting it to the master or his representative and to the terminal representative sufficiently in advance to be used in the preparation of the ship stowage plan.

2. The verified gross mass is a condition for loading a packed container onto a ship.

GSF was closely engaged throughout the IMO decision-making process both with IMO member states and with influential bodies such as the World Shipping Council (WSC). GSF recognised the need to provide the verified gross mass, but was concerned about the potential cost and supply chain delays that could result from a blanket requirement to weigh each packed container.

GSF instead introduced an alternative concept, whereby shippers could be permitted to sum the gross mass of the individual items, plus the packaging and tare weight of the container, using weight data that is already collected during the manufacturing and packaging phase. Verification would be achieved by requiring the use of an independently certified audit-based system.

In the final agreement at the IMO the GSF approach was accepted, and as such verification
of the gross mass can be achieved by either of two methods.

1. Weighing the packed container.

2. Weighing all packages and cargo items, including the mass of pallets, dunnage and other securing material to be packed in the container and adding the tare mass of the container to the sum of the single masses, using a certified method approved by the competent authority of the state in which packing of the container was completed.

Without a verified gross mass the packed container shall not be loaded aboard ship. The amendments to SOLAS Regulation VI/2 entered into force on 1 July 2016. During the year 2015/16, with the 1 July 2016 deadline looming, GSF and several other international associations worked closely together to provide practical guidance for all players in the supply chain – shippers, terminals, carriers, insurers and others.

International guidance with supply chain partners and support for GSF members

Support for GSF members

In addition to the guidance provided to assist GSF members and shippers described below, the GSF has supported members at various conferences and seminars throughout the world. In conjunction with members, GSF participated in seminars and workshops to assist their members with compliance with the VGM rules in: Durban, South Africa; Auckland, New Zealand; Melbourne, Australia; Colombo Sri Lanka, Abuja, Nigeria for members of the Union of African Shippers’ Councils; and in Shanghai for a number of Asian Shippers’ Councils.

The GSF has also participated in broader joint industry VGM sessions in conjunction with ICHCA, of which GSF is a member in London, Barcelona, Durban and Antwerp.

International FAQs: Collaboration with WSC, TT Club and ICHCA

The highlight of this joint industry collaboration was the International FAQ document jointly published by GSF, WSC, TT Club and ICHCA. This collated a number of real-world questions raised by companies involved in containerised transport, and categorised issues according to the type of issue – whether they were national, international or of a commercial nature. The FAQ document was presented by the associations to the IMO at the Maritime Safety Committee meeting in May 2016, where several national delegations including China praised the document and noted that they had used it when developing their own national guidance. The partners are planning a second edition of the International FAQs, to be presented to the IMO Sub-Committee on Carriage of Cargoes and Containers taking place from 5-9 September 2016.

Guidance for Method 2: Collaboration with ESC, CEFIC and CLEGAT

As noted above, the agreement to allow Method 2 was warmly welcomed by GSF, which had encouraged IMO member states to allow this option. However, the legal text agreed by the IMO leaves considerable flexibility for each
member state to devise its own approach. Realising the vital importance of providing more guidance on Method 2 for shippers and national authorities devising their rules, GSF worked with the European Shippers’ Council (ESC); the European association for forwarding, transport, logistics and customs services (CLECAT) and the European Chemical Industry Council (CEFIC) to produce a guidance document to suggest how to approach this. Feedback indicates that a number of EU member states took account of this guidance document when drafting their national regulations.

**GSF guidance**

GSF produced the following briefing materials for members, all of which are available on the GSF website.

- **Short Guide**: Brief, easy to read guidance to help readers assess the impact on their company

- **Who is the shipper?** Identifying the actual shipper responsible for verifying the gross can be confusing as this can vary according to the terms of the sales contract and the functions performed by the various parties in the maritime supply chain including, for example, the exporter, importer, freight forwarder and NVOCC (Non-Vessel Operating Common Carrier) operator. This briefing note seeks to clarify which party, as the shipper, has responsibility for verification of the gross mass to the shipowner or his representative including the terminal operator

- **National Guidance Documents and Information Notices**: GSF has been collating guidance documents for the SOLAS container weight verification requirements which enter into force on 1 July 2016. It continues to add more documents as they are published by national authorities

**On-going collaboration with IMO: addressing MSC**

Thanks to its constructive and long-term engagement on this issue, GSF continues to be welcomed to IMO discussions on container weighing implementation issues. A highlight was an invitation to make a presentation to the IMO Maritime Safety Committee on the implementation of the new SOLAS requirements for the verification of the gross mass of packed containers. This session took place on Thursday 19 May during the 96th session of the Maritime Safety Committee held from Wednesday 11 to Friday 20 May 2016 at the IMO headquarters in London. Other speakers were Peregrine Storrs-Fox of the TT Club and Lars Kjaer of the World Shipping Council.

This was an excellent opportunity to put forward GSF members’ views and concerns about the global implementation of the SOLAS requirements, in particular the need to refer to international standards (such as ISO 9001) as far as possible in national guidance, and also to get feedback from national authorities on their stage of implementation and their interpretation of the rules. Going forward, GSF would like to encourage national governments to consider mutual recognition of each other’s Method 2 rules, to facilitate global trade.

At this MSC meeting, IMO member states agreed that “while there should be no delay in the implementation of the SOLAS requirements, it would be beneficial if administrations and port state control authorities could take a ‘practical and pragmatic approach’ when enforcing them, for a period of three months immediately following 1 July 2016.” This would help ensure that:

- containers that are loaded before 1 July 2016, but transhipped on or after 1 July 2016, reach their final port of discharge without a verified gross mass

- it would provide flexibility, for three months immediately after 1 July 2016, to all the stakeholders in containerized transport to refine, if necessary, procedures (eg updated software) for documenting, communicating and sharing electronic verified gross mass data
Air cargo activities

Since the incorporation of GSF in June 2011, it has worked constructively with air cargo industry partners International Air Transport Association (IATA), International Federation of Freight Forwarders Associations (FIATA) and The International Air Cargo Association (TIACA) to enhance the performance of the air cargo supply chain. To align our efforts and to improve the effectiveness of our individual campaigning and lobbying activities we jointly established the Global Air Cargo Advisory Group (GACAG) to give the air cargo a collective voice on the key issues of importance. Much of this work is unsung and goes unnoticed by the air cargo community. It is nevertheless crucially important. For example, in addition to the recent action taken by GSF to resist the ban on lithium ion batteries, GACAG members are working together to explain to civil aviation administrators and ministers of transport that existing International Civil Aviation Organization (ICAO) dangerous regulations if adhered to are more than sufficient for the safe carriage of lithium batteries in passenger aircraft. See the separate section on lithium batteries in this report (page 23).

Our goal in 2016 and 2017 is to improve our communications regarding GACAG, its role and its successes. We will also enhance our bilateral collaboration with IATA, FIATA and TIACA to promote air cargo with the main international regulatory agencies such as ICAO and WCO.

Placing the shipper at the centre of air cargo

The air cargo industry has traditionally tended to be somewhat supply driven, rather than demand oriented. In other words, it has lacked sufficient customer focus and the supply side has often lost sight of the end customer – the shipper – in developing services and pricing models. The establishment of GACAG, and GSF’s involvement, has helped redress the balance. It is therefore pleasing to see that TIACA has created a shippers’ advisory committee to help steer its policy work and that shippers will take centre stage at their Air Cargo Forum (ACF) in Paris from 26-28 October 2016. In conjunction with TIACA, GSF will host a shippers’ pavilion at ACF, including seminar and workshop sessions, covering air cargo industry standards and key shipper-based projects to pave the way for paperless air cargo trading.

In March 2016 the ICAO approached GSF as the “world’s foremost association representing shippers” to work with them as a key partner in developing ICAO’s air cargo initiatives. This will
enable GSF to ensure that shippers’ interests are placed firmly at the centre of the world’s main air transport regulatory organisation dealing with air cargo matters.

What are shippers’ main priorities?
Shippers are concerned about a range of issues, including how the development of a climate change Market Based Measure (MBM) will impact the global supply chain, cumbersome and misaligned cargo security regimes, advance cargo information, e-freight and cargo bans, such as the recent ban on lithium batteries. These are all important issues but, above all, shippers are looking for a step change in the performance of the air cargo industry. Shippers clearly state that the end-to-end air cargo supply chain needs to be speeded up. With 20-30 years of technical advances, particularly in information technology, air cargo is no quicker today than it was then. The overall average air cargo supply chain is in the region of 12 days according to regular high volume shippers dependent on air cargo. These leading shippers are calling for that to be cut by a half, to 6 days. These leading shippers also state that greater focus must be given to quality. Air cargo, they state, is a premium service compared to other modes of transport and its quality should reflect that.

Fulfilling the value proposition
There are a number of key components in achieving the kind of step changes identified by shippers if air cargo is to achieve its full potential. This includes the role out of e-freight across the air cargo sector. In December 2015, IATA reported that the industry has achieved only 36.5 per cent penetration, with a target of reaching 56 per cent by the end of 2016. The GSF is giving its support within GACAG for wider industry participation to ensure these critical targets are met. However, this is only part of the picture as there is a need to make considerable progress in digitisation of documents and processes throughout the air cargo supply chain. It is evident that existing air cargo systems are incapable in making the step changes required to significantly speed up air cargo. The GSF is therefore giving its full support to a new ‘Backbone’ initiative pioneered by the leading technology company and significant air freight shipper, Eriksson. The aim is to create a new universal industry digital platform to provide seamless connectivity between all the participants in the air cargo supply chain.

GSF hopes that the Backbone initiative will pave the way for a common industry standard for tracking and monitoring shipment transit at an individual item level. This has emerged as a key shipper requirement which is deterring the development of air cargo and has resulted in many shippers switching to sea freight where more sophisticated and reliable tracking and monitoring systems are in place.

GSF welcomes the air cargo industry’s greater focus on quality and developing performance standards. It applauds the recent commitment by IATA to focus on quality and in the decision by air cargo carriers to relaunch Cargo 2000 under a new name CargoIQ. The aim of the new group, with a new management team, is to provide a new set of benchmark measurements to obtain insights into how operational performance can be achieved across the air cargo supply chain. Under
the arrangements, CargoIQ will implement a new audit and certification scheme. GSF has reached out to CargoIQ and has had initial discussions concerning how it can support this work, with the aim of enhancing the value proposition for shippers. A test of CargoIQ will be its ability to align this with shippers’ service performance indicators and how it will contribute to speeding up air cargo. Finally, a sign of maturity will be whether CargoIQ will make its benchmarking data available to shippers.

More broadly, GSF will be fully supporting an industry campaign within GACAG to:

- encourage industry to adopt e-freight procedures in all areas where it is possible
- publicise standards that are already available for air cargo documents
- call on governments and regulators worldwide to support the adoption of e-Customs to facilitate e-freight
- support new initiatives for collaboration with organisations such as the World Bank, World Trade Organisation (WTO) and the UN Committee for Trade and Development (UNCTAD) to support free trade agreements, particularly in developing countries
- Implement an industry action plan for advance cargo information, particularly in aligning and use of existing standards within the World Customs Organization

Collaboration with ICAO

GSF has engaged with ICAO on a limited range of issues over the past year, most notably with regard to ICAO’s climate change agenda and its work in developing a market based measure, and over the recent ban on lithium ion batteries. Following on from ICAO’s participation in the 2015 Toronto annual meeting, GSF met the new ICAO Secretary General Dr Fang Liu at the IATA World Cargo Symposium in Berlin in March 2016. Dr. Fang Liu welcomed the participation of GSF in ICAO and invited GSF to collaborate with ICAO on developing its air cargo interests. Following the meeting, GSF and ICAO officials have discussed areas for further cooperation. Areas identified include the development of an air cargo freight index, cargo security and facilitation, air cargo delays, e-commerce and liberalisation of air cargo. The collaboration will provide the opportunity for shippers to influence air cargo policy at the highest level for the first time.

Lithium ion batteries

ICAO imposed an interim ban from 1 April 2016 on the carriage of all shipments of lithium ion batteries as cargo on passenger aircraft. For shippers, this news was disappointing. It goes against the recommendation of the ICAO Dangerous Goods Panel, and does not address the most worrying problem, namely that of undeclared battery shipments or low-quality counterfeits.

The ban could also last a long time. While officially an interim measure, it will remain in force until ICAO working groups agree a new lithium ion battery packaging performance standard, expected by 2018. However, we are concerned that this could be further delayed due to research work been carried out by ICAO and its occasionally slow decision making procedures.

GSF has clarified with the UK Civil Aviation Authority (CAA) that the ban affects only lithium batteries shipped on their own that are prohibited on passenger aircraft; ie UN3480 for lithium ion batteries and UN3090 for lithium metal batteries (UN3090 was prohibited in 2014).
Batteries contained in equipment, or packed with equipment (UN3481 and UN3091), are not subject to the restriction. Therefore, it is still permitted for shippers to send laptops and other electronic items that contain lithium ion batteries as cargo in passenger aircraft.

In preference to this ban, GSF favours the more proportionate measures recommended by ICAO’s Dangerous Goods Panel (DGP) in October 2015 which included proposals to allow the shipment on passenger aircraft only if batteries were charged to up to 30 per cent of their maximum, and to limit one package per consignment for certain types of battery. We were surprised that the ICAO National Council went against the recommendations of its own expert panel on these issues.

Finally, both the ban and the measures proposed by the ICAO DGP do not tackle arguably the most worrying issues, ie undeclared lithium ion battery shipments and unscrupulous companies deliberately shipping products with lithium batteries as normal cargo.

This problem is compounded if these undeclared batteries are low quality counterfeits which are more prone to creating a fire hazard. In their comments to the press, IATA has highlighted these related topics of counterfeit products and undeclared shipments as crucial issues to be addressed. It is absolutely vital for governments to redouble their efforts to crack down on counterfeit battery producers and shippers that fail to comply with the regulations.

In addition, ICAO should investigate the potential of using screening equipment to detect batteries. This approach would enable airlines to be certain about the lithium ion batteries carried on their aircraft, enabling them to spot those that have not been declared. Feasibility tests carried out by the UK Civil Aviation Authority and presented to the ICAO DGP have been encouraging. In the interests of improving safety, ICAO should explore the benefits of the wider adoption of this screening technology, which could eventually lead to revised standards to require such screening equipment at airports.

Going forward GSF will continue to make these points in a constructive manner to ICAO officials and member state representatives. This issue is a clear demonstration of why greater shipper involvement in ICAO discussions and negotiations is so important.
Overview

GSF’s influence as an informed expert on climate change matters affecting shippers has been recognised by IMO, national government experts and regional government organisations such as the European Union. This section summarises the outcome of the historic Paris agreement and the range of activities GSF has undertaken on climate change in 2015/16.

It also looks at another environmental issue, namely sulphur emissions in the maritime sector. This is going to be an increasingly important issue to shippers, as new rules on low-sulphur fuel use could lead to increased fuel costs and/or additional surcharges.

COP21 outcome

Over 190 nations took part in the United Nations Framework Convention on Climate Change (COP21) in December 2015 in Paris which set a new, legally binding agreement from 2020 to prevent global temperatures rising by more than 2ºC by the end of the century with a further ambition to limit this increase to 1.5ºC. To coincide with the talks, GSF released a position paper on how the maritime sector should address CO₂ emissions to influence the debate from a shipping perspective. GSF recommended that IMO should retain competence for maritime carbon emissions but progress on reduction activities must be faster. GSF also called for the shipping industry to set ambitious but achievable CO₂ reduction targets.

At COP21 it was decided that the responsibility for shipping and aviation emissions should continue to be allocated to the International Maritime Organization (IMO) and the International Civil Aviation Organization (ICAO) respectively. However, ahead of the negotiations, policymakers were set to establish a global sector emissions reduction target for international shipping and aviation. There was also pressure to develop a levy scheme to provide financial support for the Green Climate Fund, an adaptation fund for climate change. GSF was concerned that shipping and aviation could be singled out as contributors for the Green Climate Fund when, in the main, countries are targeted for funding rather than individual industries. GSF contends that the introduction of such levy schemes serve only to increase costs to the shipper as the fee will naturally be passed along the supply chain; this will fail to help decarbonise the industry. Instead, GSF has called for any funds from MBMs to be invested back into industry to enable adoption of new operational and technological measures that can reduce emissions.

Many environmentalists, however, believe that both sectors got off lightly and there is no doubt that IMO and ICAO are under even more scrutiny to deliver carbon reductions. GSF will continue to engage with them to achieve emissions reduction plans that correspond to shippers’ views as far as possible.

Maritime emissions

GSF has been at the forefront of representing global shippers’ interests in the IMO Marine Environmental Protection Committee for a number of years. Our series of maritime emissions briefing notes are well regarded and have been highly
influential in providing a platform for shippers’ views in decarbonising or reducing greenhouse gas emissions from maritime transport.

Our goals are twofold: first, to influence the kind of market-based or monitoring, reporting or verification instruments to be adopted by the IMO and other inter-governmental organisations to reduce carbon emissions; second, to provide greater transparency in emissions reporting to enable shippers to report their supply chain emissions. Currently, IMO has shelved plans for an MBM and instead is focused on the development of a fuel data consumption system for ships. We have been involved in an IMO correspondence group and have pressed for transport activity data to be included in the system. We believe this data is essential to provide important information to regulators and shippers on the performance of the shipping industry in curbing and managing emissions.

Engagement at the IMO
GSF participated in the 69th session of the Marine Environment Protection Committee (MEPC) held at IMO, in April 2016. The MEPC debated details of what fuel consumption and energy efficiency data should be collected. GSF had submitted a paper and presented at the plenary session reiterating our call for robust energy efficiency data to ensure that the analysis and policy development phases are able to assess the energy efficiency of the sector. Unfortunately, the consensus among member states (supported by shipping industry associations) was to collect only fuel consumption data.

Member states believed that politically, agreement on a minimal, limited system was the only way to ensure the data collection was approved. This outcome is disappointing from our point of view. Although information on the so-called ‘Design Deadweight’ of each ship will be recorded within the system, this is simply the theoretical loading capacity of the ship, and bears no relation to real world loadings. The scheme will be formally approved at the next MEPC in October 2016 and data collection could theoretically start in 2017 or 2018.

There remains a clear danger that the IMO could move towards acceptance of a climate change levy with the real possibility that this would be passed on to shippers by the shipping industry, particularly as the International Chamber of Shipping (ICS) has already previously backed a bunker levy proposal as its preferred market-based measure in IMO. The IMO has estimated that such a levy would increase global freight rates by over 5 per cent per annum.

GSF prefers a policy solution that would incentivise greater energy efficiency, create the right incentives and share cost burdens. Without the collection of energy efficiency data, such a solution will be very difficult to create under the three-step process.

EU monitoring, reporting and verification regulation
In the absence of a global deal on reducing maritime emissions, the European Union has agreed new EU-wide rules for monitoring, reporting and verification (MRV) of CO$_2$ emissions from ships. The legislation will cover all large ships (over 5,000 GT) that use EU ports, irrespective of where the ships are registered. From 1 January 2018, shipowners will have to monitor and report the verified amount of CO$_2$ emitted by their large ships on voyages to, from and between EU ports. Owners will also be required to provide other information to determine the ships’ energy efficiency.

Given that the majority of global shipping lines have some trades into the EU, this scheme will capture a significant proportion of the global shipping industry. The EU initiative goes further than the IMO remit and appears to be reasonably transparent, with a clear requirement to capture, or at least estimate relatively accurately, cargo weights and volumes in order to allow an assessment of energy efficiency in addition to measurement of fuel consumption. This is crucial for shippers and the GSF has participated in the European Commission’s working group on MRV.

However, shipping interests are concerned it is a double regulation given that IMO is developing
its own MRV scheme. As a result, the EU scheme contains a clause that states that in the future it could be modified to reflect an IMO scheme that applied to all ships worldwide. In May 2016, the International Chamber of Shipping (ICS) began a campaign calling for the MRV regulation to be abolished on the basis that the IMO’s agreed data collection system is satisfactory and that a global framework must be adopted.

GSF understands the need for a global approach to carbon reduction but notes the positive elements of the MRV scheme encouraging suitable metrics to assess ship energy efficiency.

**Maritime sulphur emissions – update on global cap and cost implications**

Ships emit a large amount of sulphur oxides that have significant health impacts. Sulphur is at the origin of many particulate matters that epidemiological studies have consistently linked with a range of illnesses, including pulmonary diseases and premature death.

Ships generate approximately 5-10 per cent of all man-made sulphur oxide emissions at a global level. Studies have estimated that, because the vast majority (70 per cent) of these emissions occur within 400km of coastal communities, around 60,000 early mortalities each year are attributed to shipping emissions, mainly in the seaside areas of East Asia, South Asia and Europe.

To mitigate these, international regulations cap the sulphur content of ship fuel. Since 1 January 2015, ships trading in designated Emission Control Areas (ECAs) have been required to use on-board fuel oil with a sulphur content of no more than 0.10 per cent (regulated by the IMO under the MARPOL Convention Annex VI). The ECAs are the Baltic Sea area; the North Sea area; the North American area and the United States Caribbean Sea area.

Outside the ECAs the current limit for sulphur content of fuel oil is 3.50 per cent. However, this will fall to 0.50 per cent m/m (by mass) on and after 1 January 2020. The 2020 date is subject to a review by IMO, to be completed by 2018, as to the availability of the required fuel oil.

Depending on the outcome of the review, this date could be deferred to 1 January 2025. The IMO Marine Environment Protection Committee is expected to rule on this issue in its meeting in October 2016.

The International Transport Forum published a detailed report in May 2016 (Reducing Sulphur Emissions from Ships: The Impact of International Regulation) which sought to estimate the compliance cost of this regulation. The report concludes that shipping costs could increase between 20 per cent and 85 per cent, depending on the assumptions regarding speed, fuel price and ship size. The relatively large margin is due largely to the uncertainty surrounding the availability of low-sulphur ship fuel.

Of particular concern to the GSF is the report’s conclusion that the 2020 requirements could add annual total costs in the order of USD 5 billion to USD 30 billion for the container shipping industry. Further, in the event of a postponement of the 0.50 per cent global sulphur cap to 2025 maritime transport costs would still increase in the order of 4 per cent to 13 per cent. This is due to the fact that a 0.50 per cent sulphur cap will come into effect in European Union waters from 2020, irrespective of the introduction of the global cap.

In summary, this is a key emerging issue for GSF, and in 2016/17 we will follow developments closely, and seek members’ views in order to set a GSF policy position and agree how to engage on the issue at the IMO.
CCWG collaboration
The GSF is an Observer member of the Clean Cargo Working Group (CCWG), a leading global carrier-shipper initiative dedicated to environmental performance improvement in marine container transport through measurement, evaluation and reporting. GSF Head of Policy Alex Veitch attended the Observer session of the CCWG annual meeting in May 2016 to brief members on the latest developments on environmental data collection at the global and European level.

Aviation emissions
Aviation is a key enabler of global economic growth and social development; however the sector also needs to make a contribution to reducing carbon emissions. The sector has been more progressive than the maritime sector in terms of establishing reduction targets. The aviation industry under the International Air Transport Association (IATA) has established ambitious targets to reduce carbon emissions from aviation.

- A cap on aviation carbon emissions from 2020 (carbon-neutral growth)
- An average improvement in fuel efficiency of 1.5 per cent from 2009 to 2020
- A reduction in carbon emissions of 50 per cent by 2050, relative to 2005 levels

The International Civil Aviation Organization (ICAO) is also under a global obligation to develop a market based measure for aviation to reduce carbon by the end of 2016. It has agreed a comprehensive strategy to progress technology, operations and alternative fuels to reduce emissions. There are four areas of action identified to reduce emissions.

- Investing in new technology (including sustainable aviation biofuels)
- Flying using more efficient operations
- Building and using efficient infrastructure
- Applying effective, global market based measures

Mandatory offsetting has emerged as the MBM to be introduced. In December 2015, ICAO’s President set out a draft structure for offsetting to apply to aircraft operators with the distribution of obligations based on a 100 per cent sectoral share, meaning that each operator will offset the same percentage of their emissions, determined by the growth in the sector’s total emissions above an agreed baseline. However, there will be route based phase-ins and de-minimis exemptions.

GSF is concerned about the cost of offsets and the likelihood that it will be passed onto cargo and passenger customers. We will be engaging with airline interests to minimise the impact and explore ways of ensuring that the measures are proportionate and not disruptive to international trade, which is also a concern for ICAO.

GSF Secretary General Chris Welsh had the opportunity to discuss concerns directly with the Dr Fang Liu, the Secretary General of the International Civil Aviation Organization, while at the IATA Air Cargo Symposium. Dr Liu said that she welcomed greater participation of shippers in ICAO and was keen to strengthen and develop air cargo matters in ICAO.

ICAO has also agreed a CO₂ standard for new aircraft, which will require greater fuel efficiency. It will be brought before the 39th ICAO Assembly in September for political endorsement when the offsetting scheme needs to be adopted.

Finally, GSF participated in a special IATA (International Air Transport Association) air cargo footprinting meeting in September 2015. The Association has devised an air cargo carbon methodology to encourage shippers and airlines to report emissions in a consistent way. However, there is still work to be done to fully implement the methodology in practice.
Trade and transport liberalisation

The GSF is committed to opening up trade and transport markets. This is essential for the future development and growth of the global economy and, in particular, the promotion of open and competitive transport markets. GSF supports the WTO’s free trade principles, including the removal of subsidies, state aid and trade and non-tariff barriers, together with the promotion of fair competition, including the extension of WTO competition rules designed to promote free trade.

In December 2015 GSF Secretary General Chris Welsh was invited to participate in WTO’s Fourth Nairobi China Round Table discussions on trade facilitation. The China Round Table discussions are considered as an important mechanism to support the Bali trade facilitation process and the development of a rules-based multilateral trading system for Africa. The GSF participated in a joint UNCTAD/WTO session (Reaping the Benefits through Trade Facilitation Bolstering Competitiveness and Regional Integration). The Round Table included GSF, Mukhisa Kituyi, Secretary General of UNCTAD, the Minister of Trade and Industry for Uganda and the Federal Minister for Commerce for Pakistan. The GSF highlighted the benefits of entering into Free Trade Areas (FTAs), including the simplification of administrative procedures, single window arrangements to simply trade procedures especially related to land-locked countries. The GSF also raised non-tariff related barriers to trade in Africa, including shipping line/conference tariffs, surcharges and pre-port charges which increase the costs of Africa trading with the rest of the world. Freight costs can be seven times higher than freight costs for European and North American shippers. Encouragingly, there seems to be a growing realisation that such arrangements are a major impediment to African trade.

GSF also participated in the Asia-Pacific Economic Cooperation workshop on improving port and supply chains in Cebu City, the Philippines in November 2015. Represented by Sean Van Dort, Chairman of the Sri Lanka Shippers’ Council, GSF stressed that good connectivity is vital for shippers to enable them to compete internationally. GSF drew attention the World Bank and UNCTAD connectivity index and how good connectivity correlated with trade liberalisation, particularly in liberalisation of shipping services. GSF highlighted recent Australian and New Zealand Productivity Commission recommendations to remove liner shipping antitrust exemptions which were considered important in improving Australian and New Zealand international competitiveness.

GSF continues to work closely with the OECD and other business organisations, such as the International Chamber of Commerce (ICC), to promote trade facilitation. As outlined in more detail in this annual report GSF has contributed to ICC’s new guidance on Incoterms 2010 and the OECD Secretary General invited GSF to speak at the 2016 IFT Leipzig Forum on its on-going work in promoting efficient maritime and aviation supply chains.

For many years shippers have participated in the Consultative Shipping Group (CSG) discussions; a group of mainly European maritime and several Asian countries including Japan. The group has historically acted to resist protectionist measures in shipping markets. The CSG has also discussed various shipping reforms including the EU repeal of the liner conference block exemption, the US OSRA reform and liability conventions. GSF participated in the last US/CSG discussions and will participate in the next biennial dialogue in Washington DC in September 2016.

ICC Guide on Transport and the Incoterms 2010 Rules

The Incoterms 2010 rules were written to provide standard solutions for the division of costs, tasks and risks between the seller and the buyer, in relation to the sale of goods where the contract implies that the goods are to be transported from the seller to the buyer. Consequently, when delivery is made the sales contract will usually involve a separate contract of carriage with an independent transport carrier. Over 18 months the International Chamber of Commerce has been working on a new guide to illustrate some of
the issues that arise in the interface between the Incoterms 2010 rules and the contract of carriage, and to give guidance to sellers and buyers on how to deal with these issues. The guide points out the difference between sale of goods law and transportation law. The former is largely subject to freedom of contract covered by the Vienna Convention on Contracts for the International Sale of Goods (the CISG) and competition law, whereas in the area of carriage of goods there are a large number of international conventions.

Rohan Masakorala represented shipper interests and GSF on the ICC working party established to develop the guidelines. Rohan is associated with the Sri Lanka Shippers’ Council and a former Secretary of the Asian Shippers’ Council.

GSF will distribute the new guidelines when they become available later in 2016 and plans to arrange a series of seminars and webinars to promote wider understanding of Incoterms and their interaction with carrier contracts of carriage.
## Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>ACC3</td>
<td>Air cargo or mail carrier operating into the EU from a third country airport</td>
</tr>
<tr>
<td>ACCC</td>
<td>Australian Competition and Consumer Commission</td>
</tr>
<tr>
<td>ACCF</td>
<td>Air Cargo Carbon Footprint</td>
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<tr>
<td>AEI</td>
<td>Advanced Electronic Information</td>
</tr>
<tr>
<td>APEC</td>
<td>Asia-Pacific Economic Cooperation (forum of 21 countries)</td>
</tr>
<tr>
<td>APSA</td>
<td>Australian Peak Shippers’ Association</td>
</tr>
<tr>
<td>BIMCO</td>
<td>Baltic and International Maritime Council</td>
</tr>
<tr>
<td>BSC</td>
<td>British Shippers’ Council</td>
</tr>
<tr>
<td>CAA</td>
<td>Civil Aviation Authority (UK)</td>
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<tr>
<td>CCWG</td>
<td>Clean Cargo Working Group</td>
</tr>
<tr>
<td>CEFIC</td>
<td>European Chemical Industry Council</td>
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<tr>
<td>CSG</td>
<td>Consultative Shipping Group</td>
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<tr>
<td>CSG</td>
<td>Clean Shipping Index</td>
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<tr>
<td>CSI</td>
<td>Clean Shipping Index</td>
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<tr>
<td>ECA</td>
<td>Emission Control Area</td>
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<tr>
<td>EEDI</td>
<td>Energy Efficiency Design Index</td>
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<tr>
<td>ESC</td>
<td>European Shippers’ Council</td>
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<tr>
<td>ETS</td>
<td>Emissions Trading Scheme (EU)</td>
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<tr>
<td>EU</td>
<td>European Union</td>
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<tr>
<td>FIATA</td>
<td>International Federation of Freight Forwarders Associations</td>
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<tr>
<td>FMA</td>
<td>Freight Management Association of Canada</td>
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<tr>
<td>FMC</td>
<td>Federal Maritime Commission (USA)</td>
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<tr>
<td>FTA</td>
<td>Freight Transport Association (UK)</td>
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<tr>
<td>GACAG</td>
<td>Global Air Cargo Advisory Group</td>
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<tr>
<td>GCF</td>
<td>Green Climate Fund</td>
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<tr>
<td>GHG</td>
<td>GreenHouse Gas</td>
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<tr>
<td>GLEC</td>
<td>Global Logistics Emissions Council</td>
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<tr>
<td>GSF</td>
<td>Global Shippers’ Forum</td>
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<tr>
<td>HKLSA</td>
<td>Hong Kong Liner Shipping Association</td>
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<tr>
<td>HKSC</td>
<td>Hong Kong Shippers’ Council</td>
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<tr>
<td>IATA</td>
<td>International Air Transport Association</td>
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<tr>
<td>ICAO</td>
<td>International Civil Aviation Organization</td>
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<tr>
<td>ICC</td>
<td>International Chamber of Commerce</td>
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<tr>
<td>ICHCA</td>
<td>International Cargo Handling Co-ordination Association</td>
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<tr>
<td>ICS</td>
<td>International Chamber of Shipping</td>
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<tr>
<td>ILO</td>
<td>International Labour Organization</td>
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<tr>
<td>IMO</td>
<td>International Maritime Organization</td>
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<tr>
<td>IMO MSC</td>
<td>International Maritime Organization Maritime Safety Committee</td>
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<tr>
<td>ITF</td>
<td>International Transport Workers’ Federation International Transport Forum</td>
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<tr>
<td>JFTC</td>
<td>Japan Fair Trade Commission</td>
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<tr>
<td>MBM</td>
<td>Market-Based Measure</td>
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<td>MEPC</td>
<td>Marine Environment Protection Committee</td>
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<tr>
<td>MOFCOM</td>
<td>Ministry of Commerce, People’s Republic of China</td>
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<tr>
<td>MRV</td>
<td>Measurement Reporting and Verification</td>
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<tr>
<td>NITL</td>
<td>National Industrial Transportation League (USA)</td>
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<tr>
<td>NVOCC</td>
<td>Non-Vessel Operating Common Carrier</td>
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<td>NZSC</td>
<td>New Zealand Shippers’ Council</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<tr>
<td>SOLAS</td>
<td>Safety Of Life At Sea</td>
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<tr>
<td>SSI</td>
<td>Sustainable Shipping Initiative</td>
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<tr>
<td>TEU</td>
<td>Twenty-foot Equivalent Unit</td>
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<tr>
<td>TIACA</td>
<td>The International Air Cargo Association</td>
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<tr>
<td>UCC</td>
<td>(European) Union Customs Code</td>
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<tr>
<td>UN</td>
<td>United Nations</td>
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<tr>
<td>UNCC</td>
<td>UN Climate Change Conference</td>
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<tr>
<td>UNCTAD</td>
<td>UN Committee for Trade and Development</td>
</tr>
<tr>
<td>UNECE</td>
<td>UN Economic Commission for Europe</td>
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<tr>
<td>UNFCCC</td>
<td>UN Framework Conference on Climate Change</td>
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<tr>
<td>VGM</td>
<td>Verified Gross Mass</td>
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<tr>
<td>VSA</td>
<td>Vessel Sharing Agreement</td>
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<tr>
<td>WCO</td>
<td>World Customs Organization</td>
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<tr>
<td>WSC</td>
<td>World Shipping Council</td>
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<tr>
<td>WTO</td>
<td>World Trade Organization</td>
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The Global Shippers’ Forum (GSF) is the international non-governmental trade association representing the interests of shippers as users of international freight services on regulatory, operational, and trade issues concerned with all aspects of the global supply chain covering all modes of transport.

The membership of the GSF comprises regional and national shippers’ associations from over 20 countries from the world’s main trading regions, covering the majority of goods shipped by sea, air, road and rail.

GSF mission

The goal of the GSF is to promote policies that reflect competitive and efficient global freight transport and logistics systems, including the promotion of safe, secure and environmentally sustainable international transport operations through dialogue and cooperation with national governments and inter-governmental organisations.