**IMO Audio:** [00:00:00] Bold actions are required to reduce GSG emissions and combat climate change.

**Danielle Jalowiecka:** October's decision to delay by a year, a landmark deal to cut global shipping emissions caused headlines around the world. As well as uncertainty for the maritime industry, we remain committed to delivering on our emission reduction goals.

It would've seen shipping become the world's first industry to adopt internationally mandated targets to reduce emissions. However, negotiations ended with no final agreement reached as consensus amongst countries couldn't be achieved. This is alongside the podcast from North Standard for the shipping industry.

I'm Danielle Jalowiecka In this episode, we look at the impact of that delayed deal and focus on the eus legislation to try and help achieve its net zero ambitions known [00:01:00] as fuel eu. Let's begin back in London in October when more than a hundred countries are gathered to try and approve a deal. First agreed in April.

In and around those talks was North standards. Mark Smith. Loss prevention director, decarbonization. Mark, it sounds like that week in London was an interesting one to be part of. Could you share a little more on the political tension in the room and the outcome?

**Mark Smith:** There wasn't much certainty on the decisions which were gonna be made.

There was, you know, a lot of uncertainty around how the votes would. The outcome of that was basically the can has been kicked down the road a little bit. In effect, we're gonna see delays before the next phase will be coming in, and we'll probably see some development between them. But from what I gather the next week that followed on from that, there was a little bit of, you know, optimism as those continued to look at how they can adjust the guidelines to move forward with as much [00:02:00] certainty as possible under this period of uncertainty.

**Danielle Jalowiecka:** And so where does that leave the industry and the interim?

**Mark Smith:** With any of these things, it can take time. You know, we're not sure that it's gonna be adopted the next year. We need to correspond with our members and discuss with them of what's happened. And the majority view that we can see is that the IMO is where the regulation needs to happen and needs to happen on a global basis.

We need to see that moving forward. Obviously there was some uncertainty how the AU would integrate with this, you know, and, and that's still uncertainty is carried forward. Countries were against the means of decarbonization, but the IMO is principally being identified by our members as a method to correct that.

**Danielle Jalowiecka:** And so what about fuel EU maritime and its impact?

**Mark Smith:** It means that the fuel of your maritime, there is some members sitting there waiting for the outcome of the IMO on a global basis. Whereas the fuel of your maritime is, is the real teeth and the regulation that are now gonna bite and take [00:03:00] members forward into the next stage.

So now members are gonna be looking at the fuel of your maritime to decarbonize, whereas they were perhaps a little bit unsure whether it was gonna be the fuel of your maritime or the I-M-O-N-Z-F or ZNZ, whichever you'd like to refer to it. Was going to carry them for the next period. So it also gives us a little bit of clarity as we move forward into this next stage.

And we know that over the next year, the fuel your maritime pooling mechanism is gonna become a big way of achieving decarbonization targets in the EU and therefore having a non-ED impact to our members in the shipping industry as a whole.

**Danielle Jalowiecka:** Maximilian Schroer is the Co CEO of Better Sea. Alongside Gordana Illitch Max left Maersk in 2023 to create the organization which has been recognized for its extensive expertise in the field of maritime, decarbonization, and related regulations.

Max, the [00:04:00] decision to delay the IMO deal has put a sharper focus on fuel eu. Can you tell us more about it and how it works?

**Maximillian Shroer:** Fuel U is a regional regulation and is in fact the first regulation that looks at the emissions in a more comprehensive way. It looks at it from a well to wake perspective, so it takes in all of the supply chain emissions of the fuel, and it looks at it from a $CO_2$ equivalent perspective rather than just $CO_2$ emissions.

So it also takes in other greenhouse gases.

**Danielle Jalowiecka:** And why do you think it's an attractive option?

**Maximillian Shroer:** Fuel U is somewhat the first regulation that actually allows shipping companies to monetize their investment in alternative fes. It's the first regulation that came up with the so-called idea of pooling, where essentially, uh, a vessel that is over compliant with the regulation, it creates what we call surplus because it used alternative fuels because it used, [00:05:00] uh, entre power supply or any inter assistor propulsion can then offset.

Under compliant ship. So a feor that just operates as usual on fossil feuds. Before this, uh, pooling scheme, the only option to actually monetize the use of alternative feuds was the voluntary carbon market. So here any book and claims schemes, et cetera. And I think, um, being able to understand how this pooling scheme works and then being able to utilize it is a real opportunity for the shipping companies to be ahead in terms of maritime decarbonization.

And that's why I think this is an attractive option.

**Danielle Jalowiecka:** Hmm. And tell us more about the pooling process. How does that work?

**Maximillian Shroer:** The pooling itself is quite tricky. So while it does not come with any technical challenges similar to biofuel, it does come with new challenges for the shipping companies. These are mostly legal and financial challenges.[00:06:00]

So it's very important that you address this pooling in a strategic way, which means that first and foremost, you as a shipping company would need to think about what is my current exposure, right? So what is my deficit? What is my potential surplus? If I know that, then I want to go on and decide what is my cheapest option to mitigate this.

If this is pooling, then I need to ask the next step, find someone who actually has surplus to sell to me, or who has deficit and is interested in buying surplus from me. If that is the case, I always refer to this as the simple problem under fuel, you finding someone because it's actually way more tricky to execute such a deal.

'cause the next step is that. When you trade such a surplus, you trade it based on non yet generated surplus throughout the year. You are [00:07:00] consuming fuel, you are generating surplus. But this phrase generating is actually misleading because in the end. Whatever you do after the trade may still change the surplus you have generated because it is based on the annual fuel consumption and not only what you have done so far.

So let's take an example where if you consume 500 tons of HFO now plus a bit of biofuel, you have generated some surplus and you can sell it media. Then if you continue to only consume fossil fuels, your surplus will go down again. So in fact, what you have initially sold will not be existing anymore, and that requires you to have a strong legal and financial framework around it.

So you need to create a contract that is waterproof. When it comes to liabilities of non-delivery, you need to. In the best case, not directly transfer the money to the seller before you actually know whether the surplus exists [00:08:00] as planned, and that you only know by the end of March of the following year when the EMRV data verification happened.

I. Then after you have done this trade and before this reported, you would want to track all of this and make sure that if anything happens, you have the option to mitigate it. So how does a company track it? It all comes down to data, and that's as usual the most important part here in shipping and in emissions management.

So you will need to have the right data underlying these tracking functions. And then the next thing is transparency. Often shipping is not very well known for, uh, happily sharing data, but here it is very important to have this transparency between the companies that have generated or engaged in such a pool.

'cause only then you can make sure that the pool works out as planned.

**Danielle Jalowiecka:** Let's take a look now at how the delay to the IMO deal affects the [00:09:00] different fuels involved and their introduction, Mark.

**Mark Smith:** Early suggestions, you know, are that perhaps the B 100, which were in favor with the IMO system may not be required with the the fuel your Maritime.

But I've seen recent statistics showing that the actual gap in B 100 fuels, particularly in the Rotterdam and Europe regions, has actually closed. So therefore. B 100 and biofuels may be used. So biofuels in general basically is what we're seeing. Obviously LNG comes into favor and then things, you know, like bio methane, et cetera, et cetera.

And obviously this is not necessarily shutting the door on other lower carbon fuels, you know, such as ammonia, methanol, and, and other technologies out there and other alternative fuels out there. But obviously they are a lot more reliant on vessel conversions, whereas, you know, biofuel as a drop in fuel can be very easily used.

LNG has been seen for some time as a transitional fuel, and we don't see that changing. And particularly, and something [00:10:00] that Maximilian will probably go into in more detail is how that's looked into from the pooling environment and you know, companies building up surplus, et cetera, et cetera.

**Maximillian Shroer:** Good points here, uh, mark.

In fact, I think it's worthwhile to outline that, uh, the Immo material framework and fuel EU were actually different in that case. Uh, especially when it comes to LNG and, uh, fuel EU, as Mark already alluded to, LNG creates a certain surplus in in the initial years. Uh, that can be used for a commercialization of the surplus for pooling for banking, et cetera.

Um, under the i'm o net zero framework, LNG was less favored. So this was also one of the discussion points that we had when we discussed I'm o versus Fuel You in general. So now to both of you.

**Danielle Jalowiecka:** How significant are fuel quality concerns here? What impact could poor or inconsistent fuel quality have on a p and i club and [00:11:00] operators?

**Mark Smith:** It's a very good question, and we constantly say that when we go to these fuel seminars around the world. Since IMO 2020, you know, five years ago when we went to lower sulfur fuels, a lot of people put their hand up and say, we, you know, we don't really see any problems with this fuel. I beg to differ, you know, as a p and I club, we don't ever get anybody phoning us up or giving a teams call saying, oh, we had some lovely fuel this last week.

It was great, you know, but we constantly get claims that come in. We get to see the, the bad end of the operations when the fuel is called delayed to the vessels, delays to cargo, potential sludging of purifier balls or, or filtration systems. So we do get to see the problems and what you've gotta remember is when we look back at IMO 2020, that was simply changing for.

One type of fossil fuel to another. When we move on to this next phase, we're talking about a vast difference in fuels that are used, training requirements and

and what it's gonna lead to. But if we just focus on biofuels for the minute, we've been [00:12:00] saying for some time that we don't expect the biofuel quality concerns to come from, you know.

The big tests. You know, we, we've seen a lot of trials take place and we know that the quality of the fuel provided for those trials is of a high standard. When we start seeing it displace across the rest of the globe and we get, you know, certain suppliers and certain countries supplying lower quality fuels, then that's where there becomes a problem.

And we honestly believe that's. Down to somebody wanting to make a quick book somewhere in the supply chain. Whenever there's a way to make money and somebody to put a lesser quality cutter stock into that mix, then that's gonna drop the quality of the fuel and it's gonna lead to potential problems.

That's where we're concerned when we look forward as a P and I club, that we're gonna expect to see these problems, and it's a little bit of an unknown territory. Even some of the experts out there are still struggling to grasp for the VLS of all problems, you know, post [00:13:00] 2020. So how long are we gonna see the problems continue with biofuels, and are we gonna see them accelerate.

**Maximillian Shroer:** From a fuel EU perspective of course, uh, there has been an uptake on the use of biofuels, uh, for the shipping. Companies, which of course then also increases the probability of such claims. On the other hand, for fuel EU, it is significantly important that the fuel has right certification so that it can be used. To comply with the regulation and we indeed had, uh, customers that unfortunately bought the wrong feuds in that sense, non-certified feuds, and that could not be used for the regulation.

**Danielle Jalowiecka:** So let's return to where we started and the postponement to that deal in October, 2025. What's next with regards to the agreement on emissions? And what challenges remain in getting more countries to commit to meeting these targets? [00:14:00] Mark.

**Mark Smith:** Well, I, I think that's, that's a big challenge. I think, you know, over the next year we need to see real focus as, as we've highlighted before earlier, our members, which speak for quite a large proportion of the shipping community, have expressed their concerns, you know, over the IMO system being developed correctly and being in place as we want it to be.

I think everybody, you know, there was a lot of. Countries in agreement. If we borrow some of the oil rich nations, they're in agreement with the IMO in principle taking place, and they're agreeing with the methods in some cases of it happening. However, things like how the funds are collected, you know, how it's carried out across the rest of the world, still need further thought and development.

Whereas the failure maritime is a little bit more developed in its state. You know, there's a lot more prescriptive there and it's been thought out a lot further, whereas the eye. O is still in a little bit of development and that has perhaps caused some of the, the reticence. I think, you know, at [00:15:00] the moment we have to concentrate on the eu, the fuel eu, how that's gonna impact emissions, but really let's hope for some sort of unity on a global basis as we move forward with the IMO.

So it's not just impacting ships coming in and out of Europe, but it's having a, a, a global impact across the globe.

**Maximillian Shroer:** I think with the delay of the IMO net zero framework, we will see more and more regional regulations coming up and the complexity of those will be increasing because, uh, we discussed fuel U and EETS before and Fuel U you will be looking at CO2 equivalents and well two wake under the ETS.

For example, you're looking at only CO2 emissions and tank to wake. So here you already have differences in just two regulations. You do have different emission factors here as well. If you now imagine this happening for 10 different regional regulations, then especially the smaller shipping companies really need to be ahead of the curve and [00:16:00] like try to understand all of these whenever they go with the ship to that specific.

Country or region. On this episode of Alongside, we've explored the fallout from the delayed IMO Decarbonization deal, and examined how this has shifted attention towards the eus fuel EU maritime regulation.

**Danielle Jalowiecka:** Thanks to North Standards Mark Smith for outlining what the next step is for the industry and to Maximilian surer from bettered for explaining how fuel EU works, why it's well to away emissions approach is significant, and how its pooling system allows companies to monetize alternative fuel use.

Looking ahead. Mark and Maximilian warned of the growing complexity of regional regulations and the urgent need for global alignment to avoid a fragmented development of laws and rules. Join us next time on alongside when we continue to explore key topics affecting the maritime industry and those who are part of [00:17:00] it.

Click follow on this podcast to ensure you don't miss an episode from me. Danielle Yake. Thank you for listening.