

Zero emissions to drive profound change in shipping business model



Meeting 2030 emissions targets will be easy compared to the following 20-year period when shipping is aiming to reach net zero emissions targets, which will require a sea change in the way maritime business is done.

[Nick Savvides](#) | May 07, 2024

Fundamental change in the maritime business model, said Danish Ship Finance (DSF) in its latest bi-annual report, driven by global emission targets will shake up the investor base and alter the composition of the global fleet.

The 2030 targets can be achieved through the optimisation of current vessels and the operating companies' commercial structures. Whereas meeting the far more stringent 2050 targets will require new ships and new fuels. And to achieve the critical element necessary to achieve these challenging targets means

companies will need, “The ability to innovate income models,” even for the less challenging 2030 targets.

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However, “Fundamental changes to the strategic imperative of the industry’s commercial structure will be needed before 2050. To reach [net zero](#) by 2050, we may need to rethink how value is created from vessel ownership. Vessels as an asset class may begin to reward investors with a stable long-term yield on invested capital,” said the report.

According to DSF the maritime sector is “pivotal” to connecting the global economy and enabling trade flows in the most cost-effective manner.

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DSF argues: “Ships are built to trade for between 20 and 30 years. The industry is well positioned to handle regional shifts and global imbalances, but the life expectancy of its fleet exposes it to megatrends such as decarbonisation and electrification.”

Decarbonisation will necessarily mean rising newbuilding and new fuel costs which in turn could see the volumes of goods shipped decline: “Critical seaborne volumes are likely to be phased out even during periods of economic growth.”

Such a decline over the coming years puts several key maritime sectors at risk of significant decline from 2030 onwards.

“Vessels transporting fossil fuels (representing close to 40% of seaborne trade volumes) and chemicals, large container vessels and those transporting iron ore are likely to be significantly exposed,” claimed DSF.

As a result of these seismic changes the volatility of rates is expected to increase as owners adapt to declining demand and over-capacity.

In this scenario DSF said: "It will be challenging to renew fleets and adapt to higher costs during periods of low earnings."

With the transition to low emission fuels in full swing new vessels will be ordered ushering in a period of over-capacity and lower freight rates as existing fleets attempt to navigate the reality of declining demand and growing capacity, with existing vessels particularly exposed.

"Fleets servicing long-term cargo contracts create value for investors through their cash flow yields, while vessels trading spot are more likely to create value through the asset game."

As the market shifts the "investor landscape" will also alter with traditional maritime investors seeing long-term contracts owned by institutional investors that have long-term investment goals.

Regulatory intervention is transforming the fundamental basis on which the maritime sector operates, with the development of new expensive fuels only possible if operators commit to long-term agreements.

"This is an important observation since the asset game seems unlikely to play a major role in a future where vessels and cargo are bundled and pre-booked for ten to 15 years."

Investments in the sector will require a view on the combined cost of ownership and operation. With emphasis on counterparty risk and will be "subject to the cargo owner's credit quality".

"Many existing players will likely find such an outlook extremely unattractive, since many shipping investments thrive in times of high volatility. The good news, though, is that it will allow the industry to drive down absolute emissions to net zero by 2050," concluded DSF.

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