

New Regulations – IMO 2020

While the world has been enthralled by the US-China trade war, another extremely demanding situation is appearing on the horizon in the logistics industry — the International Maritime Organization prepared the legitimate basis for a maximum limit of the ratio of sulfur in marine diesel in 2015. The implementation of this regulation from January 2020 onwards will cost carriers at least USD 15 billion per year. IMO Sulfur 2020 (IMO 2020) will limit the sulfur content of ships' oil and has far-reaching consequences throughout the environment and the global economy, affecting consumer products, public health and even politics. The regulations will go into effect on Jan. 1, 2020, but our customers and carrier partners must prepare now if they hope to mitigate the effects of the regulations on their businesses.

Why are such aggressive regulations necessary?

The shipping industry is one of the greatest contributors to pollution and carbon emissions on the planet: maritime shipping consumes 4.4M barrels of oil per day, accounting for 5–10 percent of the oil consumption attributed to the entire transportation sector. Further on, international maritime transport is responsible for approximately five to ten percent of global oil consumption. Most ships use oil that contains 3.500 times more sulfur than typical automotive diesel, which leads to lung and respiratory diseases among the population in the port cities. A study on the human health impacts of SO₂ emissions from ships, submitted to IMO's Marine Environment Protection Committee (MEPC) in 2016 by Finland, estimated that by not reducing the SO₂ limit for ships from 2020, the air pollution from ships would cause more than 570,000 additional premature deaths worldwide between 2020–2025. In addition to poor health, sulfur oxide emissions cause ocean acidification, damage to crops, and even drastic weather changes that trigger lightning storms along highly-trafficked shipping routes (source: Sulphur 2020 – cutting Sulphur oxide emissions, IMO; 2019)

Not all carriers want to change to low-sulfur fuel due to the high cost. Alternatively, gas scrubbers could be installed. Gas scrubbers are mechanical exhaust gas cleaning systems, which are installed on the ships themselves to "wash" the exhaust gases. They can be used in different variants: one that allows the residues to be discharged into the sea. Another that leaves residues for disposal. Furthermore, the LNG-technique (Liquefied Natural Gas) can be used, LNG is produced at minus 162 degrees Celsius and is the cleanest fossil fuel. Vessels would function as hybrids which besides LNG also use MDO (Marine Diesel Oil). The diesel is used as a reserve in case of failure of the LNG system, as well as to start the machines.

How will IMO 2020 affect shippers and everyday consumers?

Higher integral shipping rates including the new additional for low-sulfur fuel will mean increased prices for consumer goods.

Compliance is estimated to increase the cost of port-to-port moves by 10–20 percent, which will likely be paid for by the end users. To put things in perspective, shipping television sets from Shanghai to Los Angeles will cost shippers approx. \$ 0.50 more per unit. Consumers, with no control whatsoever over how the products they buy are transported, will subsequently face higher prices.

Capacities and service disruptions

Re-equipping of vessels to LNG or scrubbers will cause both temporary and permanent effects that will force carriers to reduce their total capacity by 1 – 1,5 % . Temporarily, capacity will be reduced by four to five percent, as a result of the amount of time vessels will be out of commission while scrubbers are installed, and a subsequent increase in the number of blank sailings might also follow. (source: Rolf Habben Jansen, Alphaliner: Volume 2019 issue 13)

Around 5 % of the vessels will have to be equipped with filters and therefore will temporarily not be at the disposal of the carriers. In the long term, less than two percent of capacity will be permanently

reduced because scrubbers and LNG tanks occupy additional space on the vessel. However, vessels older than 20 years will be phased out or “scrapped.”

As a known fact, the so-called slow steaming, where carriers slow down ship speeds to conserve fuel, will be used as a means of cost optimization. Of course this will further restrict capacities because of simultaneously increasing transit times. Additionally the carriers will have to clean their bunker tanks in order to be prepared for the new motor fuel, again leading to reduced tank capacities, so bunkering will happen more often. Productivity of container vessels will be reduced for sure. As per today 55 container vessels with a scrubber will be delivered shortly, another 540 units have already been ordered. The number of vessels which have to be retrofitted is still unclear. Many Carriers will switch to "Low Sulfur" from Q3 in order to comply with the new legal requirements from 01.01.2020.

How are carriers preparing for the new regulations 2020?

In September, Maersk determined that IMO 2020 will cause additional cost of USD 2 billion (approximately USD 100 – 175 per TEU, depending on length of journey), and announced its plans to shift those increased fuel costs onto its customers before the regulations take effect. Hapag Lloyd will adjust their surcharges as of Q3. Other carriers are following suit which is creating a ripple effect in the industry and impacting companies that now have to deal with these new fees on top of tariffs.

There are only three ways to meet IMO 2020 standards and compliance will be prohibitively expensive. Shippers will be forced to absorb these costs.

1. Buy cleaner fuel

Ships can make the switch from high-sulfur fuel oil (HSFO) to marine gas oil (MGO). This is the easiest and quickest solution, but will likely lead to an MGO fuel shortage if most carriers choose this option. MGO is approximately 50 percent more expensive than HSFO. At the moment no statement can be made, due to the non-existence of a trading place for this fuel and no currently attainable information about where the fuel will be available and when.

2. Install scrubbers

Vessels can continue using HSFO as scrubbers to clean their exhaust gas. However, scrubbers are a patchwork solution based on nascent technology and the industry has yet to create a set of standards. They can take four to six weeks to install, are only made by a limited number of manufacturers, and can cost between USD 5 – 10 million depending on the size of the vessel. Capacity crunch and cost aside, the most important question every carrier needs to answer is how they'll responsibly dispose of the sludge produced by scrubbers.

3. Order liquified natural gas ships

Ships that run on LNG will drastically decrease pollutants, however, LNG tanks could also exasperate capacity crunches as they take up almost three percent of a vessel's TEU slots, whereas scrubbers only occupy at most 0.3%. In the long term, LNG ships take years to be built and retrofitting current vessels to burn LNG is expensive. Should more shipping lines acquire LNG ships, they would face a lack of LNG “gas stations” along major routes and would depend on the mercy of fluctuating global oil prices.

The only way to get ahead: start planning now

Shippers must be prepared for the cost increases. The price adjustments can occur before 01.01.2020, in some cases already with a lead time of five months. The costs for the carriers will increase by about 15 – 20 % and will be passed on directly to the shipper of the goods. Due to the mentioned reasons for the reduction of the capacities, many blank sailings and conversion of the services must be expected, which will lead to a tense booking situation till the end of 2019.

The already maintained surcharge such as "ECA's" – Emission Control Areas / coastal waters in the EU, CAN, US, CN – in which only 0.1% sulfur content in fuel is permitted remain unchanged.

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For any further information please do not hesitate to contact us at any time.

Kind regards

Your LESCHACO Customer News Team

Lexzau, Scharbau GmbH & Co. KG
Kap-Horn-Str. 18 | 28237 Bremen | Germany
Phone: (49) 421.6101.0

news@leschaco.com

www.leschaco.com

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