

IMO 2020: What you need to know

As of **January 1, 2020**, the global limit for **sulphur content of ships' fuel oil** on the high seas will be lowered from 3.5 to 0.5 percent according to regulations issued by the **International Maritime Organization (IMO)**. The new sulphur limit will decrease sulphur emissions in seafreight by 80%, with the aim of reducing health risks for humans and helping to prevent global warming. Due to higher fuel costs, the switch to cleaner fuels will lead to a **price increase on the part of carriers**. Shipping companies will not be able to absorb the increased costs and will therefore **pass them on to end customers**.

The following overview is intended to provide a better understanding of the impact of this regulation and help you plan and optimize your shipping.

What options do carriers have to comply with this rule?

- Usage of compliant fuel (max. 0.5% SO_x emissions in exhaust)
- Usage of LNG (Liquefied Natural Gas) as alternative fuel
- Usage of filter systems for exhaust, so-called "scrubbers"

What are the positive, negative and cost factors of the above options?

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Compliant fuel	Most environment-friendly Availability in the market No major investment in vessels	Higher fuel costs Compatibility issues	Est. 200 USD / t higher
LNG	In line with next emission restrictions Lower fuel costs	Highest investment costs Network for bunkering Less cargo capacity due to large tanks	Approx. 30 million USD / vessel
Scrubbers	Lower investment compared to LNG installation Further usage of heavy fuel (3.5%) Relatively short investment payback	Higher fuel consumption and emissions Washwater disposal in open loop scrubbers Short-term solution	Approx. 5 million USD / vessel

The estimated annual costs for the whole industry are 60 billion USD.

How will carriers calculate the increased costs?

Most of the carriers will consider the following factors to calculate increased bunker costs:

NEW BUNKER COSTS = BUNKER PRICE (0.5%) per t X TRADE FACTOR

The trade factor is based on: specific trade, distance traveled, average size of vessels, utilization.

What is the cost impact per TEU?

A clear figure has not yet been published. Based on the current information available in the market and cost estimations of the compliant fuel (200 USD per t higher compared to heavy fuel), the expected cost impact is 150-250 USD / TEU. These costs will vary across trades and cannot be specified in more detail at this moment.

When will these extra costs be charged?

The changes will become effective as of Q4/2019.

Are any other service disruptions to be expected, and what could be the consequences?

Around 30% of the global vessel fleet will be equipped with scrubbers, which require a certain time for installation. This means that the affected vessels will need to be temporarily taken out of service. In addition, vessels which will use compliant fuel as of January 1, 2020 will need to have their tanks cleaned before being filled with the new fuel, to ensure that no residue of heavy fuels is left. This, too, will require the vessels being taken out of service for a certain time.

It is expected that there will be an increased number of blank sailings in the market, especially in Q4/2019, and that the space situation will become very tight in combination with the early Chinese New Year (January 25, 2020). This can further result in reduced schedule reliability as well as possibly increased rates or an implementation of peak season surcharges (PSS).

We will keep you updated on this topic on a regular basis. If you have any further questions about this measure in the interest of environmental protection, our Sea Cargo team will be glad to assist you.