



Key Issues

The 2020 Global Sulphur Cap

On 1 January 2020 the UN IMO global sulphur cap will take full effect and will be strictly enforced by the world's Port State Control authorities.

The IMO Marine Environment Protection Committee (MEPC) reiterated at its meeting, in May 2019, that there is no possibility of delaying implementation of the global sulphur cap and the start of what will be a new multi-fuel future. The immediate priority for ICS has been to help shipping companies prepare for compliance, and to persuade IMO to adopt vital guidance to ensure a smooth transition, to prevent the possibility of ships being unfairly treated through no fault of their own.

Ships trading outside of existing sulphur Emission Control Areas (ECAs) will have to burn compliant low sulphur fuels. With the exception of a minority of ships that have elected to use LNG or install Exhaust Gas Cleaning Systems ('scrubbers'), the majority of ships will comply using a variety of fuels with a sulphur content of 0.5% or less. This is compared to the 3.5% sulphur content which has been permitted outside of ECAs since 2012.

The new IMO regime is fully supported by ICS. It will deliver dramatic reductions to the sector's sulphur emissions and significant environmental benefits, not least to the health of coastal populations. But notwithstanding ICS efforts to support successful implementation, this will be the regulatory game changer of the decade, with profound effects on the economics of shipping and the future structure of the industry. If implementation by governments and bunker suppliers is flawed there is also scope for some serious market distortion. It is also important to remember that the IMO decision to proceed in 2020 focused entirely on the likely availability of compliant fuel and took little account of the possible purchase price.

Apart from the significant additional cost of low sulphur fuel, implementation will be far more complex than for the previous introduction of ECAs. This is because of the sheer magnitude of the switchover and the much larger quantities and different types of fuel involved, as well as continuing uncertainties about the availability of compliant fuels in every port worldwide, immediately before and after 1 January 2020.

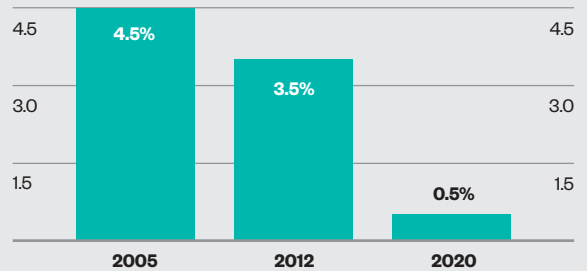
Fuel, by far, is a ship operator's greatest cost and the price of compliant fuels is expected to be expensive, perhaps 50% more than the residual fuel which most ships have been using for the past 40 years. It is currently understood that about half of the low sulphur fuels that will be available in 2020 may have a sulphur content of just under 0.5%, many

being new blends of distillate and residual fuels, with much of the remainder being 0.1% distillate fuels as currently used in ECAs. Although opinions differ, it is possible that the price differential between 0.5% and 0.1% fuel could in fact be relatively small, although this is likely to vary considerably between regions and from port to port.

The collective cost to the global industry could be in excess of US\$50 billion per year, with an additional price spike anticipated during the initial period of implementation due to continuing uncertainty about the availability of compliant fuels. Even if the cost of a barrel of oil stays at the lower levels which have applied since the significant price fall in 2015, the switch to low sulphur fuel in 2020 could mean that bunker costs for the majority of ship operators could return to their 2014 peak.

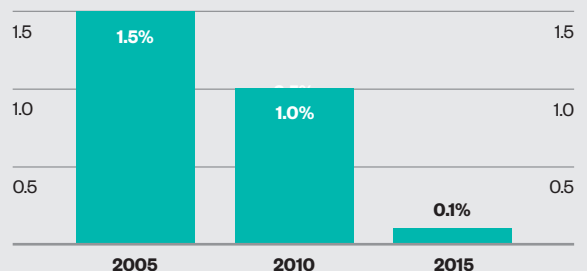
Global Sulphur Cap

Sulphur content of fuel permitted outside Emission Control Areas



IMO Agreement to Reduce Atmospheric Pollution from Ships

Sulphur content of fuel permitted inside Emission Control Areas





The global sulphur cap was agreed via amendments to Annex VI of the MARPOL Convention in 2009, but the 2020 date was not confirmed by IMO until 2016 and fuel producers and bunker suppliers have struggled to be fully ready. Now that 2020 is fast approaching, ship operators, oil refiners and bunker suppliers must urgently prepare for implementation.

The oil refining industry in particular will need to take important decisions to ensure that sufficient quantities of compliant fuel will indeed be produced well in advance of 1 January 2020. But governments will need to monitor this carefully, as it may be in the refiners' commercial interest to keep the supply of compliant fuel as tight as possible. Indeed, the high cost of refinery investment, and the patenting of new blended fuels, could increase the dominance of the oil majors in supplying marine bunkers.

As well as concerns about whether sufficient quantities of compliant fuels will be available in every port worldwide, the new blended fuel oils which many ships will use create complex operational problems, especially for ships in tramp trades which may not be instructed of their next port of call until shortly before they arrive. Concerns have also been raised about fuels, including these new blends, which will be compliant with the 0.5% sulphur limit but which may differ in their composition from supplier to supplier and from port to port, potentially leading to compatibility and mechanical problems.

In September 2018, ICS produced comprehensive Guidance on Preparing for Compliance with the Global Sulphur Cap which has been distributed free of charge throughout the industry and well received by ship operators. This ICS Guidance has also helped to demonstrate to IMO

Member States that, when raising legitimate concerns about fuel availability, safety and compatibility of new fuels, the industry is acting in good faith and not seeking to circumvent compliance when the new regime initially takes effect. This ICS Guidance has since been updated in 2019 to take full account of recent IMO decisions, including the various guidelines adopted by the MEPC, as well as model charterparty clauses issued by BIMCO and INTERTANKO.

ICS has been particularly concerned to ensure a level playing field for ship operators. While the vast majority of shipping companies will of course comply automatically, the global nature of the sulphur cap, and the challenge of checking compliance in the middle of the ocean, means that enforcement will be far more complicated than is the case in those sulphur ECAs which already exist in North America and North West Europe. ICS, in co-operation with other international shipowner associations, was therefore instrumental in persuading IMO, in October 2018, to adopt a prohibition on the carriage of non-compliant bunker fuels. This additional tool to help Port State Control inspectors check for potential non-compliance will take full effect on 1 March 2020.

In theory, in the margins of the industry, a ship registered with a flag state that is not a party to MARPOL Annex VI and which trades to a port located in another non-party, could potentially have evaded compliance. But with the IMO carriage ban adopted at the suggestion of the industry, any such ship can now be inspected for compliance as soon as it enters the majority of port states which are signatories to the global cap. These port states can then apply the IMO principle of 'no more favourable treatment' whereby compliance can still be checked, even if the flag state has



not yet ratified Annex VI. Data about any non-compliance will then be published by regional PSC authorities, exposing the vessel to further targeted inspections and reducing the ship's ability to secure future charters.

Most importantly, the MEPC has formally adopted extensive IMO Guidelines on implementation. As requested by ICS, this includes a template for ship specific Implementation Plans, on which the ICS guidance on compliance provides detailed advice.

While IMO has so far refused to accept industry requests for an explicit recommendation for some kind of common sense approach to Port State Control in the event of any 'teething problems' immediately before and after 1 January 2020, IMO has agreed that the use of a ship specific Implementation Plan, supported by appropriate documentation, can be taken into account by PSC inspectors.

Critical to the treatment of ships which, through no fault of their own, may initially be unable to operate using compliant low sulphur fuel will be the use of Fuel Oil Non Availability Reports (FONARs). With significant input from ICS, IMO adopted guidelines on FONARs in May 2019. However, while the possibility to use FONARs will be important during the early period of implementation, ICS has been keen to emphasise that they are only a tool of last resort that cannot be used routinely, and that decisions on issues such as when and how any non-compliant fuel must be removed from the ship will rest with the PSC authorities in the next port of call.

IMO has also approved guidance on best practice for fuel oil suppliers for assuring the quality of fuel oil delivered to ships, based on proposals submitted by ICS and the industry. In July 2018, the International Organization for Standardization (ISO) delivered a statement to IMO that the requirements of ISO 8217:2017 cover "2020 0.50% max. sulphur fuels in the same way as they cover today's fuels". ICS has therefore recommended that shipowners ensure that ISO 8217 is specified as the required standard when ordering 0.5% sulphur fuels for use after 1 January 2020.

At the IMO Maritime Safety Committee meeting in December 2018, IMO Member States considered a further ICS/industry submission concerning fuel quality and safety issues that may be elevated by the introduction of the sulphur cap and the use of new blended fuels. Based on this industry submission, IMO has agreed to develop further measures and to recommend that all Member States take appropriate action to ensure that fuel suppliers under their jurisdiction deliver compliant fuels.

At the MEPC meeting in May 2019, IMO Member States also gave preliminary consideration to an ICS/industry submission on the development of a global bunker supplier licencing scheme. This is partly based on the scheme developed for use in Belgian/Netherlands ports, as well as the successful licencing system which now operates in Singapore.

As recommended by IMO, it is particularly important that shipping companies prepare a ship specific Implementation Plan for each of their ships, taking account of the ICS Guidance and the indicative format that has been developed by IMO. Shipping companies need to prepare these plans as soon as possible, especially as they will need to start purchasing and loading compliant fuels several months in advance of 1 January 2020.

It is impossible to predict with certainty what will happen in 2020. There seems to be a growing consensus within the bunker industry that sufficient quantities of compliant fuels will probably be available, although they are likely to be expensive. While the industry is committed to full and immediate implementation, there could possibly be an initial period of supply problems when compliant fuel might not always be available in every port worldwide until it can be shipped in from elsewhere.

ICS is nevertheless confident that if a ship has a suitably developed Implementation Plan, and corresponding records are maintained on board which show how the plan has been followed, then the ship's crew should be in a better position to demonstrate to Port State Control officers that they have acted in good faith and done everything that could be reasonably expected to achieve full compliance.

