

# IMO 2020 – Low Sulphur Webinar

Please note all answers provided in this Q&A document is to be considered as guidance only basis feedback from Lars Jensen, Seaintelligence Consulting.

SGL stands at your disposal for a meeting if any further clarification is required.

On behalf of Scan Global Logistics.

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## Q&A

**Q: Do you have views on refineries shifting to Low Sulphur fuel production / outlook on supply increases in 0.5% fuel?**

A: Not in detail. My conversations with industry players indicate that there will be supplies, but to which degree this is due to shift to Low Sulphur production at the refinery stage or coming from blending I do not have solid information on.

**Q: I assume the heavy fuel will then get a price reduction because the market does not request it as much as Low Sulphur fuel?**

A: Not necessarily. The counter argument is that because the majority of demand will shift to Low Sulphur, the availability of heavy fuel must also decline to the point where it actually becomes under capacity constraint in some locations causing an upwards price pressure.

**Q: How do we ensure carriers' bunker cost recovery formula is in line with market and not used for profiteering?**

A: That is not possible to do "scientifically". The key is to not focus on the level of the bunker surcharge. In reality it does not matter whether the BAF is 100 or 400 USD. This is the starting level where you and the carrier should mutually agree – and if you think the BAF is more than compensatory, your negotiation should focus on the base rate and not the BAF. But what is really important is that if the fuel price increase by e.g. 10% then the surcharge should react in the same way as this is the dynamical risk element you are exposed to.

**Q: What is the expected extra cost per 20'/40', both outbound and inbound?**

A: That fully depends on trade lane and port/port combination hence no general answer can be provided.

**Q: Do you expect a separate Low Sulphur Surcharge to be implemented or will it be incorporated in the current "normal" BAF surcharge?**

A: I expect this to be one BAF covering all.

**Q: To me it looks like the majority of carriers have been neglecting the regulations because a smaller shipping line as DFDS have installed scrubbers in all their 20 vessels prior to 1st of Jan 2020.**

A: That is correct. The shipping industry in general waited to the very last moment to accept that this was indeed going to happen.

**Q: Can we expect delay in the implementation of IMO2020?**

A: No, that is very unlikely.

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## Q&A - continued

**Q: Could one of the reasons why the bunker formulas are different be that carriers have different size of vessels deployed as well as different trade patterns i.e. imbalance is different per trade and thus the fuel consumption per roundtrip divided by the TEU carried are different - and adding on top the different cost pictures for transporting the empty containers back to where the demand is? And then of course it is up to the carrier whether they split those cost 50/50 on the headhaul/backhaul leg or they split depending on the exposure they have on headhaul/backhaul.**

A: Different vessel sizes would lead to different levels of the BAF. Different exposure to trade imbalances would also have an impact, but for the main carriers on big trades, their exposure to the overall trade imbalance is almost the same. It is more down to how they choose to apportion the costs related to empty containers – and that is in reality a commercial choice.

**Q: Is there enough Low Sulphur fuel oil in the market to cover the demand?**

A: Indication presently are that yes, there will be sufficient supply. Especially in the main ports.

**Q: In practice, when carriers share capacity and they have different ways of charging (2M, for instance), how come the one on board a vessel of the other can charge its own?**

A: They have to. The carriers are by law prohibited from coordinating or aligning their BAF in any way.

**Q: Who will enforce carriers that they use scrubbers or correct fuel?**

A: That will be the maritime authorities in the individual coastal states where the vessels have a port call.

**Q: There are some bunker index options out there in the market; Drewry as an example. Is this a good option to use when negotiating bunker rates with customers and carriers?**

A: That is tricky because the carriers will be hesitant to be subject to a generalized formula which may actually not match the de-facto oil exposure they have on their own fleet.

**Q: Why is it OK to put the slug of sulphur in to the water and not into the air?**

A: I am no the environmental expert on this, but as far as I understand, the amount of sulphur released into the water this way is extremely small compared to the natural level of sulphur in seawater. The exception might be when doing it in confined waters in a port.

**Q: Is the price for Low Sulphur fuel cast in iron or could we expect that it might be going down?**

A: Clearly not cast in iron. It could move in any direction – much as other oil products.

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## Q&A - continued

**Q: Can we expect delay in vessel schedule and disruption in service integrity during the enforcement period?**

A: If the surcharges are passed on, we are unlikely to see any disruptions. If they are not passed on we are very likely to see a large number of service cancellations until the surcharges are effectively passed on. In neither case is this expected to have an impact on whether the vessels arrive timely.

**Q: Are the authorities in the different countries prepared for IMO 2020 in order to check the vessels?**

A: That is unclear. Experience from the ECA-zone implementation in the North Sea and the Baltics a few years ago would indicate "no". But the difference now being that the ban is a carriage ban – i.e. the authorities do not have to provide you are burning banned fuel – they just need to see that you have heavy fuel onboard whilst not having a scrubber. That makes it quite easy to enforce.

**Q: How do you expect the major container lines implementing scrubber, will expose of their scrubber sludge (open vs closed)?**

A: The vast majority of scrubbers are open loop.

**Q: How do you see the financial ability (risk) of major shipping lines already struggling, to implement more blank sailings, in the event carriers fail to implement IMO 2020?**

A: They would blank a lot more sailings. It is to some degree a replay of what happened in the wake of the financial crisis. Simply because they will not be able to bear the operational costs.

**Q: Do you know if any liners are making efforts to combine the necessary changes to meet IMO 2020 with the future regulations in regarding global warming?**

A: Right now this is mainly Maersk Line.

**Q: Do carriers update their IMO 2020 readiness regularly that customers can receive?**

A: Not to my knowledge.

**Q: Will this effect the Rail transportation too?**

A: Directly, no.