

IMO2020

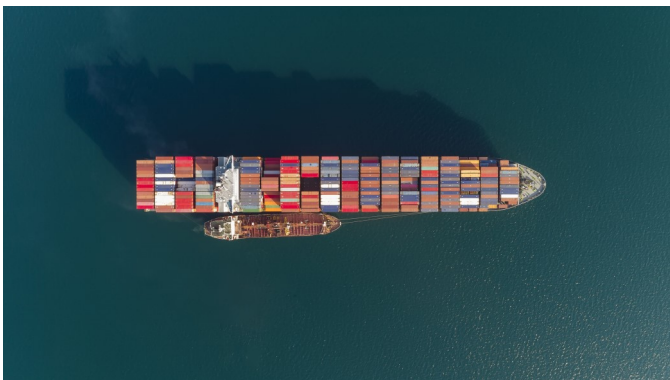
Low Sulphur Fuel Regulations and Impact Update

Regulatory Environment

Effective January 1, 2020 the International Maritime Organization (IMO), a division of the United Nations, has mandated that all ocean going vessels are required to adhere to IMO2020, which limits emissions of noxious gasses into the environment in the spirit of limiting global warming and improving the health of people and the earth. In order to achieve these emission controls vessel operators are required to adhere to one of three currently available options:

- ⇒ Use bunker fuels with sulphur content of maximum 0.5 pct (from 3.5 pct today)
- ⇒ Install emission scrubbers on vessels
- ⇒ Use Liquefied Natural Gas (LNG) as fuel for vessel engines

All ocean going vessels are required to comply, as non-adherence comes at the risk of not being allowed to operate in any UN member waters and ports. We fully anticipate that all container operators will comply with this new IMO regulation.



Impact on Container Carriers

From our recent discussions with all container carriers it has become clear that the majority of vessels will resort to burning **Low Sulphur Fuel (LSF)** in order to comply with IMO2020. The second option will be to install scrubbers, but that option is limited in that there is insufficient capacity at vessel yards to accommodate many vessels during the remainder of 2019, and many carriers are not willing and able to pull their vessels out of rotation for the 6-8 weeks required to install those scrubbers. The significant cost of scrubber installations is also a factor, as it is not necessarily a good investment for older or smaller vessels. Each container carrier has developed their own internal formula to help them decide on scrubbers' vs LSF bunkers.

The other available option is to install LNG ready engines and LNG storage tanks on the vessels. This apparently only makes commercial sense when ordering new vessels, as the conversion is prohibitively expensive. There are only a few dozen vessels with this capability at the moment, so only a very minor percentage of the total global fleet.

In order to comply on January 1, 2020 the container carriers will need to have their bunker tanks full of LSF only. The traditional high Sulphur bunkers will need to be burned off before. This means that the vessel operators will start to bunker LSF sometime during the second half of 2019 and the cost will increase effectively when that time starts.

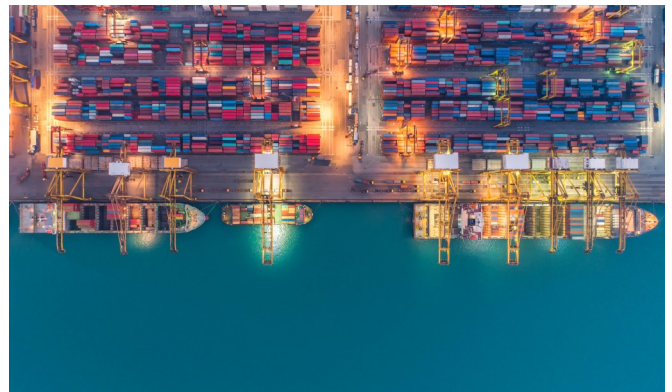
The cost of the required Low Sulphur Fuel (LSF) is still unknown at this early stage, but it is clear that this cost will be significantly higher than today's bunker prices. Carrier estimates range from \$100 to \$200 per TEU higher than today's bunker prices. All of our carriers have made it known that they are expecting this additional LSF cost to be absorbed by the 'cargo', which translates into shippers and consignees. Basically they will charge the ocean freight paying party for this additional cost, similarly to how BAFs have been charged. Nearly all carriers have been busy with developing their new Bunker formulae for each specific trade.

Agility Expectations and Actions

With the pending IMO2020 requirements quite clear and most of the container carriers' input in hand, we as Agility/Seaquest have prepared ourselves accordingly.

- ⇒ We are close to finalizing our new LSF bunker formulae for each trade as well and will publish those shortly. We are committed to a transparent LSF BAF approach.
- ⇒ The cost of LSF is very uncertain right now, and much will depend on the supply and demand ratio. It could well be that the supply of LSF will be quite limited in the early part of 2020, hence the costs may be significant, especially considering the limited availability of scrubber installations driving LSF demand up. We are optimistic that LSF cost will come down eventually once refineries have adjusted their LSF production capacities.

- ⇒ Due to the uncertain level of the LSF expense per trade, we are applying the LSF BAF without exception. We simply cannot afford to absorb this additional expense ourselves.
- ⇒ We currently already charge a Low Sulphur BAF for trades impacted by the ECA zones in Europe, North America, and China. These LSF charges will be rolled into our new LSF BAF latter part of 2019.
- ⇒ With the LSF BAF formula per trade in place we will advise our clients at the earliest available time of this specific variable cost factor each month
- ⇒ We expect the LSF BAF increase to become a factor towards the end of 2019, probably starting in September and October, with all carriers charging for their LSF in 4Q19 in all likelihood.



Agility is committed to offer transparent and market level BAF charges, and equally important, to keep our customers fully updated on what is transpiring on this important issue in the industry.



Contact Agility

Should you have any remaining questions please do not hesitate to contact your nearest Ocean Freight office at:

<https://www.agility.com/en/world-wide-directory/>