



# SAVINO DEL BENE®

Global Logistics and Forwarding Company



# IMO 2020

## WHAT YOU NEED TO KNOW

3.5%  > 0.5%

From January 1<sup>st</sup> 2020, all vessels will have to use marine fuels with maximum sulphur content of 0.5% compared to the current limit of 3.5%. The International Maritime Organization (IMO) has introduced the new regulation in response to heightening environmental concerns, to reduce marine pollution caused by the shipping industry.

# IMO 2020

## SHIPPING OPTIONS

To comply with the new IMO 2020 sulphur limits, shipowners can consider three options to comply with the new regulations. First, vessel operators can install exhaust gas cleaning systems on their ships. Second, owners can simply buy compliant fuels at higher costs. Third, ships can run on the clean gas LNG as fuel.



**Exhaust Gas Cleaning Systems:** Use the emission cleaning technology, known as scrubbers, to remove pollutants from the vessels exhaust. Ships installed with scrubbers mean that, they can continue to burn high-sulphur bunker fuel and comply with the 0.5% sulphur limit.

The uptake of scrubbers could be limited by access to finance, scrubber manufacturing capacity, drydock space and technological uncertainties. Moreover, the countries under the Emission Control Areas such as China and Singapore have already banned the open-loop scrubbers as the environment benefits are considered questionable.



**Compliant Fuels:** Switch to a lower sulphur fuels that complies with the new regulations, **this one is the most likely choice.**

The petroleum industry needs to adapt refineries and supply chains, however the costs of a new fuel for use in marine engines are still unknown. Due to the uncertainty it is likely that these costs will be passed on the market.



**LNG:** Switch to non-petroleum based fuels such as liquefied natural gas, which is a possible choice for new vessels. Currently the infrastructure to support the use of LNG is limited. In 2020, experts foresee that approximately 250-500 vessels, or a maximum of 10% of global container fleet will be able to burn LNG.



Shipowners have a few options to choose to comply with the regulation, while refiners are expected make changes to refinery configuration and production in response to market demand. Thus far, there is no silver bullet solution ahead of 2020 and the involved parties will have to decide on the most appropriate approach to take so as to suit their operations and remain commercially sustainable in the long run.

Meanwhile, the most environmental friendly and key solution for the shipping industry to remain compliant in the short term is using low sulphur fuel oil.



The new regulation will make the industry significantly greener, but this comes with a price due to the uncertainty about availability of petroleum products and pricing. Complying with the IMO 2020 will have a major cost impact on the industry.

Today it is not possible to indicate the amount of the future prices but experts have already calculated that freight rates will increase before January 1<sup>st</sup> 2020.

In order to be prepared to this major change in bunker pricing, shipping lines have already adopted new bunker mechanism to help to adapt to rising fuel costs. Such calculation methods are based on average market data and should improve the fuel costs transparency, while helping to predict and plan future fuel costs. A transition period will be required before full enforcement of IMO 2020 regulation, where vessels will start bunkering compliant fuel to testing the new fuel. The length of this adjustment period is currently being determined, a bunker index should be defined

between the Q3 and Q4 of the current year.

As a consequence to the significant increase in bunker prices, all companies involved in the sea freight industry will have to deal with higher transportation costs.

As a matter of fact, we thank you in advance for understanding that the shipping industry cannot absorb the higher costs. Once all carriers have published their new BAF models, we will constantly evaluate the situation and release more information to our customers.

### Savino Del Bene at your service to respond to the challenges related to IMO 2020.

Savino Del Bene welcomes the environmental protection approach of the shipping industry and fully support the IMO 2020 initiative, to ensure future with lower transport emission.

As one of the world's largest sea freight service providers, we are ready to provide you updated and transparent information to secure your supply chain.



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