Countown to IMO 2020

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With an ever increasing focus on the environment and sustainability, the most recent and pressing initiative that will affect logistics is the IMO 2020. The IMO's Global Sulphur Cap 2020 regulations specify that every vessel worldwide must adhere to strict sulphur emissions limits by 1st January 2020 or face significant consequences. But where does that leave the logistics industry?

Even though the IMO first announced the 2020 Sulphur Cap regulations over 10 years ago, many carriers only started to make real preparations during the last couple of years. Their options to adhere to the new 0.5% weight percent sulphur emissions levels from 3.5% are limited: they must either run their vessels on LNG (Liquified Natural Gas), install scrubbers or use expensive new Low Sulphur Fuel Oils. Some of these options require engine and even onboard storage conversion. Whichever option they choose, it isn't going to be cheap. So how bad is it?

Who pays the price?

We asked Lars Jensen, CEO and Partner of SeaIntelligence Consulting to provide his insights to the scenario.

"It is estimated that the cost of Global Sulphur Cap 2020 to the container industry will be an additional $10-15 billion per year, which is more than the combined profits for container lines over the last 10 years. So, the question naturally follows: who covers this extra expense? The obvious answer is that the carriers pass on this extra cost to shippers. Even though this seems like a significant surcharge to incur, when put in context it isn't in fact as bad as it initially sounds. Global oil prices have been steadily declining since 2014, which goes a long way to balance out this additional expense. In this respect, this outcome will not prove too disruptive to the shipping industry as a whole," Lars Jensen explains.

The alternative scenario may prove different. If the carriers are not successful in passing these costs to their customers, then their business soon become extremely unprofitable. While seasonal factors such as Chinese New Year already plays a part in lowering vessel numbers at the start of the year, it is likely that carriers will reduce their number of active vessels in order to cut costs. This will, of course, be very disruptive to the industry.

Other things to consider

According to Lars Jensen, there are unfortunately other factors that could affect logistics.

"There are other factors that may also limit shippers' options. The necessary upgrades to run on alternative fuels or to install a scrubber mean that ships will need to spend time in dry dock. There are more ships than shipyards, and so there is already a long waiting list for many vessels to be completed that will certainly run over the January 1st deadline. Other issue could be the readiness of authorities to enforce the new regulations. It could be the case that some carriers will attempt to cheat the system by running non-compliant vessels, at a price that undercuts the competition. Time will tell how much of a problem this proves to be. It would be prudent to prepare for disruption in the first half of 2020, but even in a worst-case scenario, the industry won't come to a complete standstill."

Industry consultants WoodMackenzie as well as Forbes Magazine reports that the marine sector used a staggering 3.8 million barrels fuel oil per day in 2017 to 4.4 million barrels today, which reportedly made the marine sector use 10% of the entire oil consumption of the transport industry.

This makes it even more obvious why pricing and availability of IMO 2020 compliant fuels will affect the entire world of logistics. IMO 2020 will more than likely affect the prices on and availability of Diesel and Jet Fuel, due to the overall cost structure and production setup in the oil industry. According to Lars Jensen, the rail transportation will not be affected directly.

Finally, it is worth noticing that even if IMO2020 is closing in fast, there are still a number of port and flag states that are not quite up to speed when it comes to sanctions and securing compliance. But even then - or if there is basis for Fuel Oil Non-Availability Report (FONAR) due to lack of IMO compliant fuel - it is not enough to consider the use of different non IMO2020 fuel okay. At best it will only affect the sanctions or fees.

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