



# The Bottom Line

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## THE INTERNATIONAL MARITIME ORGANIZATION TO IMPLEMENT NEW REGULATION FOR A CAP ON SULFUR

### Summary

On 1 January 2020, the International Maritime Organization (IMO) will implement a new regulation for a 0.5% cap on sulfur included in marine fuels, down from the previous limit of 3.5%

### Background

The International Maritime Organization is a 171-member state United Nations agency that sets standards for shipping. The sulfur content of transportation fuels has been declining for many years because of increasingly stringent regulations implemented by individual countries or groups of countries. These regulations are intended to reduce sulfur dioxide, nitrogen oxides, and other pollutants from global ship exhaust. These pollutants, when burned, are major sources of compounds that react with water in the atmosphere and result in acid rain.

### Current Status

Vessel operators have several choices for compliance with the new IMO sulfur limits. One option is to switch to a lower-sulfur fuel compliant with the new IMO rules. However, the cost, widespread availability, and specifications of a new fuel for use in marine engines is still uncertain. Another option is to use scrubbers to remove pollutants from the ships' exhaust, allowing them to continue to use higher-sulfur fuels. However, the process of installing scrubbers can be costly and can increase a ship's

operating costs. A small portion of existing marine vessels has already installed scrubbers, and that portion is not expected to increase greatly before 2020 because of time constraints and limited installation capacity. Even if scrubbers become widely adopted, which would allow the continued use of fuels with higher-sulfur content, the price and availability of higher-sulfur fuels after 2020 remains uncertain. Ships also have the option to switch to nonpetroleum-based fuels. Some newer ships and some currently being built have dual-fuel engines that would allow them to use non petroleum-based fuels such as liquefied natural gas (LNG) after minimal modifications. However, the infrastructure to support use of LNG as a shipping fuel is currently limited in both scale and availability.

### Impact

The common denominator among all the vessel operators' choices for complying with the new IMO 2020 standard is cost. Low-sulfur fuels, requiring additional refining, will cost more than higher-sulfur fuels. Retrofitting fleet vessels with exhaust scrubbers incurs a significant cost per vessel, including the lost operating time while the vessel is in dry dock undergoing repairs. Replacing vessels running on bunker fuels with those powered by alternate fuels is at best a long-term plan. Any time costs hit the bottom line of the vessel operators, you can be sure they'll be reflected in container rates. We have not seen any published rate increases yet, but there is a high probability that this new regulation will result in increased rates as the year draws to a close.