

OCEAN PRODUCT

IMO 2020

If you move ocean freight and do not know the meaning of IMO 2020- please take notice. This initiative will have a significant impact on your costs in 2019 and beyond.



WHAT IS IMO?

The International Maritime Organization (IMO) is a specialized agency of the United Nations responsible for regulating global shipping. The IMO's primary purpose is to develop and maintain a comprehensive regulatory framework for shipping. Its areas of focus includes safety, environmental concerns, legal matters, technical co-operation, maritime security and the efficiency of shipping. IMO is governed by an assembly of members and is financially administered by a council of members elected from the assembly.

WHAT IS IMO 2020?

IMO 2020 is an initiative whose goal is an 85% reduction in the emissions of sulphur from ocean going vessels. The implementation date is January 1, 2020. The fuel required for compliance will need to contain no more than .5% sulphur content (the norm currently is 3.5%). There are two other means to comply; alternative fuels (LNG) and exhaust cleaning systems (scrubbers). IMO 2020 is the most significant regulatory change the industry has seen since the introduction of the double hulled tankers. The initiative is also remarkable because there is no phase in period (the entire industry must comply by 1/1/2020).

WHAT SHOULD I KNOW?

The biggest single impact to shippers and consignees is cost. The problem we have right now is that exact cost is not yet known because there is uncertainty over the supply of the new higher grade of fuel. Best estimates are prices could increase by USD300-600 per container on deep sea trades. The refineries of the world have been hesitant to commit to production because of the possibility of a delayed or metered implementation so there are real concerns on the supply side. The cost impact will begin as soon as October 1, 2019 as the refueling of the higher grade of fuel starts to hit the ledger of the vessel operators.

WHAT ARE THE EXPECTED IMPACTS OF IMO 2020?

Beyond the cost, the ripple effects could be dramatic. The carriers could decide to increase the amount of slow steaming done (lengthening the supply chain and decreasing vessel supply). The vessel scrapping rate could climb significantly as older less fuel efficient vessels are no longer economically viable (again contracting supply).