Agriculture Transportation Coalition

"The principal voice of agriculture in U.S. transportation policy"

Emissions Reduction Mandate (AKA, Low Sulfur Fuel)

As the international low sulfur fuel mandate approaches (January 1 2020), ocean carriers are facing the reality of dramatically higher fuel costs. Shippers know those higher costs will be passed on to us. In fact Maersk has announced a January 1, 2019 implementation date for the LSF surcharge, a year ahead of the actual IMO mandated start date.

Low Sulfur fuel mandate was issued by the UN International Maritime Organization's International Convention for the Prevention of Pollution from Ships (MARPOL Convention), requiring all ocean carriers to reduce emissions for the entirety of their voyage, not just in the current Emission Control Areas (the coastal areas). **It is important to know that the IMO has NOT required carriers to shift from the current bunker fuel, to low sulfur fuel.** (Currently, vessels within an Emission Control Area, including all of North America, must switch to low sulfur fuel within 200 miles of the coastline). The objective is to significantly reduce carbon emissions - the current sulfur limit in bunker fuel is 3.5% and will be reduced to .5% in 2020. As **low sulfur fuel today costs approximately 50% more than standard bunker fuels**, it is reasonable to expect this cost increase to find its way into higher freight rates.

What is the real cost of LSF? Are there alternatives to LSF in order to meet the IMO mandate? Are carriers intending to collect just enough to cover their additional costs, or are they using this as a revenue measure as well?

Maersk, Hapag Lloyd have already issued their formulas for calculation of their LSF Surcharge. South Carolina Ports has issued a proposed formula. Many questions arise, including, is there a neutral third party which will trusted to calculate the actual increase in cost to the carriers? At this point none has emerged.

First, demand for LSF will depend on how many carriers will actually comply. It is not clear how the mandate will be enforced. Perhaps ships in routes from US to the EU will be closely monitored by US and EU governments; will the same be true for ships from Nigeria to Jamaica, or Indonesia? The more non-compliance the less demand for low-sulfur fuel.

Second, it's possible to reduce sulfur emissions below .5 percent by using liquefied natural gas (LNG). Saltchuk, Crowley, CMA-CGM have already announced they will pursue this means of IMO emissions compliance.

Third, the purchase and installation of "scrubbers" (to capture emissions from 'regular' fuel) may be more expensive in the short term, but less expensive than shifting to LSF, in the longer term

Fourth, fuel consumption is already decreasing and will continue to do so due to slow steaming which is being reintroduced, and more efficient engines on the new larger ships. (Hapag-Lloyd reports over 8% decline in bunker fuel consumption this year). This will continue, due to consolidation of carriers by mergers and Alliances aggregating cargo on fewer, ever-larger ships and fewer sailings. Thus, less fuel consumption (but fewer options for shippers).

Past performance of ocean carriers when facing increased costs of operation suggests that PNASA members, like all shippers, must approach demands for new surcharges with some skepticism.