# PREPARE FOR A HIT

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## New shipping line regulations will hit supply chain costs hard in 2019

What do you know about the International Maritime Organisation's new low sulphur fuel requirements?

Chances are, very little.

Not only are these regulations only directly applicable to ships at sea (and in port), but the shipping industry is only just beginning to raise awareness amongst customers, even though they may begin cost recovery as soon as 1 January 2019.

Yet these changes are global, mandatory and unavoidable – and the cost will inevitably flow right through the supply chain.

The background to this is that most ships use heavy fuel oil (HFO), which is essentially the 'rubbish' that remains after crude oil has been refined into petrol, diesel, avgas, etc. It's dirty stuff and burning it creates toxic emissions.

The IMO, a United Nations body, has voluntarily adopted a policy of cutting air pollution from ships' engines by 85%, and since 2005 has been gradually reducing the discharge of sulphur oxides allowable under the MARPOL convention. From 1 January 2020, the level will be cut to 0.50% m/m (mass by mass) from 3.50% m/m.

Shipowners and operators have two ways of meeting this requirement. They can continue to use HFO, but this requires the installation of exhaust filters called scrubbers, at a price of around US$1 million per vessel. Or they can use low sulphur fuel (LSF), which is both considerably more expensive than HFO and in short supply.

Either way, 'going green' comes at a cost and this will have to be fairly shared.

In the last month or so, major container lines have begun to release details of their proposed approaches to IMO 2020 and there is very little consistency, so far.

However, the global number one and two, Maersk Line and Mediterranean Shipping Co, have each estimated the impact of the new regulations at north of US$2 billion per annum. Another Top Five member, CMA CGM, expects the extra cost to importers, exporters and freight forwarders will average USD 160 per TEU.

> To raise awareness, we have developed an industry Fact Sheet that can be shared throughout the supply chain.

Maersk, MSC and others are introducing their new fuel surcharge mechanisms from 1 January 2019 - a year before the regulation kicks in – justified by the need to transition to the 2020 effective date of the regulation.

Freight & Trade Alliance (FTA) and the Australian Peak Shippers Association (APSA) have a number of concerns with the implementation of yet more surcharges, although we acknowledge they will be (and should be) unavoidable.

We consider that shipping lines have not provided a sufficient explanation of the capital investments that they will be undertaking from now until 1 January 2020 that justifies the early application of a surcharge, and most of those cost recovery mechanisms will 'average out' the costs per vessel and per trade lane, whereas in reality, each vessel will vary in their sulphur emissions.

Our biggest concern is that this will be a 'cost plus margin' scenario where the shipping lines use this new regulation as a revenue opportunity, not as a true cost recovery exercise.

FTA and APSA have held meetings with the Registrar of Shipping in Canberra to better understand how the department and the Australian Maritime Safety Authority (AMSA) will be monitoring the compliance of shipping lines. FTA and APSA are also working with Scope 3 - an Australian company specialising in transport and logistics emissions - to explore different models of calculating the true costs of these regulations and how the regulators can best monitor shipping line compliance.

To raise awareness, we have developed an industry Fact Sheet that can be shared throughout the supply chain. It's available by emailing the author at tbrooks-garrett@ftalliance.com.au.

*Travis Brooks-Garrett is a director of Freight & Trade Alliance and secretariat, Australian Peak Shippers Association. If you would like to participate in any FTA/APSA initiatives, or if your company would like to make their voice heard with state or federal governments, don't hesitate to get in contact via tbrooks-garrett@ftalliance.com.au.*