

Presidential Speech: Uncertainty, environment and regulation

Capital Link, October 30th 2018

It is an interesting time to be a shipowner. I'm a shipowner and the President of BIMCO - primarily a shipowner's organisation - and there are certainly days when I find it TOO interesting.

We are in the middle of one of the biggest transitions in our history. Not just the transition to low sulphur fuel, but a broader transition into an era with more focus on the environment, and more regulation to make sure we do our part in ensuring the long-term sustainability of human activity on the planet.

The 2020 deadline is the most spoken about topic right now. And it is a deadline. Make no mistake. On January 1, 2020, we must comply with the 0.50% sulphur content limit. Some have chosen scrubbers, most will have to use low sulphur fuel.

After the MEPC meeting last week, it is also clear that we will have a carriage ban on non-compliant fuel after 1 March 2020. BIMCO is very satisfied with that, as a ban is imperative to enforce the regulation and ensure a level playing field for all shipowners.

In BIMCO we work to make sure that our members get the best support for both solutions, and that they are prepared for the consequences of the new regulation. We hope our first bunker clause dealing with 2020 will be published in November, and we will continue focusing a lot of our resources on this issue.

For the MEPC last week, BIMCO co-sponsored a call for a so called 'experience building phase', after January 1st 2020. Some people got the impression that we wanted an extension of the deadline. That is not the case.

The reason why we want a system to document experiences is the many uncertainties in connection with the switch to low sulphur fuel.

I will mention a few:

- 1) The predicted shortage of low sulphur bunker in the first couple of years after the regulation comes into force may increase the risk of unsafe fuels ending up on board
- 2) Can we handle diesel which for example contains biodiesel?

3) Are blends from different sources creating problems with regards to compatibility?

In the end, the delegations reached a compromise, which we at BIMCO are quite satisfied with.

The original proposal was rejected, but IMO asked for new proposals to establish necessary additions to the Global Integrated Shipping Information system (GISIS) to incorporate data from the experience ships gain on fuel oil availability and fuel quality. This is all about effective implementation of MARPOL Annex VI, regulation 18

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The last time the industry experienced a big fuel change, was when California required ships to switch to low sulphur fuels. The US Coast Guard recorded a significant increase in incidents, and we've recently seen examples of how many problems a bad batch of fuel can cause the industry. That is why we need to be mindful of the problems that are likely to appear, when this regulation comes into force.

In BIMCO, we believe, along with our co-sponsors of this paper, that the fuel oil supply sector should commit itself to provide our industry with sufficient quantities of quality and safe fuel oils. If they don't, we face considerable risks. Shipowners and operators hold a disproportionate responsibility: implementing the plans - planning for the contingencies - And making the required investments - to meet the challenges of this transition.

Therefore, considering the predictable and foreseeable challenges in implementing these regulations, the co-sponsors call for a pragmatic enforcement approach, applied in a consistent manner, until the anticipated new types of fuels and blends compliant with the 0.5% sulphur fuel oil are sufficiently available in the market. By the way this is not something new. 'Pragmatic enforcement' was implicitly written into Regulation 18.2 of MARPOL Annex VI ten years ago.

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We also call on states to enforce the legal requirements on bunker suppliers.

The nations that have adopted Annex VI of the MARPOL convention, must live up to their end of this agreement. That is not the case today. The shipping industry is taking major steps and making huge investments to be ready for compliance on 1 January 2020. It is imperative that the nation states honour their obligations.

Unfortunately, we've recently seen that non-compliant bunkers have been delivered to a large number of ships, and to date we have seen no action taken by nation states against the bunker suppliers responsible for distributing this contaminated fuel.

This is a cause for worry, because, with a switch to low sulphur fuel, we will inevitably see much greater volumes of blended fuels sold, and the ship owners and operators need to be assured that the market will be policed.

The nation states are obliged to oversee – and if necessary - police the bunker suppliers operating in their country. If a bunker supplier sells contaminated fuel or other 'off spec' products to the shipping industry it needs to be investigated and - if deemed appropriate – legal action should be taken.

BIMCO has reached out to a number of IMO member-states on this issue and has since agreed with the U.S. Environmental Protection Agency to assist them in gathering information about 'bad bunkers'.

I hope that a lot of our affected members will assist with that survey.

Another example. The IMO member states are required to register what compliant fuel is available in the ports under Regulation 18.2, to MARPOL Annex VI. That has been a fact since 2010. Unfortunately, that is not currently happening. In eight years, only two - two! - ports have been registering their compliant fuel in the mandatory registry run by the IMO.

Being able to buy compliant fuel when in port will be a significant concern for many of us as shipowners. Some of that concern would be alleviated, if the member states would register fuel availability as required, enabling the industry to have a clearer picture of where they can bunker.

I don't think it is unreasonable that, if the shipping industry is to work hard and make major investments to be compliant, that the member states also take their oversight role seriously and help the industry get through this transition period.

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But sulphur is of course not the only topic that we concern ourselves with in BIMCO. The industry has to face many issues simultaneously. Some owners still need to pick a ballast water treatment system. We need to combat plastic waste at sea. Hull cleaning is becoming more restricted.

And the trading environment has become more unstable.

The United States have moved away from decades of trade policy focusing on being an open and liberal economy. This has led to a Trade War and we have tried to keep our members and the industry up to date with our frequently published and up to date analysis.

So far, the bulk market is the most affected by the tariffs. But Container shipping is also likely to be hit with tariffs on more than 28 million tonnes of goods.

Despite the fact that there are no tariffs on crude oil import from the US to China, the Chinese import of crude oil in August dropped to zero. Zero.

And Iran took over from China as the biggest importer of US soya beans, months before new sanctions on the country's oil exports are imposed.

These examples illustrate that the market has become much more unpredictable compared to what we've been used to for many years.

It is not an ideal cocktail for the shipowners, who are facing a tough market, also to face a more unpredictable market with more rules and regulations.

But that is what we must help our members navigate. The change is happening. We must adapt. We must have people in our organisations who can navigate in a changing environment. We must be curious. And we must invest in new technology and ideas to overcome the challenges we will face ahead. Thank you!