

# OEC NEWS

OUR EXPERTISE YOUR ADVANTAGE

## IMO LOW SULFUR MANDATE

THE WHAT, WHY & HOW

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ABOUT  
OEC GROUP



# WHAT IS IMO 2020?

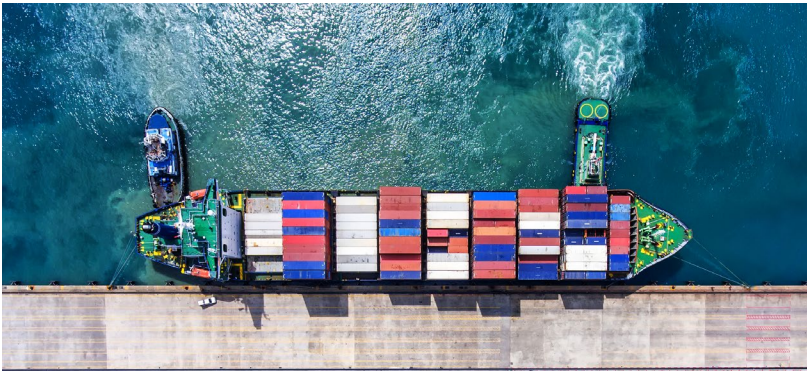
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The International Maritime Organization (IMO) is a specialized agency within the United Nations that is responsible for the “safety and security of shipping and the prevention of marine and atmospheric pollution by ships”.<sup>2</sup> The IMO 2020 mandate will take effect January 1, 2020, requiring steamship lines to limit the mass by mass presence of sulfur in bunker or marine fuel from 3.5% to 0.5%.

# WHY IMO 2020?

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When compared to trucks, railroads, and airplanes, container shipping is considered the most sustainable mode of transportation as it has the lowest emissions per ton of cargo carried by distance traveled. However, it is also one of leading contributors to global pollution. Restricting sulfur oxides will cut down on air pollution that is negatively affecting the health of people living close to major seaports and along shipping routes and will improve the environment.<sup>3</sup>



# IMO LOW SULFUR MANDATE THE WHAT, WHY & HOW

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Rising volumes. Capacity shortages. Price increases. This is the story of the logistics industry during the second half of 2018. Indubitably, a bitter trade dispute with China and higher tariffs have also led most companies to think about their international sourcing and supply chain strategies moving forward. It simply costs more to move the goods now than in the past.

Scheduled to go into effect on January 1, 2020, the International Maritime Organization (IMO)'s impending Low Sulfur Mandate (hereinafter referred to as IMO 2020) is estimated to “fuel” an additional cost of \$15 billion annually for the shipping industry.<sup>1</sup> In 2019, one of the biggest challenges that everyone will face is how to cope with the higher cost of compliance that steamships lines intend to pass along to the market.

# HOW WILL CARRIERS HANDLE IMO 2020?

*Carriers have several options to choose from to remain compliant with new low sulfur regulations.*

## PURCHASE COMPLIANT FUEL

The simplest solution to comply with IMO 2020 is for carriers to switch from the high sulfur “bunker” fuel currently in use to low sulfur fuel. However, at a cost that is approximately 40% more expensive, the outlay per TEU for a trans-Pacific voyage is estimated to increase by \$100-\$200.<sup>4</sup>

## INSTALL “SCRUBBERS”

Carriers can choose to have exhaust gas cleaning systems called “scrubbers” fitted onto vessels. These will allow ships to continue to use high sulfur fuel by removing sulfur oxides from exhaust gases before they are released into the atmosphere. Installation of scrubbers is a significant investment for carriers as vessels are typically removed from rotation for 6-8 weeks for installation at a cost that ranges from \$2.5 to \$4.5 million.<sup>5</sup> It is estimated that by January 1, 2020 implementation of IMO 2020, only 2% of containerships will be fitted with “scrubbers”.

## ALTERNATIVE FUEL: LIQUIFIED NATURAL GAS (LNG)

Liquefied Natural Gas (LNG) is an attractive option because of its inexpensive cost and cleaner emissions compared to low sulfur fuel. However, high costs to modify existing vessels or build new ones capable of being fueled by LNG, lack of availability at many global ports to refuel, and cargo capacity loss (estimated at 3%)<sup>6</sup> because of larger fuel storage tanks, are all obstacles to the proliferation of this method.

# HOW WILL IMO 2020 IMPACT SHIPPERS?

As fuel accounts for 60% of a vessel operating cost<sup>7</sup>, carriers will be eager to share the burden of a higher price tag with shippers. Many have already announced surcharges with varying names to be implemented ahead of January 1, 2020. It is difficult to predict the true impact as we are 10 months away from application, but shippers should expect to pay higher fuel costs in the near future.

Sources:

- <https://theloadstar.co.uk/shippers-left-dark-carriers-look-recover-imo-2020-costs/>
- <http://www.imo.org/en/About/Pages/Default.aspx>
- <http://www.imo.org/en/mediacentre/hottopics/pages/sulphur-2020.aspx>
- [https://www.joc.com/maritime-news/trade-lanes/trans-pacific/low-sulfur-costs-hamper-trans-pacific-contracting\\_20190124.html?utm\\_source=Eloqua&utm\\_medium=email&utm\\_campaign=CL\\_JOC\\_Daily\\_1-25-2019%20TF%206%3A01am\\_PC9156\\_e-production\\_E-24637\\_JL\\_0125\\_0601](https://www.joc.com/maritime-news/trade-lanes/trans-pacific/low-sulfur-costs-hamper-trans-pacific-contracting_20190124.html?utm_source=Eloqua&utm_medium=email&utm_campaign=CL_JOC_Daily_1-25-2019%20TF%206%3A01am_PC9156_e-production_E-24637_JL_0125_0601)
- <https://www.drewry.co.uk/maritime-research-opinion-browser/maritime-research-opinions/the-dilemma-of-fitting-scrubbers>
- [https://www.fujielctric.com/products/saveblue/why\\_scrubbers.html](https://www.fujielctric.com/products/saveblue/why_scrubbers.html)
- <https://www.supplychaindive.com/news/IMO-2020-low-sulfur-regulations-ocean-freight-rates/546416/>

# THE NAME GAME

Carriers have begun to outline their plans to pass along higher fuels costs to shippers well ahead of the January 1, 2020 mandate. Although everyone uses a different name, it all means the same thing for shippers- higher expenses.



Bunker Adjustment Factor (BAF)



Marine Fuel Recovery (MFR)



MAERSK

Bunker Adjustment Factor (BAF)



Bunker Charge Mechanism (BRC)



ONE Bunker Surcharge (OBS)



ZIM

New Bunker Factor (NBF)

# 5 REASONS TO PURCHASE CARGO INSURANCE

1

Having cargo insurance provides ease of mind as many factors may lead to cargo damage or loss during travel: heavy weather, fire, or theft.

2

When participating in LCL shipping, cargo insurance provides protection against possible damage from other cargo goods sharing the container space.

3

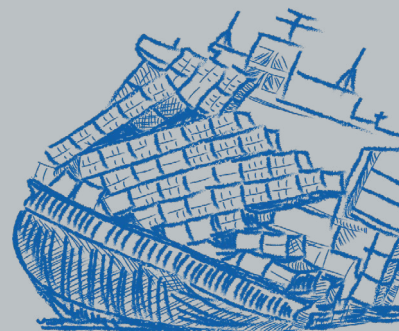
Cargo insurance protects businesses from the general average principle, where a loss incurred is evenly split between all parties of the voyage. Cargo insurance is a lot more affordable than this detrimental cost.

4

Buying cargo insurance is paying a small premium for a possible big loss. This is more cost efficient than paying for a supply chain disruption from lost or damaged cargo.

5

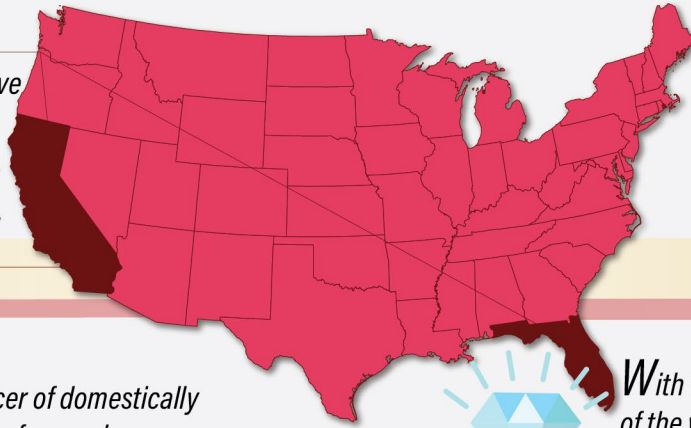
Cargo claims against carriers or other insurance companies can take months to settle. OEC Group's cargo insurance guarantees settlement within 7 days for claims under \$5,000 and no later than 30 days for larger claims.



# Happy Valentine's Day

Most flowers for the month of love in the U.S. come through

**Miami & Los Angeles** from January 1st through February 14th.



The U.S. Customs and Border Protection is busy before Valentine's Day as their workers protect consumers by screening millions of imported flowers for pests and diseases.

California is the leading producer of domestically produced cut flowers, accounting for nearly **three-quarters** of the wholesale value.



With Valentine's Day having the most proposals out of the whole year, diamonds are popular around this season. In fact, nearly **half the world's cut and polished diamonds** are sold in the United States!

**94%** of Americans say they want to receive chocolate or candy on Valentine's Day. It is estimated that \$1.7 billion will be spent for these sweets!



The post office is incredibly busy on Valentine's Day- it's the second largest seasonal card sending time of the year! Nearly 1 billion cards are exchanged!

ROSES



IRISES



SUNFLOWERS



LILIES



ORCHIDS



The top 5 popular flowers for Valentine's Day are:

The largest exporter of flowers is **Colombia** as they shipped 718 million stems of flowers to the U.S. in 2017 in the six weeks leading up to Valentine's Day.

**Florists** love when Valentine's Day falls on a weekday as consumers are more likely to send more impressive flower arrangements to their sweetheart's office, where everyone can see.

Sources:

<https://www.thespruce.com/valentines-flower-facts-1316129>

<https://www.1800flowers.com/infographic-most-popular-valentines-day-flowers>

<https://www.sheerid.com/valentines-day-spending-statistics-2015/>

<https://www.washingtonexaminer.com/customs-will-inspect-1-billion-flowers-imported-for-valentines-day>

<https://www.edc.ca/en/blog/valentines-day-exports.html>





# ABOUT OEC GROUP

At OEC Group, we have demonstrated our commitment to customer service in trans-Pacific trade for more than 35 years. Founded in 1981, OEC Group had a vision to provide comprehensive logistics services to clients. Today OEC Group serves destinations throughout the world and has grown into one of the leading logistics providers from Asia to North America. With offices in over fifty countries, we take pride in being close to your cargo at all times.

Proximity of our OEC logistics professionals to your cargo enables us to stay on top of relevant market trade intelligence. Our Asia offices bridge the connection between you and your supplier, bringing additional insight to the entirety of your supply chain.

OEC Group is monitoring and adapting to the changing market. We are well positioned to make continuous improvements to your supply chain using the fastest, most efficient and cost-effective services available. We work tirelessly to stay on top of the ever-changing logistics industry with the goal of delivering the most current information and services to you, our customer.

Our business is making our logistics expertise, your competitive advantage.