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ADVICE FOR GLOBAL SHIPPERS ON MANAGING SURCHARGES FOR LOW SULPHUR FUEL

With the introduction of new global rules for limiting sulphur pollution from ships on 1 January 2020, the Global Shippers Forum (GSF) has issued helpful advice for importers and exporters facing demands for surcharges from shipping lines seeking to cover their costs of compliance.

GSF's 'Top Ten Tips for Sulphur-Surcharged Shippers' (attached) highlights the fundamentals of the new rules that all vessels will now be required to meet in all parts of the world. But it also encourages shippers to challenge the basis of any surcharges to make sure they understand exactly what they are being asked to pay extra for, and whether it can be properly explained and justified by carriers.

James Hookham, GSF's Secretary General, commented:

"With the container shipping industry in a trough of depression, the additional burden of complying with tough new rules on emissions from vessels is a necessary but unwelcome start to 2020. The shipping industry has widely assumed that the costs of cleaning up its environmental act can simply be passed onto its Customers (shippers) in the form of surcharges. Whether that will be the case will be the subject of individual negotiations over the coming months. However, shippers should be demanding clear and consistent explanations of any surcharges demanded and GSF's 'Top Ten Tips for Sulphur-Surcharged Shippers' reminds our members of the ground rules and to scrutinise carefully any surcharge demands made during contract negotiations".

"Ultimately, the industry needs to move on to a more mature pricing regime with confidential contracting and all-inclusive charges becoming the 'new normal'. The shipping industry needs to wean itself off of surcharges, just as much as it does high-sulphur fuels."

James Hookham concluded: "In 2020 the environmental performance of the shipping industry will come under intense scrutiny in the world's regulatory forums. The IMO low sulphur fuel regulation will be followed by crucial meetings on reducing greenhouse gas emissions and shipping's carbon footprint. The industry needs to demonstrate a responsible attitude to meeting the costs of its environmental responsibilities to retain the confidence of customers and regulators".

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IMO Sulphur Emissions Limit Regulation 2020 ('IMO 2020')
Top Ten Tips for Sulphur-surcharged Shippers

New global limits on atmospheric sulphur emissions from ships entered into force around the world on 1 January 2020. 'IMO 2020', as it's known, will force through the biggest change in ships' operating practices since the introduction of steam power and bring about a massive reduction in the environmental impacts of sea transport.

Whilst shippers should support this reduction in harmful emissions, they should be wary of being expected to pick up the bill for achieving them! So here are 10 things to remember as you sit down to negotiate your 2020 contracts with your favourite carriers …

1. **It's a discretionary charge not a mandatory tax**
   Yes, shipping lines have got to meet the new IMO limits on sulphur emissions but there is no law that says they have to pass that cost on. Whether as the cargo owner you pay more is purely a matter for commercial negotiation with your carrier. There may well be new and potentially significant costs but if you had a contract rate agreed in 2019 that extends into 2020 any new costs should already be included in that price – IMO 2020 has been known about since at least 2017.

2. **Buying (more expensive) Low Sulphur Fuel is not the only option**
   Other compliance options exist to meet the IMO requirements. These include the fitting of exhaust gas scrubbers (which allow conventional grades of fuel to be used) or converting engines to run on Liquefied Natural Gas (LNG). Both options are hefty capital expenditure items and will affect operating costs depending on the age of vessel, the carrier's depreciation policy and prevailing interest rates. But they will have a very different effect on operating costs to a sudden increase in fuel price. Make sure you ask what compliance strategy you carrier is following.

3. **Don't lock in an early rate or consolidate any sulphur surcharges into BAFs**
   The price of Low Sulphur Fuel Oil will fluctuate over time, as do all commodity prices. But on top of that refiners will be putting more of this product into the market as demand rises. Any early peaks in price can be expected to stabilise within a few months and settle around a long-term norm. So, don't lock-in any surcharge at an early, possibly peaky, price and keep an eye on actual fuel costs using a fuel price tracker service that covers prices in different parts of the world. Local fuel costs will depend on the local commodity price, plus the costs of delivery to bunkers plus any local taxes.

4. **"So how did you work that out?"**
   Calculation of fuel costs is a precise science not a black art. Carriers should know to the nearest tonne and tens of dollars what fuel they have bought and used, given its costs. You should therefore expect a prompt and clear answer to your request to show the calculations that lie behind any surcharge demanded of you.

5. **Low-sulphur fuel is nothing new**
   IMO 2020 is the latest step in a decade-long programme of reducing sulphur emissions from vessels. Ships entering most EU and North American waters have been required to switch to LSFO in these Emission Control Areas since 2005. This means that LSFO has been available in these parts of the world for at least 15 years. Yes, demand will spike when every ship suddenly has to use it all the time but there is nothing novel or challenging about using or acquiring supplies of Low Sulphur Fuel Oil for the shipping industry.

6. **Watch for the scrubber in low-sulphur clothing**
   Most carriers operate in alliances or consortia – effectively vessel sharing agreements, where your containers could be carried on another carrier's vessel. So why pay a fuel surcharge for a ship fitted with scrubbers or converted to natural gas? But don't you work it out - get the carrier to explain how they are going to avoid charging you for a cost they may not incur.

7. **Consider joining a benchmarking service**
   If you end up paying surcharges, a benchmarking service will let you see researched and informed estimates about what the additional cost of fuel should be, based on the vessels operated on that route, the chosen methods of compliance and the prevailing costs of fuels. GSF is providing this service for members through partners. Tell us if you are interested in joining.

8. **If it looks like an arbitrary figure and feels like an arbitrary figure …**
   … then it probably is an arbitrary surcharge! There is no single amount or simple percentage for the added cost of using low sulphur fuel, so watch for rounded increases, or predictions that the same costs will apply all year, or in all parts of the world. They won't.

9. **Don't fall for the sympathy card**
   Shipping lines buy prodigious quantities of marine fuels every year, including Low Sulphur Fuel Oil. and will hedge against currency movements and fluctuations in commodity price. They have had two years to prepare for this and you can bet they won't have burnt a drop more of the stuff until they had to … 00:01 UST Wednesday, 1 January 2020.

10. **Sulphur surcharges stink!**
    Ultimately this is about the shipping industry cleaning up its environmental act. In any other sector these costs would be absorbed or passed on through normal contract negotiations. If the shipping industry could bring itself to negotiate all-inclusive price and confidential contracts as a norm then surcharges, including for sulphur, can be consigned to history, where they belong.

GSF Secretariat

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