**"IMO Sulphur 2020 or: How Owners Learned to Stop Worrying and Love Scrubbers"**

By James Clayton

The shipping headlines are regularly filled with the news that ship owners are opting to install scrubbers / exhaust gas cleaning systems on their vessels rather than relying on the future supply of low-sulphur fuels. This update looks at the changes IMO 2020 brings about, the effects on ship owners and the tough decisions that await them going forwards.

During the 70th London Marine Environment Protection Committee (MEPC), the International Maritime Organization (IMO), the regulatory authority for international shipping, decided to make a significant cut from the current 3.5% mass/mass (m/m) global sulphur content in fuel for ships (which has been in place since Jan 2012) to 0.5% m/m, coming into effect on and after 1 January 2020. This decision reflected the IMO's determination to ensure international shipping remains the most environmentally sound mode of transport. Legally, there can be no change in the 1 January 2020 implementation date, it's too late to change it now and ship owners need to act quickly to decide how they will become compliant.

Ship owners are therefore faced with a dilemma: do they continue using high sulphur fuel oil, in conjunction with scrubbers or exhaust gas cleaning systems or switch to low sulphur fuel options (eg. distillates / LNG fuel)? There is no such dilemma for charterers as they are merely posed with a choice between employing a vessel which burns scarce and expensive fuel or one with a scrubber installed. We look at this predicament for ship owners in more detail below:

<u>Install scrubbers / exhaust gas cleaning systems?</u>

*Pros*:

- Charterers should pay premium for vessels which have such systems installed as they are able to burn cheaper fuel.
- Caps any potential losses for ship owners and avoids their vessels being uncompetitive in the market.

*Cons*:

- Requires substantial capital investment and ongoing maintenance costs.
- Would potentially be disruptive to a vessel's employment as it would need to go into a shipyard for such works.
- If the price differential between high sulphur fuel and low sulphur fuel equalises then capital investment would have been wasted.
- Potentially reduce fuel efficiency by as much as 2% which, over time, could accumulate the opportunity cost of installing scrubbers as opposed to buying compliant fuel.

Don't install scrubbers / exhaust gas cleaning systems?

*Pros*:

- If the price differential between high sulphur fuel and low sulphur fuel equalises then ship owners would have saved on any capital investment spent on scrubbers.
- Helps lower CO2 emissions.

*Cons*:

- Debateable as to the ability of supply to meet demand for low sulphur fuel oils.
- Low sulphur fuel oils are currently approximately $250 per ton higher than that of conventional fuel.
- Vessels without scrubbers could be unattractive to charterers if the price differential between high sulphur fuel and low sulphur fuel does not equalise.
- Leaves ship owners vulnerable to uncapped losses (more expensive fuels, uncompetitive fleet).

Opinions on scrubbers are still divided, for example Maersk have opted to use more expensive fuel with lower sulphur content in order to comply after extensive research given concerns with scrubbers. They argue that scrubbers entail a heavy sunk cost and installation, running and maintenance costs and reduce fuel efficiency. Maersk's view isn't shared by everyone, BP has installed scrubbers on two of its 80,000 ton LR2 tankers and are satisfied with the results. BP is now looking at retrofitting scrubbers on a large number of tankers in the company fleet.

The IMO has produced a lengthy document claiming that there is sufficient quantity of low-sulphur fuels to enable the regulations to be successful but it is still not clear whether there will be enough low-sulphur fuels to power the industry. A recent UBS report has revealed that only 2% of the global fleet is to adopt scrubbers to meet sulphur cap requirements. According to its survey of shipping executives, 68% of correspondents preferred adopting low-sulphur fuel to meet IMO's cap on sulphur emissions, whereas only 21% chose installing scrubbers.

The difficultly of this decision is reflected by the differing routes ship owners have taken to date. Various factors, including: the technical ability to actually install scrubbers on vessels, the choices of competitors, the timing of any such installation and the geographical areas of operations (in relation to the availability of low sulphur fuel) will all influence the eventual decision of ship owners. Each ship owner will need to carefully evaluate the pros and cons and run the numbers internally to reach a decision ahead of their competitors which makes sense for them commercially and financially.

CJC has advised financiers, ship owners and contractors in relation to all aspects of IMO 2020.

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