Ivent Solutions Market Trend Update

February 2019

What is the Low Sulphur Surcharge?

Shipping costs from China to New Zealand are on the increase. Currently all modern commercial ships run on fossil fuels such as MGO (Marine Gas Oil), MDO (Marine Diesel Oil), IFO (Intermediate Fuel Oil) , MFO (Marine Fuel Oil) or HFO (Heavy Fuel Oil) collectively known as "Bunker Fuel". These fuels have a high content of Sulphur which can be quite harmful to the environment. The regulations for the Prevention of Air Pollution from Ships (Annex VI) seek to control these airborne emissions from ships, such as Sulphur oxides (Sox).

In April 2018, more than 100 Member States met at the United Nations IMO (International Maritime Organisation) in London and adopted an initial strategy on the reduction of greenhouse gas emissions from ships by at least 50% by the year 2050 compared to the recorded 2008 levels. The current global limit for Sulphur content of ships' fuel oil is 3.50% m/m. The new regulations have introduced a new global limit from the 1st of January 2020 of 0.50% m/m. Ships can meet the requirement by using low-Sulphur compliant fuel oil or through mechanical means. An increasing number of ships are also using gas as a fuel due to the negligible Sulphur oxide emissions produced.

Ships may also meet the Sox emission requirements by using approved equivalent methods, such as exhaust gas cleaning systems or "scrubbers", which "clean" the emissions before they are released into the atmosphere. In this case, the equivalent arrangement must be approved by the ship's Administration (the flag State). Naturally such compliance requirements bring with them additional costs and uncertainty in terms of fuel costs for shipping and shipping lines.

According to industry estimates, more than 90% of the global vessel fleet will be relying on compliant fuels when the Sulphur rules step into force on 1 January 2020 and lines will need to invest in scrubbers and the like. Many of the shipping lines have announced that the costs for compliance will have to be passed on to customers through the implementation of new or adjusted fuel surcharges. MSC (Maersk) estimates that the cost of the various changes that will need to be made to their fleet alone and its fuel supply is in excess of two billion dollars (USD) per year and that they have already started incurring these costs in order to be prepared for 2020. The global container shipping industry could spend up to USD 15 billion trying to be compliant with the above requirements. Now other lines like CMA-CGM, ONE, OOCL and APL have jumped on the bandwagon, announcing that these costs for compliance will have to be passed on to customers. While the BAF surcharge is designed to recover increases in bunker related costs the compliance costs have not been catered for by any of the shipping lines thus far..

The "Low Sulphur Surcharge" is commonly referred to although different shipping lines are already calling it different names – Low Sulphur Surcharge (LSS), Green Fuel Surcharge (GFS), Emission Control Area Surcharge (ECA), Low Sulphur Fuel Surcharge (LSF) all effectively are the same thing. All shipping lines are said to be preparing to levy this as a mandatory surcharge in addition to freight and other surcharges from early 2019 on all trade lanes especially the ECA zones.

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NZD versus AUD - AU$0.965 vs NZ$1.00

NZD versus USD - US$0.685 vs NZ$1.00

NZD versus EUR - EU$0.605 vs. NZ$1.00

Copper - USD6150 / tonne

Lead - USD2050 / tonne

Nickel - USD12800 / tonne