

IMO 2020 REGULATION

FAQs

IMO 2020 is coming – Your Questions Answered

We're ready for the switch to IMO 2020, are you? In this handy guide we explain what the new regulations will mean for you, how you might be

affected, how the additional costs will affect you and how CEVA Logistics experts are on hand to assist with the change.

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- **What is IMO2020 and how will it impact our customers?**

New regulations are being introduced by the IMO (the International Maritime Organization) on January 1st 2020 and they are referred to as IMO 2020. The aim of this change is an emissions cut which will significantly reduce the shipping industry's impact on the general public and the environment.

All ship operators need to comply with these new regulations whether by upgrading vessels or fuel. This is a compulsory change in the rules from January 1st 2020.

The new rules aim to reduce sulphur oxide emissions from ships. From that date, all merchant vessels must use marine fuels with a maximum Sulphur content of 0.5% compared with the current 3.5%.

- **Who does it apply to?**

IMO 2020 applies worldwide and across the oceanfreight industry. Port authorities and country administrations will be checking for compliance. Penalties will be imposed if the regulations are not observed.

Depending on the jurisdiction where the offence is committed the penalties can be high fines, the arrest of the ship or imprisonment of the captain.

- **What are the options for ship operators?**

Effectively there are three options for vessel operators in order that they comply with the new regulations :

- Use scrubbers
- Change to using non-petroleum based fuels
- Change to using a Very Low Sulphur Fuel

- **What is the IMO?**

The IMO is the International Maritime Organization. Headquartered in London, UK it is the United Nations specialized agency with responsibility for the safety and security of shipping and the prevention of marine and atmospheric pollution by ships worldwide.

It has been working to reduce harmful effect of shipping on the environment since the 1960s. In 1997 a formal protocol called Annex VI to the International Convention for the Prevention of Pollution from Ships (and known as MARPOL Convention) was adopted to aid this process.

THE ENVIRONMENT

- **The Facts**

Despite being one of the cleanest forms of transportation for moving large quantities of goods, the shipping industry as a whole currently emits eight million of ton of Sulphur Oxides per year into the atmosphere.

In implementing IMO 2020 the new emissions limit of 0.5% will deliver a reduction of over 80% in current emissions.

- **The Benefits**

The resulting environmental improvements from reducing the emissions limit to 0.5% will be substantial, especially for people living near ports and coasts.

THE COST

- **Who does IMO 2020 apply to?**

It applies to everyone, large or small shippers regardless of shipped volumes. There are no exemptions

- **What will IMO 2020 mean for us in the industry and you our customers?**

There will be an end to the reliance on high Sulphur fuels and a switch to a new type of Very Low Sulphur Fuel (VLSF). However there are ongoing issues with respect to the availability and cost of this new fuel and petrol refineries still

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have to adapt their facilities to cater to it. There may also be additional supply chain delivery costs, all of which will be passed on to the customer.

Some operators will choose other options which enable them to comply such as using scrubbers to remove pollutants from a vessel's exhaust. However this is an expensive process and will also increase operating costs which will be passed on.

A third option is a switch to Liquid Natural Gas (LNG) or other non-petroleum based fuels. The infrastructure to do this is currently limited but new vessels coming on stream are likely to be equipped in order that they can operate with LNG. Our parent company, the shipping line CMA CGM has already ordered new vessels for delivery in Q2 of 2020 which will be LNG powered.

As a result of IMO 2020 it is certain there will be a significant impact on the overall prices of container transportation and on freight rates. This will start to come into effect from Q4 of 2019.

Therefore long term agreements for both full and part container loads will include the price adjustment method known as the Bunker Adjustment Fee (BAF). This is and will continue to be a clearly identified charge – see below.

- **How will CEVA deal with these additional costs?**

CEVA is already working on a raft of measures to assist and advise its customers about the new regulations and the cost impact on them.

In simple terms:

- For the Pyramid Lines BAF, the fuel of Reference will change from IFO380CST to LSFO 0,5%

A. For customer having a quarterly BAF = the impact of IMO 2020 will be reflected in the Q1 2020 Pyramid Lines.

- Fuel reference HSFO 3.50% will be replaced by VLSFO 0.50%
- BAF Q1 2020 will be based on average price of VLSFO 0.50% of September/October/November 2019
- BAF amounts per trade will be then updated on a quarterly basis as per below:
- $BAF = VLSFO\ 0.50\% \text{ PRICE PER TON} \times \text{TRADE COEFFICIENT}$

In any cases where CEVA is being charged by carriers IMO2020 charge in Q4 of 2019, this will be billed back to back to the customers.

B. For the Spot Market, IMO 2020 will be billed as per CEVA's outlay to the carrier.

- **Can I choose to buy your services on vessels which only use a specified fuel type?**

CEVA does not differentiate whether a vessel operator has invested in ships powered by LNG propulsion, operates using VLSFs or has installed scrubbers. We will provide information to customers about which ways vessels we use to carry your goods are IMO 2020 compliant. Transparency is an important part of the process.

- **What other charges are there?**

Customers may also be aware of the Low Sulphur Surcharge. In the dedicated Environmental Control Areas (ECAs) of northern Europe, North America and parts of Asia the use of even cleaner fuels than those being implemented under IMO 2020 are mandatory. This has a Sulphur content of 0.1% and is more expensive and priced separately. The Low Sulphur Surcharge is charged wherever this fuel is used

- **What are the overall impacts and risks?**

There has been a high level of uncertainty over the implementation of IMO 2020 with concerns expressed about the availability of new fuels and pricing. We cannot provide a 100% accurate guide to what will happen as there are multiple factors outside CEVA Logistics' control. (Geopolitical events, sanctions, OPEC decisions, the price of fuels and fuel products etc.).

However it is certain that there will be increased costs when compared to the existing operating methods and fuels. These will impact CEVA customers in different ways and you should contact your local CEVA representative who will be able to supply you with full information for your locality.

We aim to provide you with all new information in an open and transparent way in order that the new IMO 2020 rules and regulations have as minimum effect as possible on your business. By doing this and by reacting early to these changes we believe the impact on the supply chain can be kept to a minimum.

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- **Will my shipments be delayed?**

There is nothing to suggest at this time that there will be any changes to vessel operators' timetables as a result of the implementation of IMO 2020. However you should be aware of the potential for delays due to insufficient availability of suitable fuels or slow steaming in order to recover the costs for the more expensive IMO 2020 compliant fuel. We will keep you advised of this at the earliest possible opportunity.

THE SCIENCE

The global shipping industry must play its part in creating a future with lower transport emissions and CEVA welcomes the opportunity to play its part in achieving this goal.

A reduction in Sulphur Oxide emissions will help prevent acid rain and combat ocean acidification.

Acid rain is rainfall made so acidic by atmospheric pollution that it causes environmental harm to forests and lakes. Its main cause is the burning of fossil fuels where their waste gases combine with atmospheric water to form acids. Ocean acidification is the ongoing decrease in the pH of the world's oceans caused by the uptake of carbon dioxide from the atmosphere.

GENERAL QUESTIONS

- **What is a scrubber?**

Scrubbers are pollution control devices which can be used to remove some particulates and or gases from ship's exhaust systems.

- **Are there different types of scrubbers?**

There are two types of scrubbers: open-system and closed-system. In a closed system the wash water is retained onboard the ship. There are several methods to remove toxic or corrosive compounds from exhaust gas and neutralize it.

- **Points to note on scrubbers**

Both China and Singapore have already banned open-loop scrubbers. This type of scrubber uses seawater to capture sulphur from engine exhausts before discharging the wash water back into the ocean after treatment.

- **Single use tanks**

Once a fuel tank is cleaned it must be used for the cleaner fuel. If not, the tank requires cleaning again and this adds further cost. Equally, if fuels are blended improperly sediments can form which will lead to engine breakdown. It is important therefore that when IMO 2020 comes into force fuel quality and standards are maintained.

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