IMO’s New Regulations on Fuel Oil

Why in news?

\n\n

The IMO (International Maritime Organization) has released regulations for the year 2020.

\n\n

What is the role IMO in maritime trade?

\n\n

\n

- IMO is an agency under the United Nations, which is global standard-setting authority for the safety, security and environmental performance of international shipping.
\n
- Its main role is to create a regulatory framework for the shipping industry that is fair and effective, universally adopted and universally implemented.
\n
- The IMO Council consists of 40 member countries. In Categories “A” and “B” there are 10 members each and in Category “C” 20 members, who are elected by the IMO Assembly.
\n
- India is a category “B” member in IMO and party to 34 IMO Conventions and protocols.
\n

\n\n

What are IMO’s recent regulations?

\n\n

\n

- Recently IMO adopted an amendment which prohibits even the carriage of non-compliant fuel oil for combustion purposes for propulsion or operation on board a ship unless the ship has an exhaust gas cleaning system, or scrubber fitted.
\n

- As per the new regulations, starting January 1, 2020, ships will be allowed to use only 0.5% Sulphur bunker fuel oil, as opposed to 3.5% currently.
  \n
- IMO has maintained that the implementation date of January 1, 2020, is non-negotiable.
  \n
- The new rules will have a direct bearing on the ship-owners and refiners, as one option with ship-owners is to install scrubbers in existing ships retrofitting.
  \n

\n\n

What are the challenges with new regulations?

\n\n

\n

- Estimates suggest, retrofitting of a scrubber costs anywhere between $2-5 million depending on the ship size.
  \n
- On some older vessels, fitting a scrubber might not even be possible or might not make economic sense.
  \n
- The return on investment of a scrubber hinges on the discount of high sulphur fuel oil to low sulphur fuel oil.
  \n
- If the discount narrows, the investment in scrubber can delay the pay off period and might even render the investment unviable.
  \n
- Further, there is down time of around 1-2 months hence, the ship will not be earning any money.
  \n
- From the supply side, there are only a handful of suppliers of scrubbers.
  \n
- Given the constraints on the production capacity, a scrubber ordered today will only be delivered over the next 8-10 months.
  \n
- This lag time further restricts the ability of the ships to be ready before January 2020.
  \n
- Operational issues with regards to using blended oils with the existing engines will also pose a challenge.
  \n

\n\n

What is the global response for the regulations?

\n\n

\n

- With only 13 months left, there is still a lot of uncertainty around the new regulations and its impact.
\n
- Countries including the US are now seeking to delay the implementation of the new regulations.
\n
- The US and other nations want a ‘phase-in’ of the regulations and are seeking an ‘experience building phase’.
\n
- A phase-in would mean that the rule would not have to be fully complied with until a later unspecified date.
\n
- As the new rules come into force, major bunkering posts across the globe are likely to stock and provide the low Sulphur compliant fuel.
\n

\n\n

What would be the expected outcome of the new regulations?

\n\n

\n

- Be it installation of scrubber or use of a compliant fuel, the new rules will increase freight costs.
\n
- Increased cost of shipping will push up global inflation and might eventually hurt growth.
\n
- This could mean slower growth for 2020 and may be even some following years.
\n
- Many in the market foresee the new rules as a big event for the oil markets pushing up prices of crude oil as well as refined products.
\n
- This can impact prices of a wide variety of goods along with prices of petro-fuels.
\n
- Other sectors and commodities like pet coke, coal and Sulphur too will feel a rub-off of the new regulations.
\n

\n\n

\n\n

Source: Financial Express

\n