

NNR Ocean News

Europe Edition
Week 43 2019

IMO 2020 update

To comply with the IMO 2020 mandate to reduce sulphur in fuel from 3.5% to 0.5% by 2023, the estimated cost will be in the region of **\$30bn by 2023**, and will exceed **\$10bn** in the first year alone. Whilst low bunker fuel prices may have helped the carriers improve their operating profit margins ahead of the new IMO 2020 regulation, IFO380 prices in Singapore however took a sharp increase, noting a shortage of HSFO as suppliers destocked ahead of the IMO 2020 implementation. Additionally, following the drone attacks on the Saudi oil facilities on the 14th of September, IFO380 prices soared to record levels - but have subsequently reduced.

It is expected that carriers will start their recovery of cost with the application of surcharges, effective as soon as **1st of December 2019**. One immediate change is the expected end of the 'all inclusive' freight rate structure. The mechanism to recover the cost is being approached in similar measures by most carriers:

➤ SHORT TERM CONTRACTS (up to 3 months)

- FAK/Spot, monthly and quarterly rates will see an IMO related charge being applied as of the 1st of December, 2019. There is speculation that a Short Term surcharge being levied between **USD 90 – 150 per TEU** on the Asia-Europe Westbound Trade, with the Eastbound level expected to be being much lower. The charge applied will vary and be trade specific.

➤ LONG TERM CONTRACTS (over 3 months)

- Longer terms contracts will most likely see a BAF related surcharge, which will be reviewed on a quarterly basis, commencing on the 1st of January, 2020.