



PALAU INTERNATIONAL SHIP REGISTRY

IMO 2020 SULPHUR REGULATION YOUR OPINION MATTERS



INTERIM SURVEY FINDINGS 2019



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EXECUTIVE SUMMARY

The global International Maritime Organisation's sulphur cap comes into effect on 1 January 2020. The maritime world is undergoing a series of important regulatory changes, many of them related to environmental issues. The International Maritime Organisation (IMO) is at the forefront of the drive to ensure the maritime sector - and shipping in particular - is at the forefront of this new era of responsibility and care for the marine and wider environment.

The decision taken in 2017 to bring in a low sulphur fuel cap by the IMO - starting 1 January 2020 - was seen as an important step forward but it has not been without its critics from both inside the shipping world and outside the wider maritime sector. Ship owners, managers and operators have been sounding warnings about the financial implications of the cap since the announcement of its introduction; alongside the concerns over early availability of the low sulphur fuels and the bunkering locations that will serve the industry.

The financial implications have been led by major investment figures of between \$3-5 million for scrubbers to ensure compliance with the new fuels: this has not been an easy issue to deal with for many smaller ship owners and even the largest players in the industry such as Maersk have voiced serious concerns over the viability and investment in scrubbers. Yet compliance comes with a range of safeguards for the industry along with a series of regulatory controls and penalties through Port State Control that ship owners need to be aware of. So the fears and concerns of some about non-compliance, while remaining valid, are worth looking at, as are the views of those who are globally invested in the industry.

Over the course of the past few months, Palau International Ship Registry has been conducted a survey (IMO 2020 Sulphur Regulation | Your Opinion Matters) and the results of this ongoing survey show some surprising results in terms of attitudes to the new regulations.



INTRODUCTION

There is an expectation that when the IMO's global sulphur cap comes into operation there will be a period of non-compliance. The suggestion is that ship owners, managers and operators will find it increasingly difficult to comply in the early stages of the cap due to higher prices, availability of bunkered new fuel and in some cases unwillingness to even bother with compliance. To many observers it seems that the financial implications override everything the new sulphur cap will stand for.

When the IMO introduced the original sulphur limit in fuel oils it was part of a collection of regulations contained in MARPOL Annex VI, which created the international regulations for the prevention of air pollution and toxic emissions from maritime vessels. MARPOL was first adopted in 1997 but took a further eight years to come into force. As with all such new regulations there followed calls for stronger standards which saw the IMO adopt revised standards in 2008 strengthening of the global sulphur limit to 3.5% in 2012 and then to 0.5% from the start of 2020.

Our recent PISR survey, conducted among ship owners, managers and operators produced some interesting results, none more so than strong indication from more than 86% of the respondents saying they will comply with the forthcoming new regulation by using gas as a fuel or low-sulphur compliant fuel oil. Our global survey took the views of ship owners, ship operators and those involved in the industry that will be affected by the 2020 cap and the very people who will be instrumental in making it a success.

Panos Kirnidis

Chief Executive Officer

Palau International Ship Registry





The background of the page is a photograph of a large cargo ship at sea. The ship is on the left side, with its deck and stacks of colorful shipping containers (yellow, blue, and red) visible. The ship is moving through dark, choppy water, leaving a white wake. The sky is dark and overcast. The overall tone is professional and maritime.

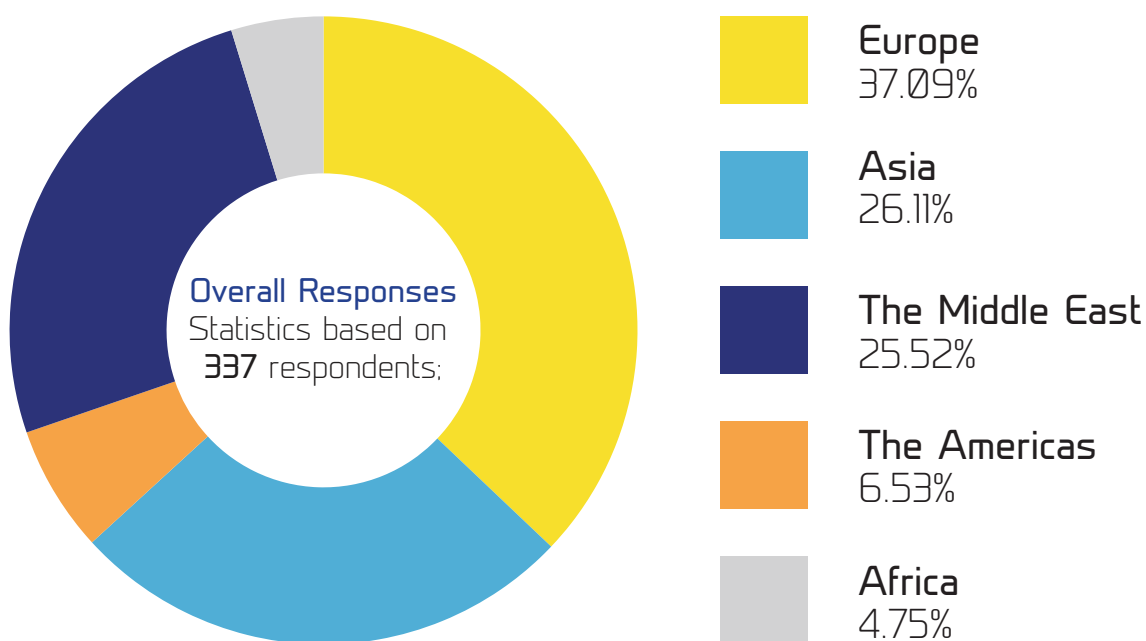
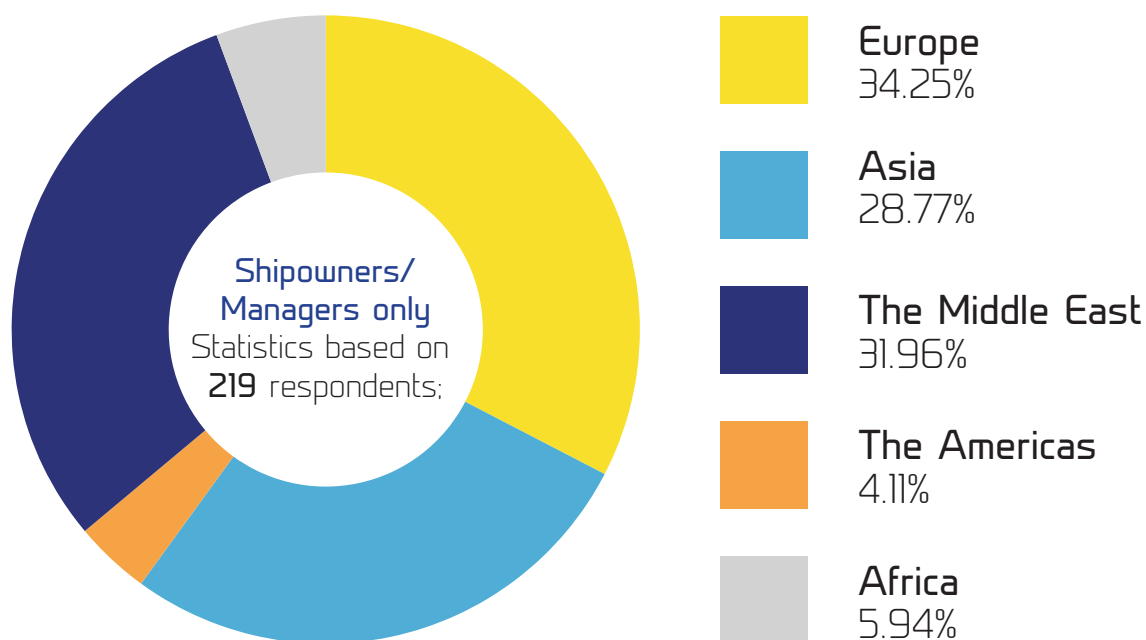
OVERVIEW

The response to the survey was strong and we have created a series of graphs and charts to illustrate visually the findings. Looking a little more closely at the findings and responses we asked just how the IMO cap would affect their business and only just over 29% thought it would affect them in some way while 37% believe it will have a positive effect on their operations.

What was surprising in terms of the results was that despite the concerns of many ship owners and operators, who we are told see the imposition of the cap as financially concerning, more than 37% of respondents said they would be complying with the regulations with more than 44% saying they would be waiting to see how the market will react.

Only 18% said that their vessels would not be able to comply with the cap and be commercially viable. Despite the financial implications and just over seven months to go before it comes into force, the real issues are how to comply with the regulations.

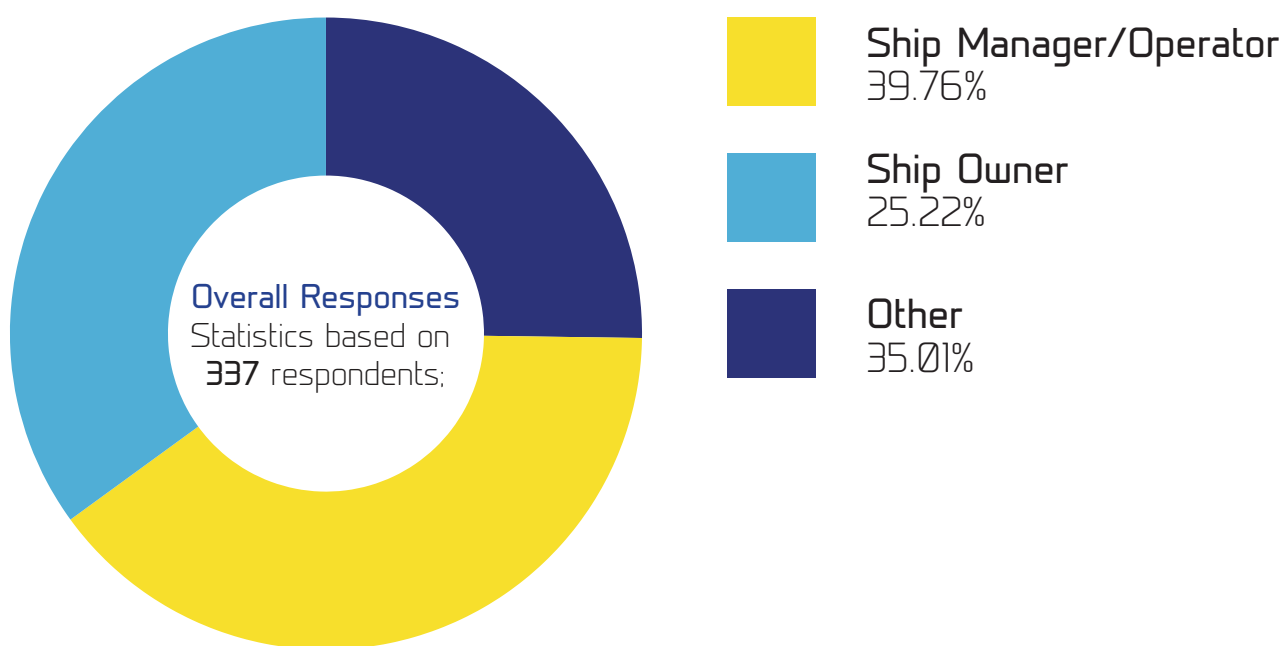
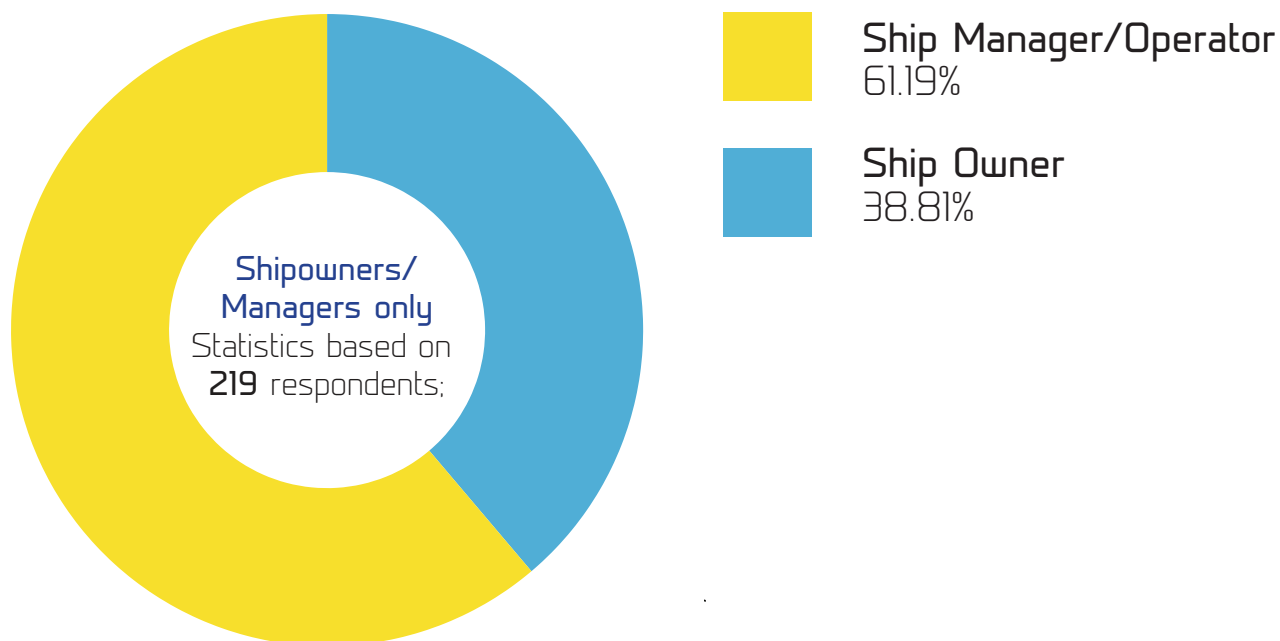
Question 1: Where is your business located?



The majority of the responses to the survey came from Europe (37%) consisting of countries such as the Netherlands, UK, Greece, Cyprus, Bulgaria, Romania, the Ukraine, Turkey and Russia, followed by respondents in the Middle East (25%) such as Egypt, the UAE and the Lebanon. Asia was well represented with 26% of the survey responses from Taiwan, Hong Kong and India.

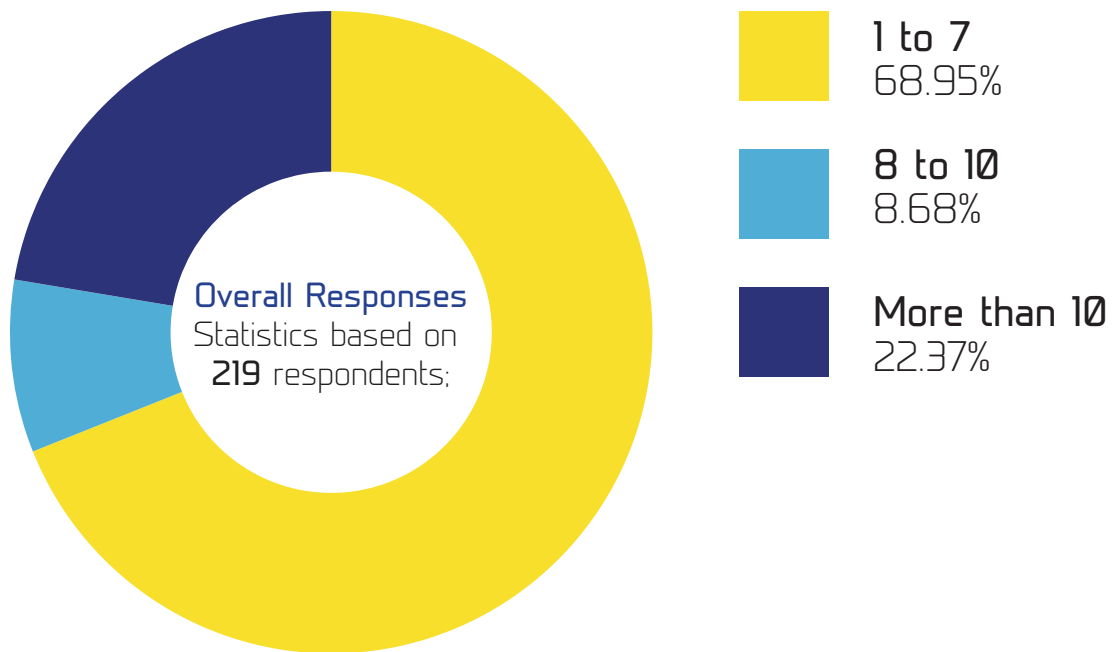
The next highest contribution came from Africa - South Africa and Nigeria - with 5% and then the Americas - the USA, Trinidad & Tobago, Panama and the Dominican Republic accounted for just 6.5% of responses. The largest single contribution to the survey came from the UAE with 19%, then Greece with 17% followed by India at 14.5%.

Question 2: What is your profession?



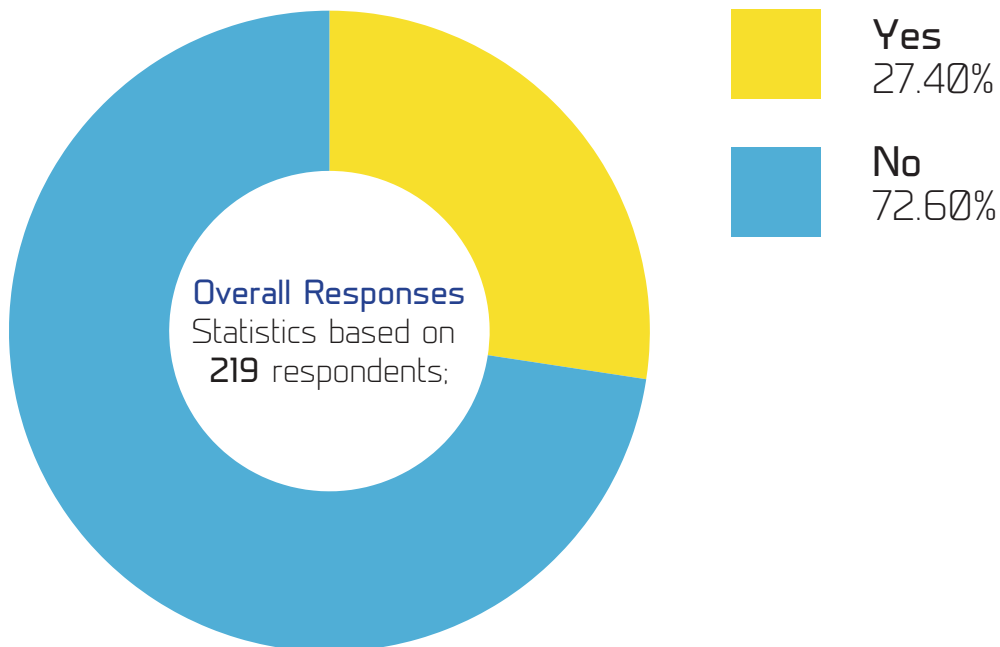
Ship managers and operators responded positively to the survey at 40% followed by 25% of ship owners who have a unique interest in the forthcoming regulations. The remaining 35% of respondents were spread around the industry comprising of technicians, operators, charters and others associated with maritime operations.

Question 3: How many vessel(s) do you currently manage/operate?



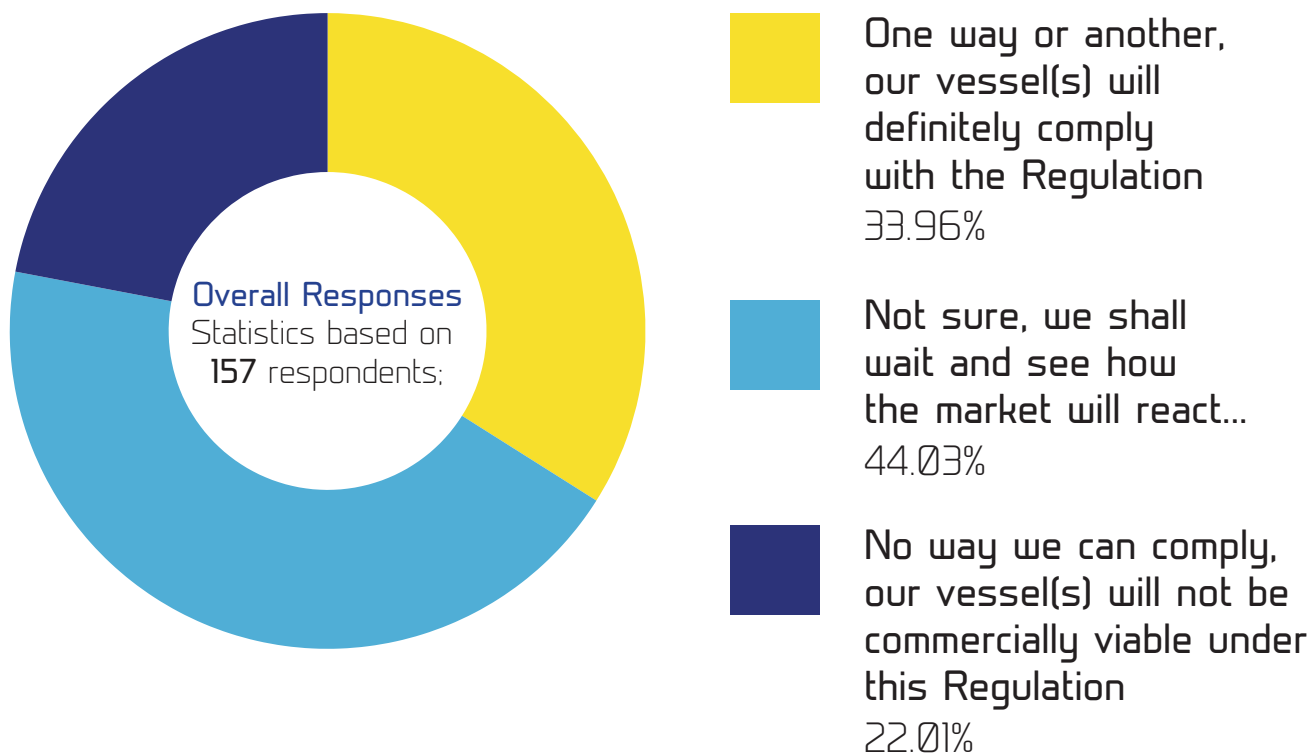
In response to this question the largest response at 69% came from those owning or operating one to seven vessels, 22% from those with a fleet of more than 10. Just under 9% have between eight to 10 vessels in their fleet. A total of 30 respondents (14%) were operating or own just one vessel.

Question 4: Does your vessel(s) currently trade in Emission Control areas (ECAs)?



This was an important question in the survey and the ECA comprises The Baltic Sea area; the North Sea area; the North American area (covering designated coastal areas off the United States and Canada); and the United States, Caribbean Sea area (waters around Puerto Rico and the United States Virgin Islands) as defined in the 1997 MARPOL protocol. Here 73% of respondents operate outside the ECA with the remaining 27% having operations taking place in the ECA.

Question 5: Which of the below statements describe your intention about the IMO 2020 Sulphur Regulation?

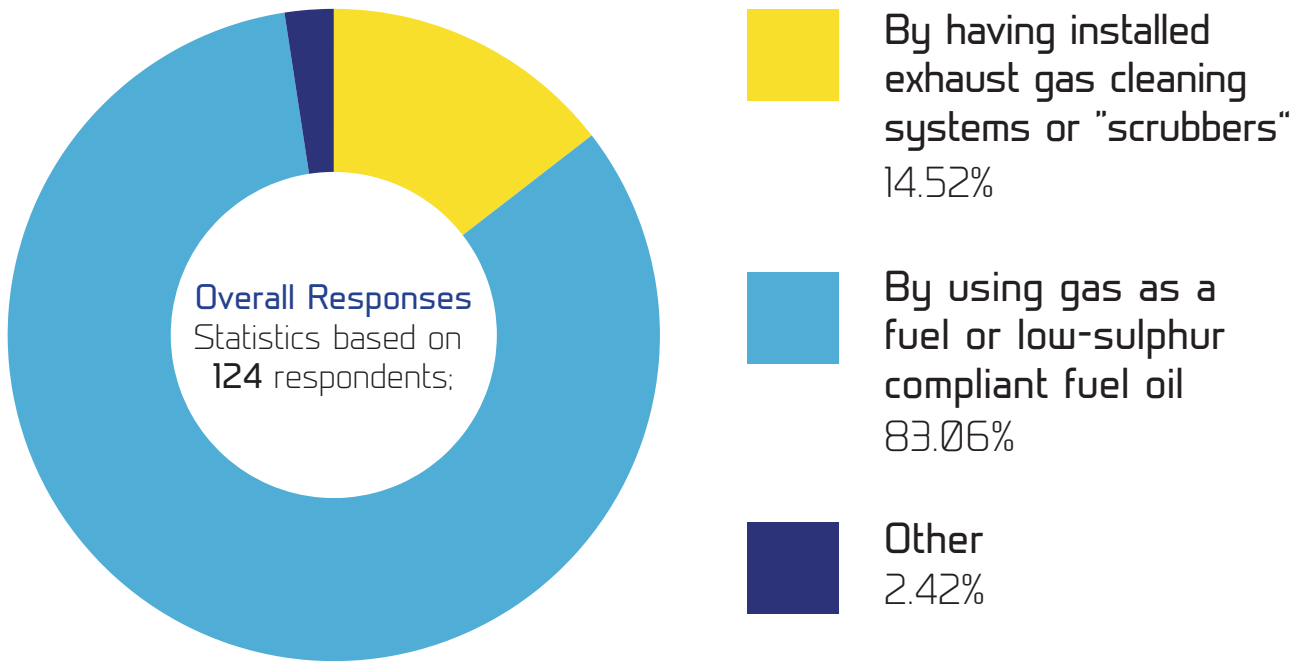


The three important core questions in the survey produced the most interesting responses with most respondents coming between compliance and waiting for the industry and markets to react.

Only just over 22% of the survey results suggested non-compliance because of a number of commercial factors. The encouraging result was that more than 44% of ship owners, operators and managers believe they will definitely comply with the IMO regulations.

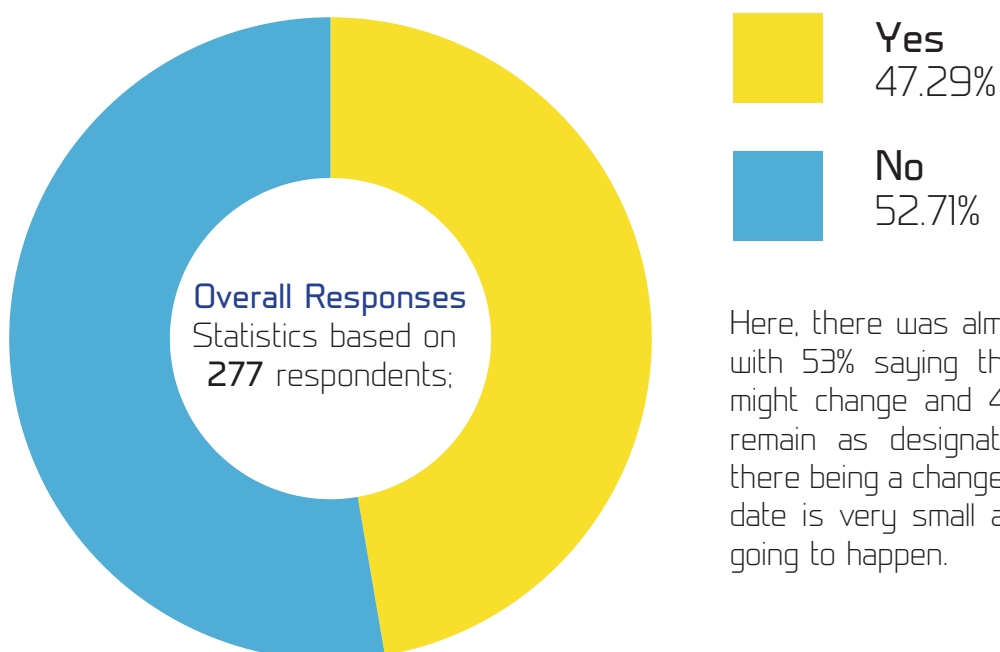


Question 6: How do you intend to comply with the IMO 2020 Sulphur Regulation?



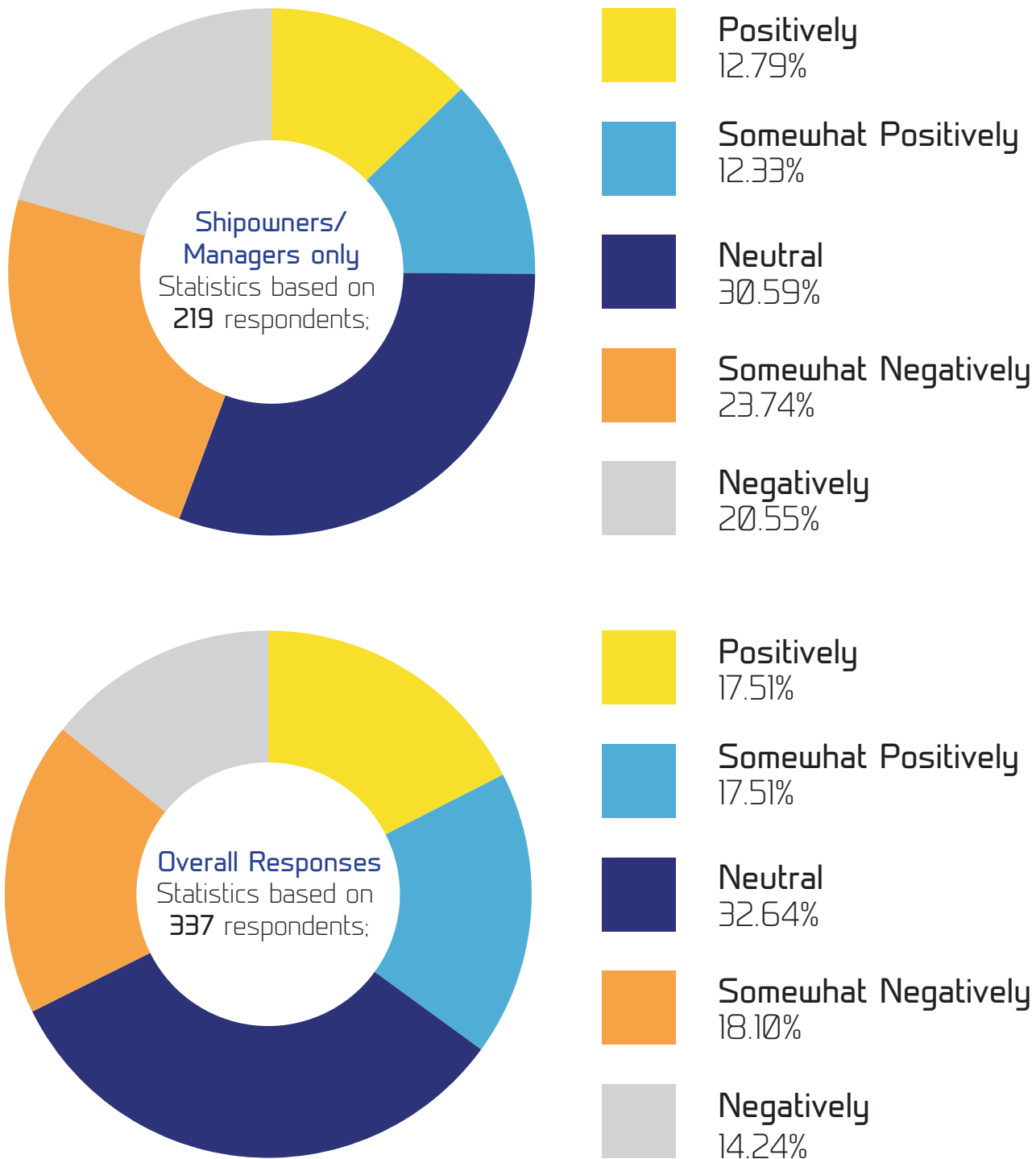
This was by far the most definitive response to all of the questions with 83% saying they would use gas as a fuel or a low-sulphur compliant fuel oil. This contrasted sharply with a mere 14.5% suggesting they would use scrubbers and just 2% saying they would use another unspecified alternative. This suggests that compliance and the desire to remain operating within the new regulations are understood by those at the sharp end of the shipping world.

Question 7: The IMO 2020 Sulphur Regulation is planned to come into force on January 1st 2020; do you think that this date can change?



Here, there was almost a majority opinion with 53% saying they thought the date might change and 47% believing it would remain as designated. The likelihood of there being a change to the implementation date is very small and in reality it is not going to happen.

Question 8: How do you think that the IMO 2020 Sulphur Regulation affects your business?



This question produced an interesting result with 33% of respondents believing it would be a neutral effect on their business: 35% of all respondents but only 25% of the Shipowners/Managers' figures believe the cap will have a positive impact on their business.

When you contrast this with the data for having a negative impact, the figures overall 32% believe it will have a negative impact but it is far more revealing when you look at the data from the Shipowners/Managers' responses. 44% felt the cap would have a detrimental impact on their business. This statistic should raise alarm bells within the industry which is not being addressed at present.

CONCLUSION

The PISR survey has shown that the industry takes these issues seriously. Despite the views in much of the maritime media about the implications for individuals it was pleasing to note that more than a third of respondents see the cap having a positive effect on their operations. As one of the world's leading ship registries we understand our support will be even more important to ship owners in the run up to the cap and beyond.

There were some surprising results from the survey in terms of seeing it as a positive step with the majority of responses suggesting it probably would not have much of an effect on their business. This seems surprising in terms of the financial implications and the thoughts in the media over the past 12 months about how expensive many ship owners feel the industry has become.

The Palau International Ship Registry is continuing to gauge the views and responses from ship owners and operators over the coming months in the run-in to the start of the IMO cap. It seems likely that these figures will change over that period but the initial overview is that ship owners and operators understand the need for the regulations and will work towards their implementation. The shipping world is always mindful of its commitment to the environment and this is a pleasing sidebar to the survey results.



PALAU INTERNATIONAL SHIP REGISTRY

HEAD OFFICES

GREECE

5, Sachtouri Street, Piraeus, 18536, Greece
T: +30 (210) 4293500 / F: +30 (210) 4293503

USA

The Woodlands, TX, 77380, 9595 Six Pines Drive, Suite 8210,
Office 277 T: +1 (832) 631 6061 / F: +1 (832) 631 6001

CONTACT US

info@palaureg.com www.palaureg.com