

IMO 2020: A Sea Change Is Coming

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The International Maritime Organization (IMO) is moving forward with its “IMO 2020 Rule” which will reduce the maximum sulphur content of marine fuel (aka bunker fuel oil) to 0.5 weight percent (wt. %) in areas outside of Emission Control Areas (ECAs) unless onboard stack gas scrubbers have been installed. This mandate was passed in 2008 as part of the MARPOL Annex VI rule, and will take effect on January 1, 2020. Implementation of IMO 2020 will have a pronounced impact on relative market prices for marine fuels, other refined products, and crude oil on a global basis. Beginning on January 1, 2020, marine fuel options will include compliant 0.5 wt. % sulphur marine fuel, high sulphur fuel oil (HSFO) in tandem with a scrubber or in violation of the rule, or an alternative fuel such as liquefied natural gas (LNG).

Impacts of the Rule and its market pricing will be keenly felt by all participants in the marine fuel chain – shipowners, marine fuel suppliers, refiners, and associated industry sectors. Shipowners must take into account many factors when determining how to comply with IMO 2020. Some of these factors include the cost of installation and operation of new equipment onboard their vessel(s), the age of the vessel, trading routes, market economics, availability of equipment, and the viability of exhaust gas scrubbers. Industry capital investments – scrubbers onboard vessels and refinery resid upgrading – will be required and will look attractive if price differentials widen durably. Fuel suppliers, for their part, will have to adjust their marine fuels mix from 2018 through 2020 rollout and beyond in compliance with the Rule and market pressures from shipowners. Meanwhile, refiners will feel the impacts of the IMO 2020 Rule differently based on class. Refineries currently producing HSFO will be the most threatened by the Rule while those currently producing minimal HSFO will likely see IMO 2020 as an opportunity rather than a threat. In any case, all players in the supply chain will have to reckon with the effects of IMO 2020 sooner or later.

In his presentation, Ralph Grimmer will discuss compliance, enforcement, shipowner decision-making, market price and refinery implications, changes in the marine fuels mix, capital investments encouraged by the Rule, how IMO 2020 might be rolled out, and the potential impact on global sulphur production.