IMO2020 Update Q2 2019 and New BAF Mechanism
Freight Forwarding
IMO2020
What you should know

What is the IMO2020 new regulation?
IMO (International Marine Organization) has set a limit for Sulphur in fuel oil used on board ships of 0.50% from January 2020. This will significantly reduce the amount of sulphur oxide emanating from ships and would have major health and environmental benefits for the world, particularly for populations living close to ports and coasts. IMO2020 is the first in a series of steps by the IMO to reduce emissions in response to climate change (source: IMO). All ships will be required to comply on all of the world's oceans. Stricter 0.1% Sulphur will remain in the emission control areas in Europe and North America.

What are the current limits?
Until December 2019, the limit of Sulphur of ships' fuel oil is 3.50%.

How can ships meet a lower sulphur emission standard?
To reduce Sulphur emissions and become compliant, three options or a mix of them are available to the shipping industry.
- Compliant Fuels (Low Sulphur fuel Oil LSFO 0.5%)
- LNG (Liquefied Natural Gas)
- Exhaust Gas cleaning Systems (scrubbers)
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What you should know

It is the most significant change in global shipping regulations in years, requiring ocean carriers to modify and adapt their fleet. The cost of compliance with new regulations will be significant. So the cost of the shipping will increase.

Hapag Lloyd estimation:
- Compliant Fuels solution: Initial cost increase of USD 1 billion annually in the first years
- LNG solution: estimated USD 25-30 million per ship
- Scrubbers: estimated USD 7-10 million per ship

Maersk Estimation:
- Compliant Fuels solution: Initial cost increase of USD 2 billion to its fuel bill
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How much extra costs will there be on the industry, and who will pay for it?

Ocean carriers are exploring a mix of different measures and/or a balanced portfolio of all three options. The fuel bill will rise, but it is impossible to measure the quantum at this stage, as the adoption for each solution will have a large influence on the future prices. Worst case scenario is that fuel costs (paid by carriers) and fuel surcharges (paid by shipper and freight forwarders) in global container shipping will increase by 55%-60% in January 2020 - (source: Drewry). CMA CGM states that these measures represent a major additional cost estimated, based on current conditions, at an average of USD160.-/TEU.

What will happen in 2019?

New BAF floating mechanism are implemented as from 1 January 2019 to reflect and recover fuel related costs.

Fuel cost will be charged separately from the basic ocean freight, and will be calculated per trade route.

Current reference Index IFO 380, commonly used for Fuel quarterly revision will become soon obsolete, to be replaced gradually by LSFO 0.5% and at higher cost.
If you need further information or support

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Thank you