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Shipping & Logistics

New fuel rules set to push up cost of sea transport

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Summary

- Under the new rules, shipping lines are required to refuel with the more expensive low sulphur fuel oils (LSFOs) and not the high sulphur fuels oils (HSFOs) that is currently being used.
- Ships are required to have complied with the IMO rules by January next year.
- Some shipping lines have already alerted their customers on the impending rise in freight charges. For instance, German shipping line, Hapag Lloyd, late last year stated that its operating costs are set to go up as it complies with the new regulations.

Sea freight charges are set to increase later this year as shipping lines use a more expensive fuel in line with the International Maritime Organization (IMO) new regulations.

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The IMO, which is a division of the United Nations that sets regulations for the shipping industry, will allow vessels to only use fuel with a maximum sulphur content of 0.5 percent from next year.

On average, global shipping fleets consume approximately four million barrels of high sulphur fuel oils (HFOs) a day; the current standard is fuelled with a sulphur cap of 3.5 percent. Their use has raised global concerns due to their negative environmental impact caused by greenhouse gases emitted by the burning of HFOs.

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“Complying with the new low sulphur regulation will make the industry significantly greener, but it will have a significant cost impact on the industry, Hapag-Lloyd, and our customers,” said Hapag Lloyd.

“To conform with the regulation, the industry will have to either start using low sulphur fuels or invest in new technologies that have yet to be thoroughly tested in practice. In either case, the costs will go up.”

Experts are estimating an additional initial fuel cost of $60 billion for the entire industry annually in the first years while Hapag-Lloyd is estimating its additional initial costs to add up to $1 billion yearly in the first few years.

Hapag Lloyd operates a fleet of 226 modern container ships and has 389 offices in 127 countries including Kenya where it launched operations in April last year. It was the first dedicated service by the company in East Africa sailing from Jeddah, Saudi Arabia to Mombasa, and from there to Dar es Salaam, in Tanzania, and directly back to Jeddah.

The exporters and importers using the shipping line will, therefore, be significantly affected by the new fuel changes

Kenyan imports from Saudi Arabia, according to the latest economic survey by the Kenya Bureau of Standards, increased by 65.5 per cent in 2017 to reach Sh114.6 billion, led by petroleum products.

The value of Kenya exports to Saudi Arabia increased from Sh6.73 billion to Sh7.84 billion, with tea, coffee and vegetables, being the major products for sale.

According to a 2011 case study on the impact of low sulphur fuel requirements in shipping conducted by the World Maritime University in Malmö, Sweden, ship operators are likely to increase freight charges for their customers as they cushion themselves from the additional fuel costs caused by the use of LSFOs.

The researchers analysed the impact of the IMO’s Tier II/III standards introduced by Annex VI amendments adopted in October 2008 to roro (roll on/roll off) shipping in Northern Europe.

The amendments to Annex VI stated that shipping lines should reduce sulphur content in marine fuels to 0.1 percent by 2015 compared to 1.5 percent prior to 2010 and one percent from 2010.

The study focused on two questions: What is the expected impact of the new requirements of IMO on costs and prices of shipping traffic in the economic control areas (ECAs)? What is the expected impact of the new requirements of IMO on the competitiveness of roll on roll off shipping in the ECAs compared to other transport modes (trucking in particular)?

“The respondents expected freight rate to increase in the order of 15 percent to 25 percent with an overall average of nearly 18 per cent. Rate increases were expected to be the highest on the longer routes,” reported the researchers.

“The corresponding volume losses were expected to reach 14.5 percent. The routes covering medium-range distances (400–750 km) were likely to be hit the strongest with expected volume losses of 21 percent on average.”

- *African Laughter*