

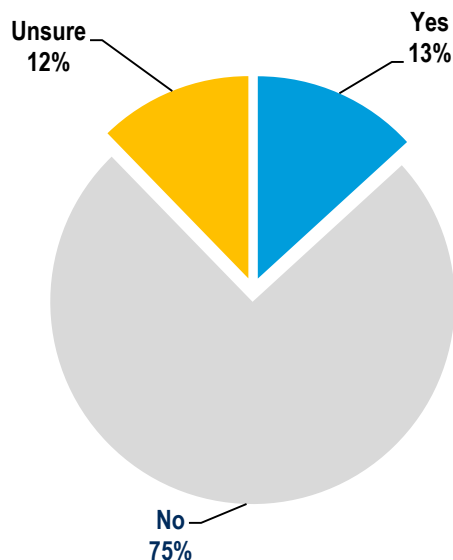
Drewry survey ahead of IMO 2020 low-sulphur rule exposes widespread concern about lack of fuel cost transparency

London, UK, 2 October 2018 – There is considerable unease among global shippers/BCOs (Beneficial Cargo Owners) and freight forwarders ahead of the IMO's 2020 global emissions regulations, due to come into force on 1 January 2020, according to a survey conducted by global shipping consultancy Drewry.

Particular uncertainty and concern was expressed by respondents in both the survey and follow-up interviews about carriers' methods of fuel cost recovery with more than half of all respondents (56%) stating that they did not consider their service providers' existing approaches as either fair or transparent. Further to this, 4 in every 5 of the shippers/BCOs participating in the survey stated that they had yet to receive clarity from their providers as to how the widely anticipated future fuel cost increases, set to accompany the 2020 regulatory change, would be met.

Have your providers (carriers) given you information on how they plan to recover the cost from this regulation?

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Source: Drewry Supply Chain Advisors: IMO 2020 Global Emissions Regulation Survey, Sept 2018



Despite the significance of the change and the high press and media profile given to the subject in recent months, a surprisingly large proportion (33%) of respondents to the Drewry survey admitted to having poor or very poor awareness and understanding of the new regulation.

In Drewry's view, the level of uncertainty today as to the total cost impact is so large that nobody is able to provide a confident forecast of the cost of compliance; the only certainty is that the extra cost will run into billions of dollars globally come 2020. Based on independent "futures" prices, low-sulphur marine fuel prices per tonne will be 55% higher than current high-sulphur fuels and Drewry considers that the probable "worst case" scenario is that fuel costs (paid by carriers) and fuel surcharges (paid by shippers) in global container shipping will increase by 55-60% in January 2020.

"At Drewry we are always keen to listen to the concerns of the market and help facilitate dialogue between stakeholders on complex subjects of common interest like the IMO rule," said Philip Damas, Head of Drewry Supply Chain Advisors.

"The IMO low-sulphur rule change represents a very significant, industry-wide, change event which will likely have far reaching effects on the global shipping industry for many years to come", continued Damas. "Given the scale of the extra costs triggered by the new regulation and the carriers' expectations that their pricing and fuel charge mechanism with customers must be restructured, there is a need for carriers to address the transparency concerns expressed by their customers."

In cooperation with both shipper members of the Drewry Benchmarking Club, and possibly carriers as well, Drewry is working on an IMO low-sulphur rule 'cost impact tool' based on robust market data. Fuel surcharges are one of the largest components of container freight costs and, based on Drewry Benchmarking Club data, typically average \$150/teu on the major routes from Asia today.

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Survey and Respondent Profile

- 106 survey responses. 15 follow-up (30 min) interviews with shippers/BCOs.
- 62% shippers and 38% freight forwarders. 67% of shippers moving >10,000 TEU per annum.
- Respondent role profile: Category and ocean freight procurement executives (55%), Global logistics managers (25%), Senior logistics executives (10%)

Summary Findings

Poor awareness and understanding

- A surprisingly large proportion (33%) of respondents expressed poor awareness and understanding of the new regulation.

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LONDON | DELHI | SINGAPORE | SHANGHAI

Drewry, 15-17 Christopher Street, London EC2A 2BS, United Kingdom

t: +44 (0) 20 7538 0191 f: +44 (0) 20 7987 9396 e: enquiries@drewry.co.uk

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www.drewry.co.uk



- More than half of all respondents had not received formal guidance on the pending changes from either the IMO or their national administration/transport ministry

Lack of preparation

- More than half of all respondents (52%) feel either 'not prepared' or 'not at all prepared' for the impact of the new IMO emissions regulations.
- Only 14% of respondents have conducted an impact assessment, only 1 in 10 of shippers (importers/exporters) responding to the survey have conducted such an assessment

Cost impact concerns and considerable uncertainty

- 22% of all respondents believe the cost impact to their organisation from the new regulation will be either significant (16%) or extremely significant (6%)

Lack of transparency in fuel cost recovery methods

- More than half of all respondents (56%) do not believe the current methods of fuel cost recovery are sufficiently fair and transparent
- 76% of respondents had not received clarification or information from their provider as to how they intend covering potential cost increases from the regulation.
- 4 in every 5 of the shipper/BCO respondents had not received such clarity from their providers.

The survey findings are available to download from the Drewry website at www.drewry.co.uk/white-papers

For further information, please contact James Harley, Drewry's Head of Marketing:

Drewry
15-17 Christopher Street,
London EC2A 2BS
United Kingdom
Tel: +44 (0)20 7650 1676
Fax: +44 (0)20 7987 9396
E-mail: harley@drewry.co.uk

About Drewry

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Drewry has a truly global perspective of the maritime sectors and areas of expertise it covers and employs over 100 professionals across an international network of offices in London, Delhi, Singapore and Shanghai.

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