

RE: GENERAL GUIDANCE ON IMPLEMENTATION OF GLOBAL SULPHUR CAP 2020 AND ITS EFFECT ON SHIPPING AND MARINE INSURANCE INDUSTRY

Due to increase of Insureds' requests relating to issue of forthcoming implementation of Global Sulphur Cap 2020, and following to our recent comments provided in monthly published Newsletters, we would like to introduce our General guidance, which, we believe would be of assistance and interest to our Insureds.

As International Maritime Organization (IMO) committee meetings have decided, as from 1 January 2020, in accordance with MARPOL Annex VI1, the sulphur content of fuel oil used on board commercial ships trading outside sulphur Emission Control Areas (ECAs) must not exceed 0.50% m/m. It's a significant reduction, since current global limit has been implemented in 2012 at the level of 3,50% m/m. It also goes without saying, that already existing limits for some specific ECAs, which are much stricter than global regulations, remain to be in force. New regulations are destined to improve air quality and protect the environment. Nevertheless, industry expects substantial increase of compliant fuel prices, as well as uncertainty about its availability in every port worldwide, significant increase of respective Port State Control (PSC) checks and possible fines for non-conformity.

An exception to the use of the 0.50% sulphur fuel may be made for LNG fuel ships, or those using an exhaust gas cleaning system (EGCS), also known as "scrubbers", always subject to any local restrictions. This system is designed to filter sulphur oxides emissions and it is permitted to use heavy fuel oil for ships fitted so long as they achieve the same level of emissions reduction. IMO provides special regulations for discharge of wash water from scrubbers. It shall be delivered ashore to special reception facilities, and shall not be discharged to the sea or incinerated onboard. Moreover, discharged wash water also must meet strict criterias, which shall be a subject of additional checks by PSC inspectors. Meanwhile, 0.50% rule would have an impact on vast majority of ships. As anticipated, conformity with these new regulations will be strictly controlled by PSC authorities worldwide. In addition to prohibition of burning of high Sulphur fuel as from 1 January 2020, a prohibition of carriage of non-compliant bunker will also enter into force as from 1 March 2020.

IMO strictly recommends that shipping companies shall prepare specific Implementation Plan for each of their ships as soon as possible, so to start planning of compliant fuel purchase. It is outlined, that a significant increase of PSC compliance checks will occur, and having suitable Implementation Plan onboard will assist master and crew to show PSC officers that crew acts in a good faith and due diligence is performed in what corresponds to compliance with new regulations. Once the Implementation Plan is developed, Owners are recommended to approach the ship's flag State and classification society and request that it reviews the Plan for adequacy, completeness and conformity with the regulations of flag State.

New regulations also significantly impact on new charters. If fuel is to be provided by the charterer, the owners shall insist that appropriate clauses are included in the charter. The Charterer shall be obliged to provide compliant fuel in time as provided by Fuel Oil Changeover Plan for the ship. BIMCO and INTERTANKO has developed and published such new clauses to be implemented in new charter parties.

Industry's one of biggest concern is an anticipated increase of demand for compliant fuel. The point is that it is not possible to predict availability of it in every port worldwide, therefore it is highly likely that

shipowners will face the situation when compliant fuel is absent on ships' initial route. Owners are recommended to give maximum attention to this issue, since it is said that ships are required to make every best effort to obtain compliant fuel, though should not be required to deviate from their planned voyage or to delay unduly their voyage in order to obtain compliant fuel. Though IMO has developed a form of Fuel Oil Non-Availability Report (FONAR), the same will not be considered as a straightforward exemption from existing requirements. Apparently, it may help to prove to PSC inspectors good faith of shipowners, but decisions as to respective measures remain at sole discretion of local administrations.

Infringements of these new regulations are likely to lead to fines, detentions and possibly, in extreme cases, PSC banning orders, which would fall outside of P&I Cover. Therefore, we would recommend Insureds to specifically draw their attention to already published detailed and comprehensive guidelines by IMO and International Chamber of Shipping (ICS). May you still have any additional queries, please do not hesitate to contact us.

Best regards,

Ingosstrakh Insurance Company

P&I Department