

# Regulatory changes and IMO 2020

Michael Hynekamp  
EVP and COO WW Ocean

Roger Strevens  
VP, Global Sustainability

7 November 2018

# Lean:Green sustainability strategy

**Core contention:** what's sustainable and what's economic *can and must* be the same thing

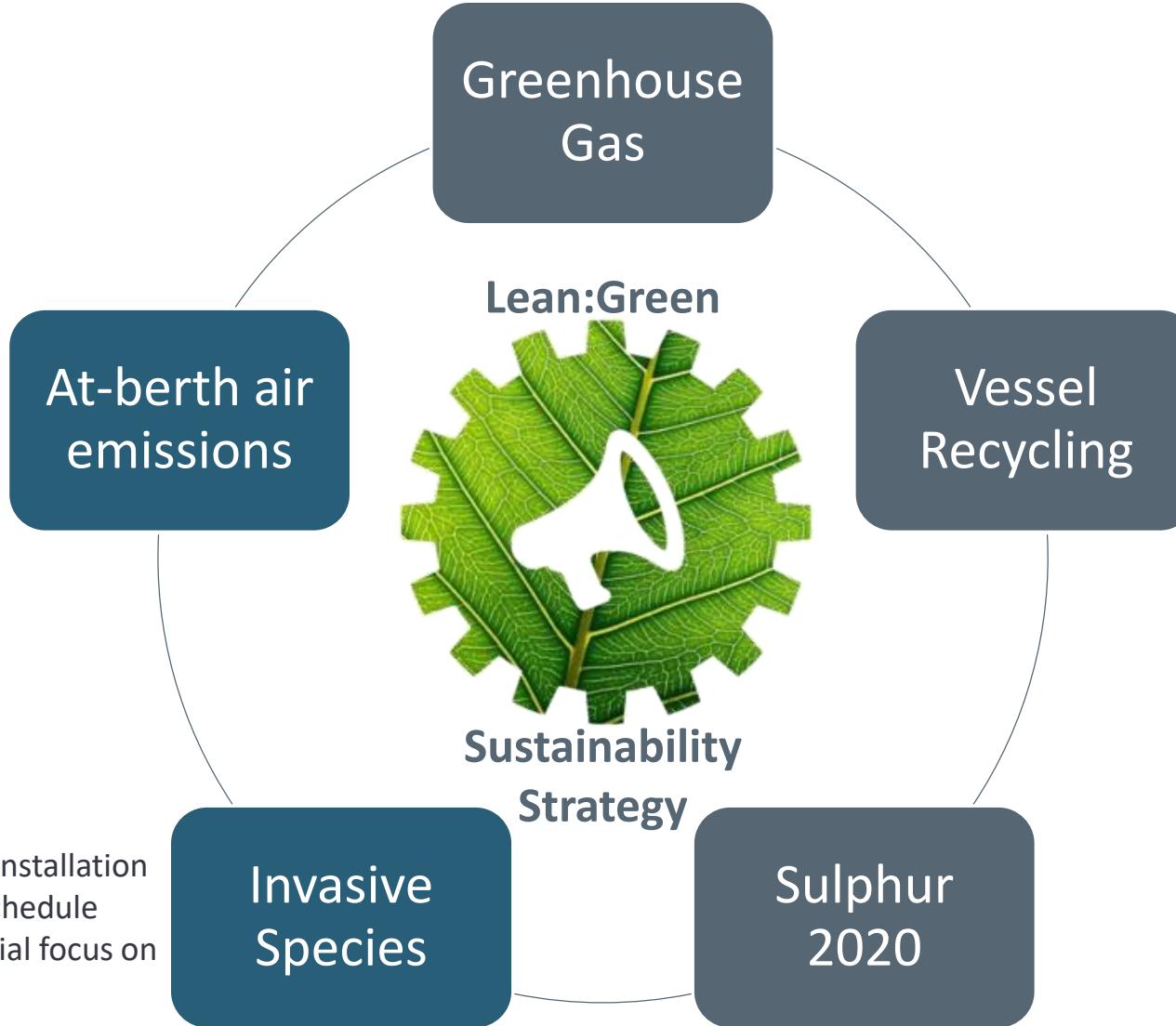
To pursue Lean:Green is to be a **leader**

- **Engaging with innovators** to find new Lean:Green solutions
- **Advocacy** is vital in making sustainability the norm



# The big five... of the moment

- CA may introduce new requirements
- Seeking novel solution using battery technology



- Ballast system installation following DD schedule
- Increasing official focus on hull condition

# GHG regulatory developments

- At least 50% absolute reduction by 2050 vs. 2008
  - Deceptively urgent
- Focus areas for regulatory development include:
  - Port scheduling optimisation – likely first order of business
  - Vessel speed reduction – many ripple effects
- Regulatory changes not expected before 2020



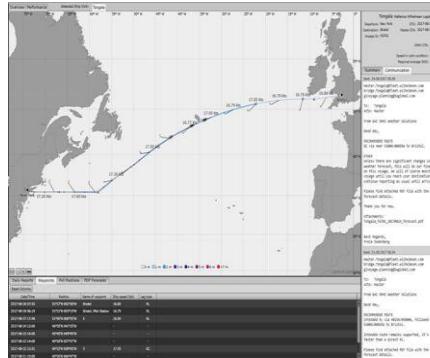
# Wallenius Wilhelmsen's GHG approach

Continuous

Periodic

Once-Off

Project



Digitalisation

Weather Routing

Bio-fouling  
management

Bulbous bow refit

Fleet renewal

Operational/ OPEX

Design /CAPEX

# Engaging for a zero emission future



**Partner to find  
Lean:Green solutions**



**Attract innovators  
to shipping**



**Engage in the  
regulatory process**



**TRIDENT  
ALLIANCE**

# Vessel Recycling

- **Wide range in recycling performance**
  - Worst: horrific welfare and environmental consequences
  - WalWil: responsible recycling of vessels for many years
- **Transparency key to progress; enables informed decision-making**
- **Ship Recycling Transparency Initiative (SRTI) – launching end Nov.**
  - Online platform for disclosure of recycling policies & practices
  - ‘Obligation’ for investors and customers to respond



# Sulphur 2020 – Recap

**What** | Fuel sulphur content drops to 0.5%, or equivalent. ECAs stay at 0.1%

**When** | January 1<sup>st</sup> 2020 – deferral not possible

**Who** | Applicable to all vessels, all of the time

**Enforcement** | ‘Carriage Ban’ adopted - signals IMO’s commitment, important tool

# Wallenius Wilhelmsen has chosen a balanced approach which gives the best chance of managing risks and costs

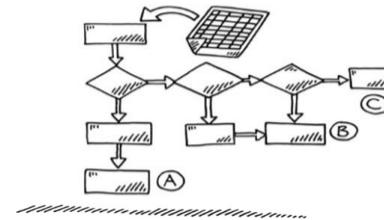
## Commercial

*Changes in Bunker Adjustment  
Factor (BAF) clauses and  
customer contracts*



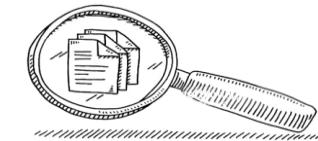
## Technical

*Scrubber installations  
to allow for use of  
HSFO on selected vessels*



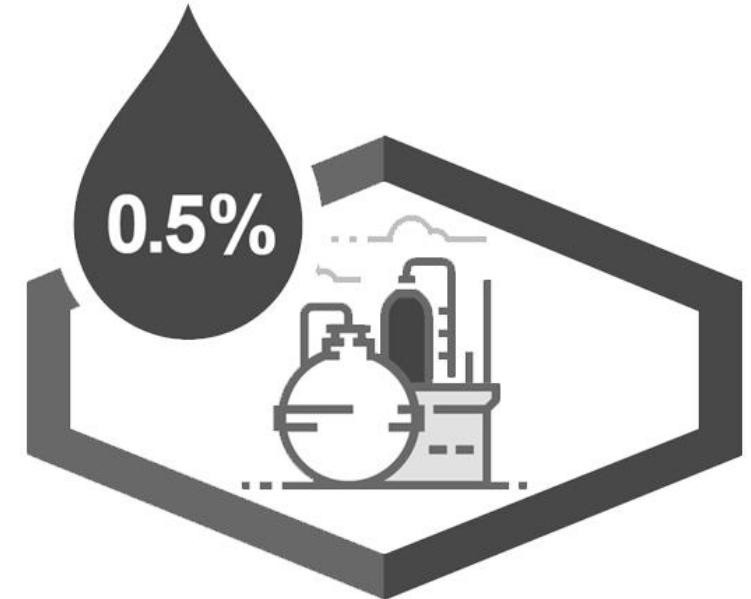
## Financial

*Derivative products  
and hedging to  
reduce exposure*

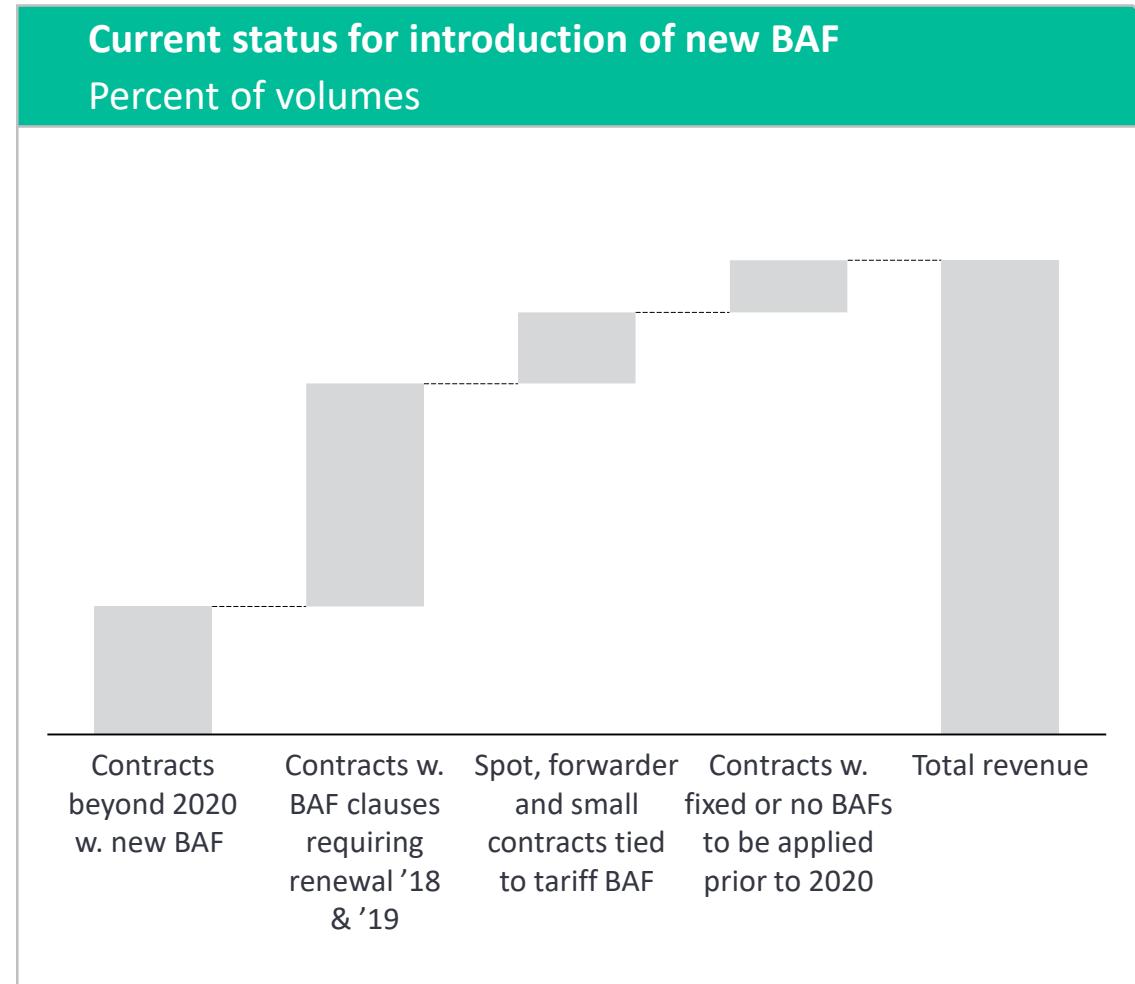


# Increased bunker costs to be transferred to the customers...

- The cost of compliance with the regulation will be linked to the new fuel most vessels will switch to
- The cost will have to be passed on to the customers using the same mechanism as today's BAF clauses
- The new regulation will simply mean a different price for compliant marine fuel for most vessels
- BAF clauses will change on Jan 1 2020 and will feature a different reference fuel from that point on



# ... and implementation well under way in Wallenius Wilhelmsen

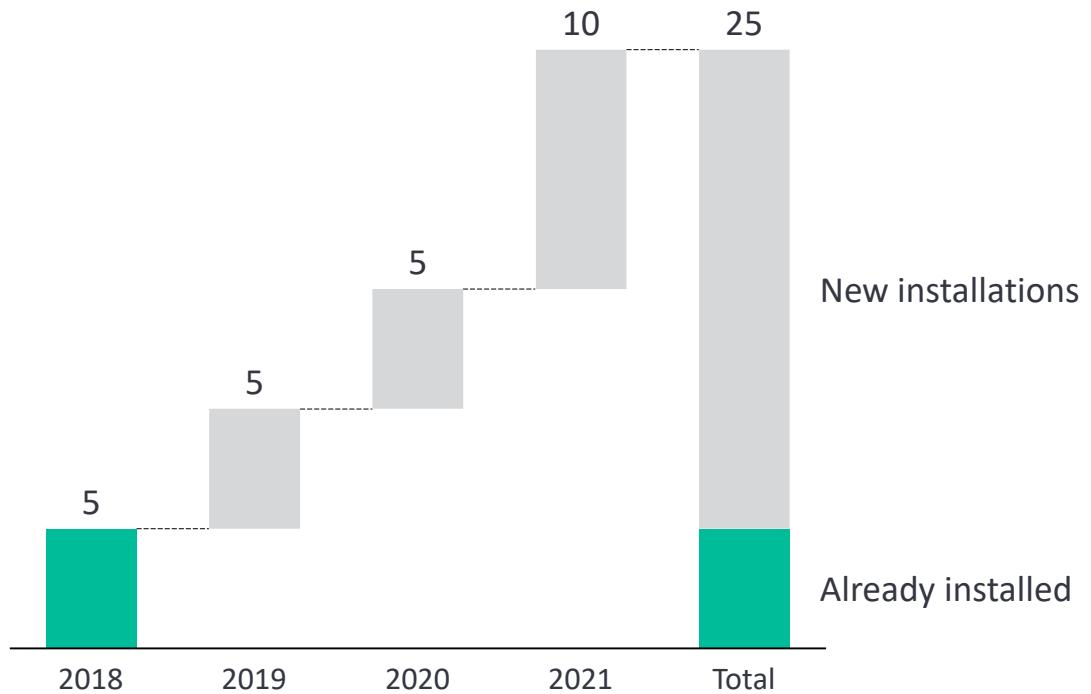


## Comments

- Since the finalisation of the regulation, the group has been direct and open in communication with our customers that:
  - This change is coming
  - We agree with and support the change
  - The increased cost must be passed on in full
- The majority of contracts that extend into 2020 (now carry new clauses that provide a basis to adjust contracts and terms to reflect the new IMO regulation
- For contracts running into 2020 with any gap to provisions to adjust BAF, the group will implement emergency fuel surcharge
- Discussions are ongoing or will run in parallel with tenders for contracts that expire before 2020 to introduce new BAF
- Tariff BAF will also be adjusted to point to such a new public market index

# Wallenius Wilhelmsen will have 25 vessels with scrubbers by end of 2021

## Development in # of scrubbers in the fleet



## Comments

- In June 2018, Wallenius Wilhelmsen decided to initiate a program to retrofit scrubbers on 20 vessels by the end of 2021
- In October 2018, Wallenius Wilhelmsen signed a fixed price turn-key contract with one supplier for scrubber installation covering engineering, equipment, materials and yard conversion and installation.
- Total cost for the turn-key delivery for 20 vessels (including off-hire costs) is expected to be USD 120-130 million
- Scrubber installations on our types of vessels, are typically more complex than for mainstream vessel types, e.g. tankers, bulkers and box ships
- The installation schedule with yard slots are confirmed with 5 scrubbers in 2019, 5 scrubbers in 2020 and 10 scrubbers in 2021.
- The scrubbers will be retrofitted during scheduled dry docking to minimize impact on the operations and will be financed through available cash and credit facilities.
- WW Ocean opting for a hybrid type scrubber design, which can operate in both open and closed loop modes

# Conclusion

**Cost is unprecedented and cannot be absorbed**

The increased bunker cost will be passed on the (end-) customers through BAFs

Wallenius Wilhelmsen has and will continue to **prepare customers** for the cost increase this regulation will have on their business

**A balanced approach** gives the best chance of **managing risks and costs**

