



Statement of

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on

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Chairman Murkowski, Ranking Member Manchin, and Members of the Committee, thank you for the invitation to testify today. My name is John Butler. I am President and CEO of the World Shipping Council (WSC or the Council)¹. The Council is a non-profit trade association whose goal is to provide a coordinated voice for the liner shipping industry in its work with policymakers, the public, and other industry groups with an interest in international transportation.

Liner shipping is the sector of the maritime shipping industry that offers regular service based on fixed schedules and itineraries. The Council's members carry over 90% of the United States' international containerized ocean export and import commerce and include the full spectrum of carriers from large global lines to niche carriers, offering container, roll-on/roll-off, and car carrier services as well as a broad array of logistics services.

WSC members comprise an industry that has invested over \$400 billion in the vessels, equipment, and marine terminals that are in worldwide operation today. Approximately 1,200 ocean-going liner vessels, mostly containerships, make more than 28,000 calls at ports in the United States during a given year – almost 80 vessel calls a day. This industry provides American importers and exporters with door-

¹ A complete list of WSC members and more information about the Council can be found at www.worldshipping.org.

to-door delivery service for almost any commodity to and from roughly 190 countries. Approximately 35 million TEU² of containerized cargo are currently imported into or exported from the United States each year. The container shipping industry is one of the most important facilitators of the nation's growth and on-going economic activity. The connection of liner vessels to ports, roads, and rail infrastructure forms an intermodal system that generally operates with such reliability that in most parts of the country the average consumer is unaware of its workings.

My testimony will provide background on the IMO 2020 low sulphur fuel requirement, discuss how the liner shipping industry is prepared to comply with this requirement, and discuss how to ensure the transition to IMO 2020 compliant fuels is executed in a manner that will allow the markets to quickly and efficiently adjust to the new requirement.

Background of the IMO Regulation

A global limit on the sulphur content of marine fuel was first established in 1997 when governments, acting through the International Maritime Organization (IMO), adopted regulations for the prevention of air pollution from ships by creating Annex VI to the International Convention for the Prevention of Pollution from Ships, otherwise known as *MARPOL Annex VI*. The requirements of MARPOL Annex VI entered into force in May 2005. The applicable sulphur limits were amended in 2008 as a result of efforts by the United States, Norway, and many other governments that believed lower marine fuel sulphur limits were critical to improving air quality in their own countries as well as around the world. Moreover, global regulations were considered the most effective and efficient mechanism to establish air quality standards while maintaining regulatory consistency in an industry that operates across international borders on a continuous basis.

The 2008 Amendments to MARPOL Annex VI established new sulphur limits. The first limit (0.1%) took effect in 2015 and applies in Emission Control Areas (ECAs) established under the treaty, including the North American ECA established by the United States and Canada.

The second limit (the focus of today's discussion) was adopted in 2008 and will take effect on 1 January 2020. The 2020 0.5% global sulphur limit was subject to a formal review in the IMO to determine sufficient availability of fuel that would meet the 0.5% sulphur limit. The IMO, with the support of the United States, concluded that review in 2016 and determined that sufficient fuel would be available to meet the 0.5% standard in 2020. These global reductions in the sulphur content of marine fuel are anticipated to result in substantial improvements in public health.

Preparations for the 0.5% Marine Fuel Sulphur Limit

The IMO, the shipping industry, fuel suppliers, and the United States Coast Guard have all taken measures to prepare for the 0.5% limit. These efforts include regulatory amendments and guidance undertaken by both the IMO and U.S. Coast Guard as well as extensive preparations across the industry in terms of engineering, crew training, and contracting with fuel suppliers. All affected parties have been working for the past several years to ensure that the new limits are implemented as smoothly as possible.

² A TEU is a twenty-foot equivalent unit. Most containers are 40 feet in length and equal 2 TEUs.

IMO guidelines and other actions taken to ensure smooth implementation of the 0.5% sulphur limit can be found at: <http://www.imo.org/en/MediaCentre/PressBriefings/Pages/10-MEPC-74-sulphur-2020.aspx>.

The Need for a Level Playing Field

The marine fuel sulphur limit that will go into effect next month has been in the works for over a decade, so there are no surprises here. Notwithstanding that lead time, there is no doubt that the 2020 sulphur limits will have a significant cost impact on marine carriers. What is less certain is the magnitude of the cost differential that we will see with these fuels, many of which are expected to be blends. In the end, the fuel markets and the markets for marine transportation will find equilibrium and establish cost levels and allocation of those costs across the supply chain.

The one thought that I would leave with you is that the single most important thing that governments around the world can do is to make it clear by words and action that they will require compliance with this new regulation. Markets are already adjusting to the requirement for cleaner fuels, but markets function best when there are clear signals about what the demand will be. Any unnecessary uncertainty in the fuel markets will simply extend the time that it takes for supplies and prices to reach equilibrium. From the perspective of ocean carriers that will purchase this cleaner fuel, it is imperative that we have a level commercial playing field on which all participants are playing by the same rules.

Thank you for the opportunity to testify today.

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