

**Nordic/Baltic Shipping Policy
Seminar 2013 in Mariehamn, Aaland
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Olof Widén
Managing Director
Finnish Shipowners' Association



Finnish Shipowners' Association (from 1.6.2008)

- 26 member companies
- 115 vessels under Finnish flag
- The members have 48 vessels under foreign flag
- And 77 time-chartered vessels under other flags
- The members employ some 5.500 Finnish seamen on the Finnish flagged vessels



Important prerequisites – the micro perspective

- **COMPETITIVE POSITION OF THE EUROPEAN SHIPPING INDUSTRY**
- **POLICY FOR MAINTAINING MARITIME KNOW HOW IN EUROPE**
- **GLOBAL GOVERNANCE (IMO)**
- **SAFETY AND ENVIRONMENT ISSUES**



IMO - MARPOL ANNEX VI 2008

SULPHUR OXIDE (SOX)






**MIRRORED INTO THE REVISED EU-SOX DIRECTIVE 2012.
IMPORTANT MILESTONES SHOWN BELOW:**

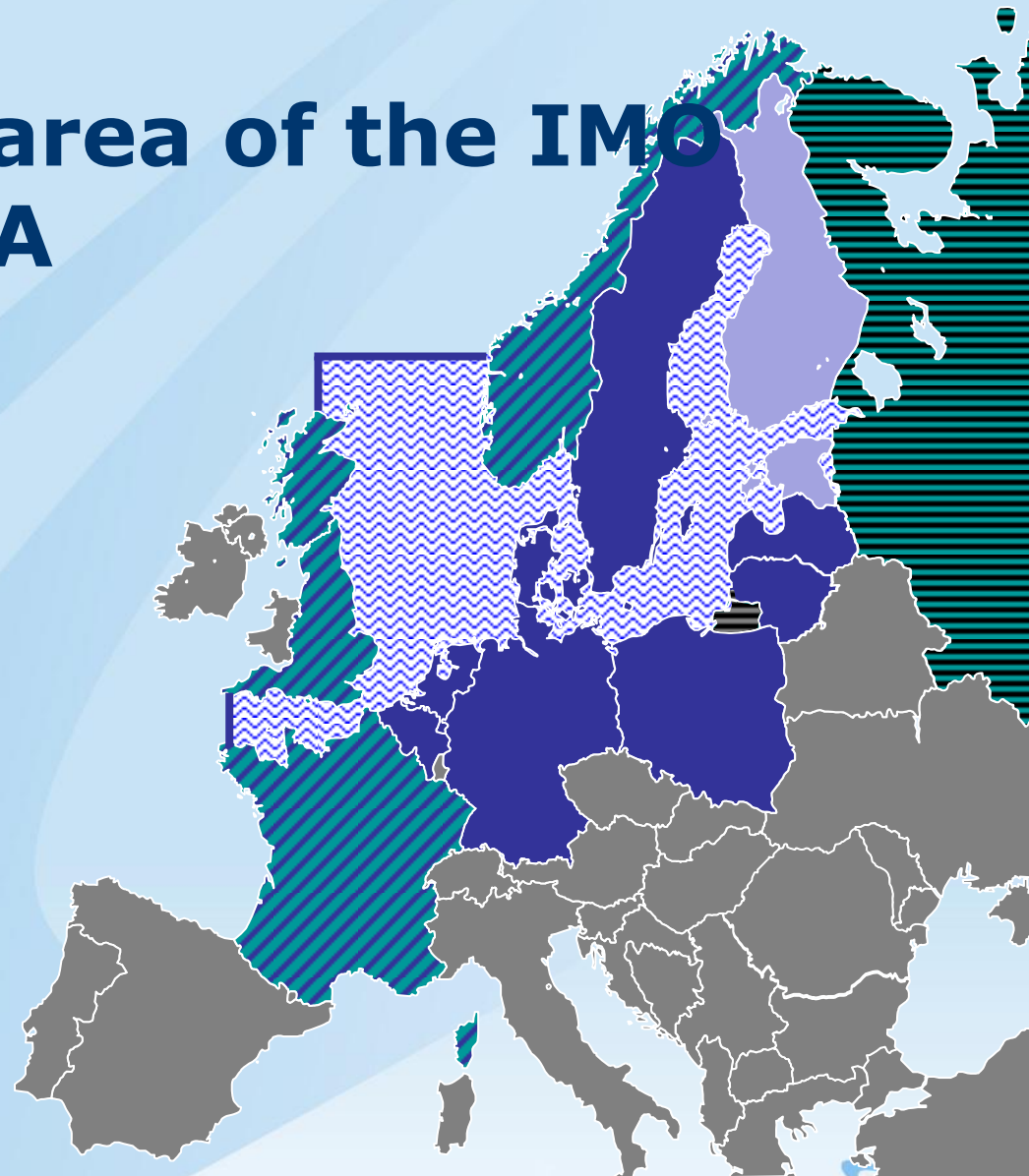
- © **2010 – EMISSION CONTROL AREA (ECA) LIMIT REDUCED TO 1%**
- © **2012 – GLOBAL LIMIT REDUCED TO 3.5% (FROM 4.5%)**
- © **2015 – ECA LIMIT REDUCED TO 0.1%**
- © **2020 – GLOBAL LIMIT TO 0.5% BUT A REVIEW IN 2018 (WITH THE AUTHORITY TO DELAY IMPLEMENTATION) WILL DETERMINE IF THIS IS ACHIEVABLE.**
- © **2025 – GLOBAL LIMIT TO 0.5% NOTWITHSTANDING THE RESULT OF THE 2018 REVIEW.**

COMPLIANCE CAN BE ACHIEVED BY ALTERNATIVE FUELS OR ABATEMENT EQUIPMENT.

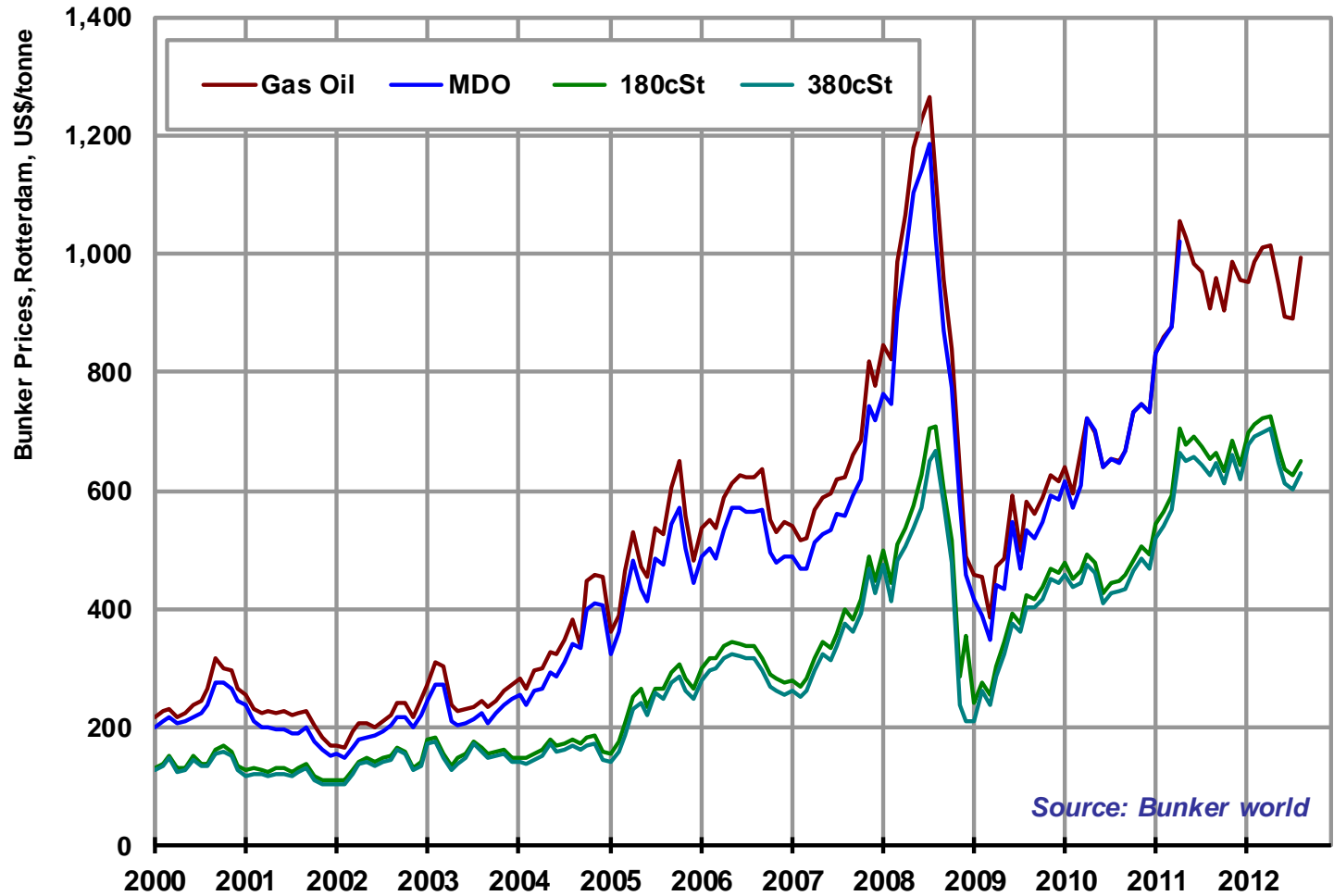


Geographical area of the IMO European SECA

-  The Sulphur Emission Control Area (SECA)
-  Countries with water only in SECA
-  Countries with part of the coast in SECA
-  Countries without coast in SECA
-  Part of Marpol but not EU directive

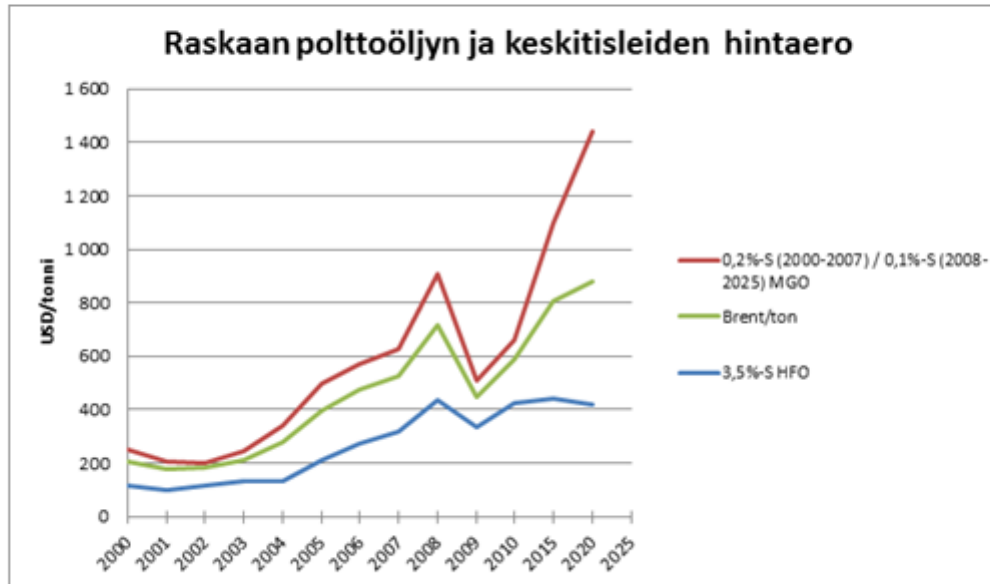


Bunker prices, Rotterdam



Refinery crystal ball for price development in 2015-2020

Prisutveckling av Brent, 3,5 % och 0,1 % (Teboil 2011)



Alternatives to comply with the 0,1% ECA SOx level in 2015

- Change of fuel (Fuel Oil → Diesel)
 - Expensive, the only alternative for 70 % of the ships.
- Use of LNG
 - Lack of bunkering infrastructure. For newbuildings.
- Use of bio fuel
 - Availability very marginal. Need a break through on waste tyre pyrolysis plant oil.
- Exhaust gas cleaning
 - Pilot projects with scrubber installations. Wash water problems in brackish waters (Baltic). Alternative for 30%



Penalties (Sulphur directive)

Replace Article 11 as follows:

- **Member States shall determine the penalties** applicable to breaches of the national provisions adopted pursuant to this Directive.
- 2. The penalties determined must be effective, proportionate and dissuasive and may include [...] fines calculated in such a way as to make sure that the fines at least deprive those responsible of the economic benefits derived from their infringement and that they gradually increase for repeated infringements.
- + new recital 12k:
*(12k) Effective, proportionate and dissuasive penalties are important for the implementation of this Directive. Member States should include fines calculated in such a way as to make sure that the fines at least deprive those responsible of the economic benefits derived from their infringement **and that they gradually increase for repeated infringements**. Member States should notify these provisions to the Commission.*



Non complying ships locked out or heavily penalized



Financial measures (Sulphur directive)

New Article 4f

- **Member States may adopt financial measures** in favour of operators affected by this Directive where such financial measures are in accordance with State aid rules applicable and to be adopted in this area.
- + new recital 11c:
*(11c) In accordance with **existing guidelines on State aid for environmental protection**, and without prejudice to future changes thereof, Member States may provide state aid in favour of operators affected by this Directive, including aid for retrofitting operations of existing vessels, if such aid measures are deemed to be compatible with the internal market in accordance with Articles 107 and 108 of the Treaty, in particular in light of the applicable guidelines on State aid for environmental protection. In this context, the Commission may take into account that the use of some abatement methods go beyond the requirements of this Directive by reducing not only the SO₂ emissions but also other emissions.*



INTERPRETING EU GUIDELINES

- Referring to the EU community guidelines on state aid for environmental protection and the **methodology** for calculation of eligible costs described in its article 82.
- *“eligible costs must be calculated net of any operating benefits and operating costs related to the extra investment for environmental protection and arising during the first five years of the life of the investment concerned. This means that such operating benefits must be deducted and such operating costs may be added to the extra investment costs”.*
- The shipping industry is put in a difficult situation what comes to competition distortion and a charter party context. The investment cost for new abatement technology is always put on the shipowner but the influence over the fuel consumption and the (lost?) cargo space are trade secrets only known by the charterer. Also to be noted is that an ECA compliant ship is not competitive outside the area.



The formula

$$\begin{aligned} & \text{INVESTMENT COST} \\ + & \text{ OPERATING COST 5 YEARS } \\ & \text{COSTS TOTAL} \\ - & \text{ PROFIT 5 YEARS } \\ & \text{NET COSTS} \\ & \text{ * Aid intensity (50 \%) } \\ & = \text{Total aid} \end{aligned}$$



List of investment costs

- Device (Scrubber or such)
- Planning design
- Planning, project management and lightweight calculations
- Installation
- Change of automation and other systems
- Modification work (space, stability, GT, removal hoover)
- Classification
- Loss of income, off-hire, docking/installation time
- Changes to SCR (Selective Catalytic Reduction)



List of operating costs in 5 years

- Additional fuel and electricity consumption
- Maintenance, service and spareparts
- Loss of cargo space
- Lubricants
- Fresh water produced onboard
- Chemicals NaOH (caustic soda consumption)
- Scrubber sludge
- Higher port dues (reception facilities)
- Additional crewmembers (engineers)

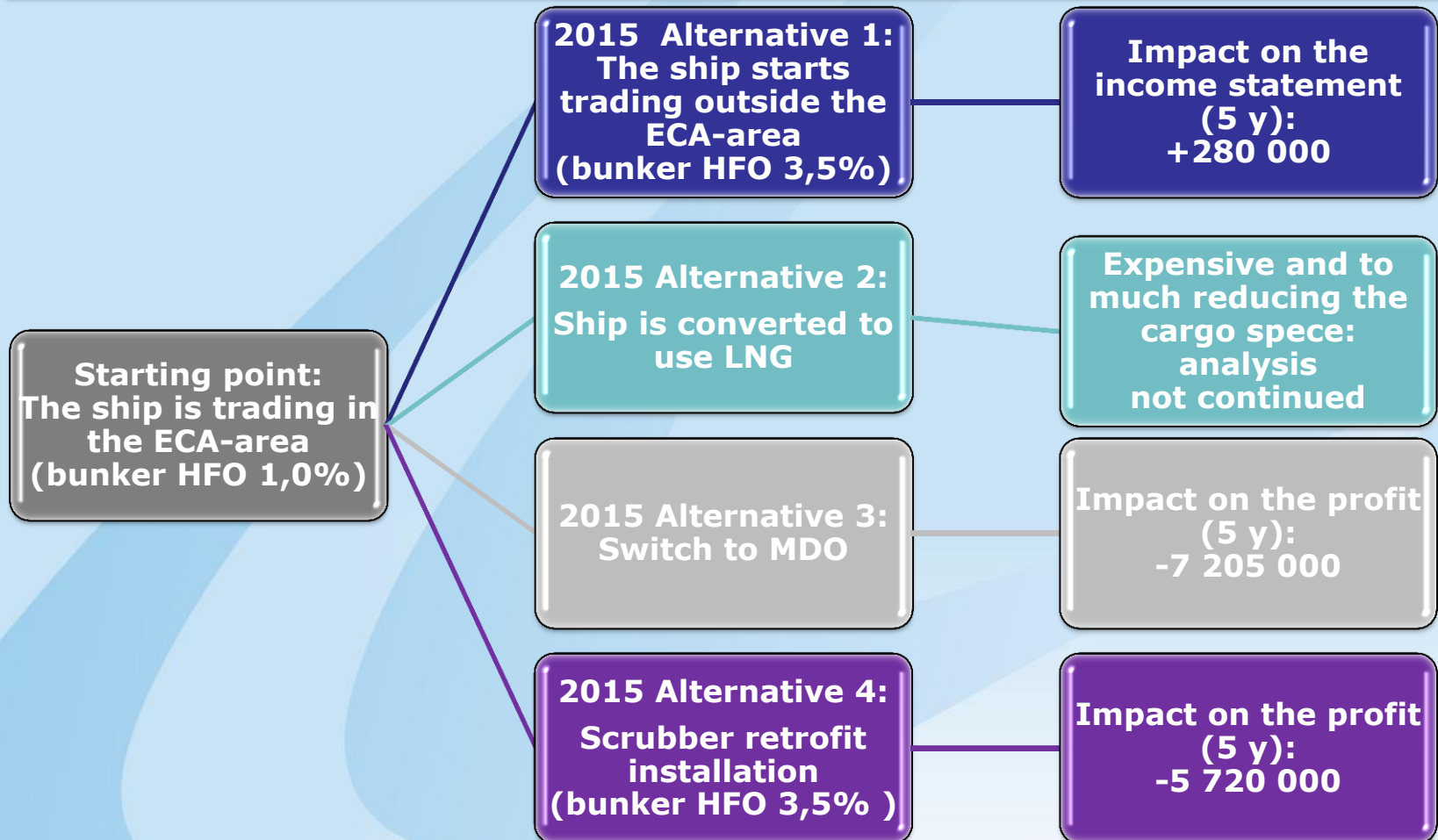


Saved bunker costs in 5 years

- Ministry of Transport and Communication instructions
- Average price difference between bunker qualities (MGO, HFO, MDO) during a 3Y period of time 2012-2014 multiplied with 5Y average consumption
- The applicant shall use the following figures:
MGO 852,5 USD/mt and HFO 565,45 USD/mt.
- $(250 \text{ days/y} * 25 \text{ mt/day} * 287 \text{ USD diff}) * 5 = 8.968.750$
- The more you are burning the more you are saving (con tricks by Kalevi Keihänen).



How to calculate the 5y profit?



Profits of investment in 5 years

- Marine Diesel Oil MDO is only one alternative, not an initial position.
- An investment causes always more costs than profits to the cashflow and weakens the company accountancy .
- The MDO and scrubber alternatives are both strongly weakening the cashflow.
- We must compare trading inside and outside the ECA to each other to avoid distortion of competition.
- The purpose of the aid must be fulfilled.



The political will (EU level)

- DG Comp press release 23 January 2013:
Commission approves amendments to Finnish scheme supporting investment in cleaner ships
- Joaquín Almunia, Commission Vice President in charge of competition policy, said:
“This Finnish scheme demonstrates how the current state aid rules can be used for encouraging the maritime industry to adapt to stricter environmental rules ahead of their entry into force”.



The political will (national level)

- The 2013 Budget allocates a 30 million Budget Authority for the purpose of granting environmental aid to ship investments.
- The Budget Authority is aimed at subsidising investment costs of retrofitting operations which improve the level of environmental protection of ships already in use.
- The aid is granted by the Ministry of Transport and Communications and monitored by.
- The time window for applications is open between 1.4.- 31.5.2013.



Thanks for your attention

Olof Widén
Managing Director
Finnish Shipowners' Association
www.shipowners.fi

