# Legal and Regulatory Issues

# Navigating through the IMO 2020 Regulations and Sanctions

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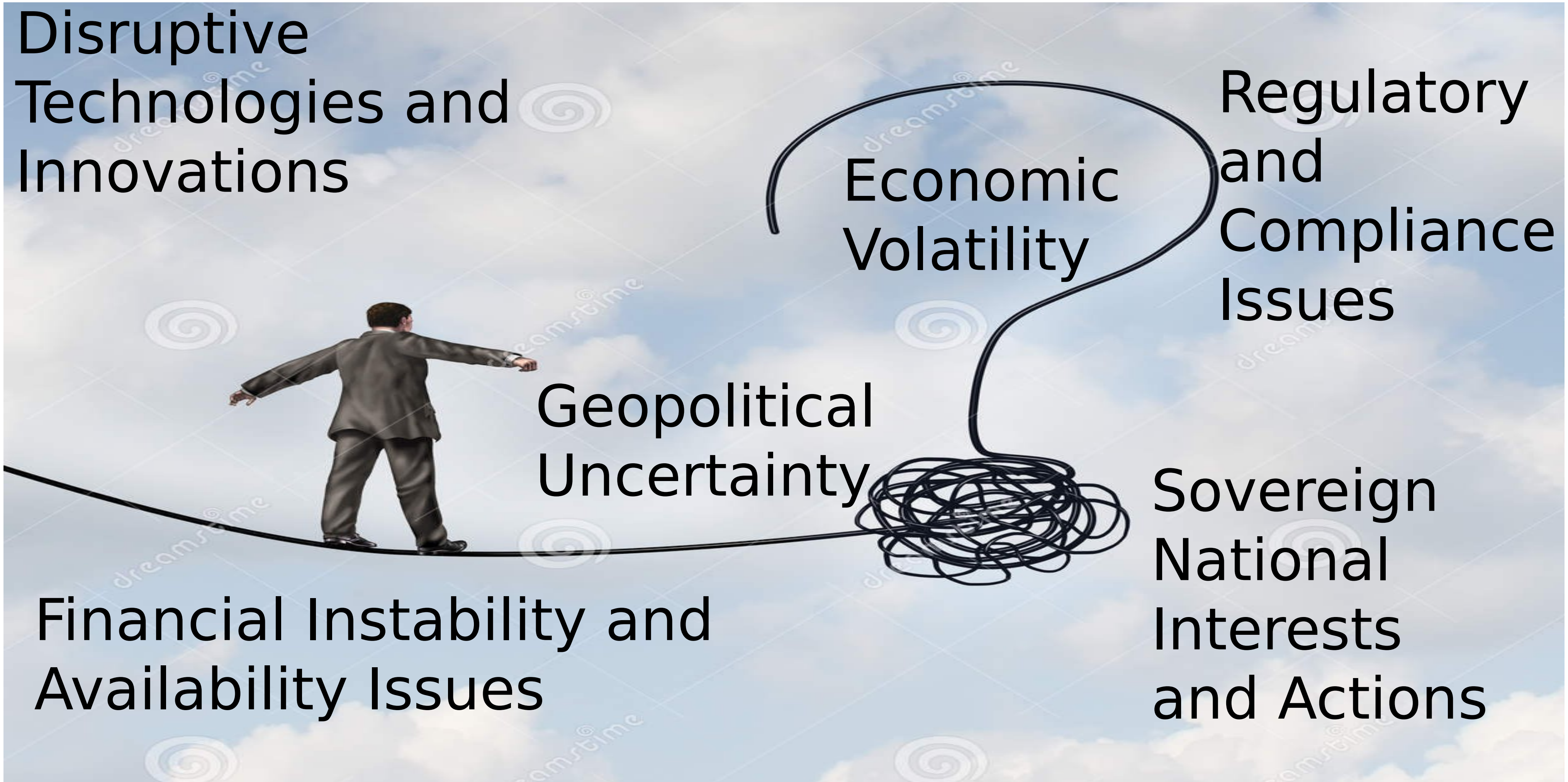
# Troubled Waters?

## Issues Facing Ship Owners.....



Disruptive Technologies and Innovations

Economic Volatility

Regulatory and Compliance Issues

Geopolitical Uncertainty

Sovereign National Interests and Actions

Financial Instability and Availability Issues

# PART I

# IMO 2020 REGULATIONS

# What are the Sulphur Cap Regulations?

Current sulphur cap

**3.5% m/m**

Reductions in **stroke, asthma, cardiovascular diseases, lung cancer, pulmonary disease, prevent acid rains** which will lead to **less harm to crops, aquatic species and tackle ocean acidification**
-IMO

**400,000 premature deaths** in a year and **14 million childhood asthma cases** per year* are caused by emissions from dirty shipping fuels.

IMO regulations to reduce sulphur emissions first adopted in 1997 and came into force in 2005 and ever since then have progressively tightened

*as reported in the Guardian and Nature Communications

**From 1st January 2020**

**0.5% m/m for vessels operating globally**

**and**

**0.1% m/m for vessels operating in specific designated Emission Control Areas**

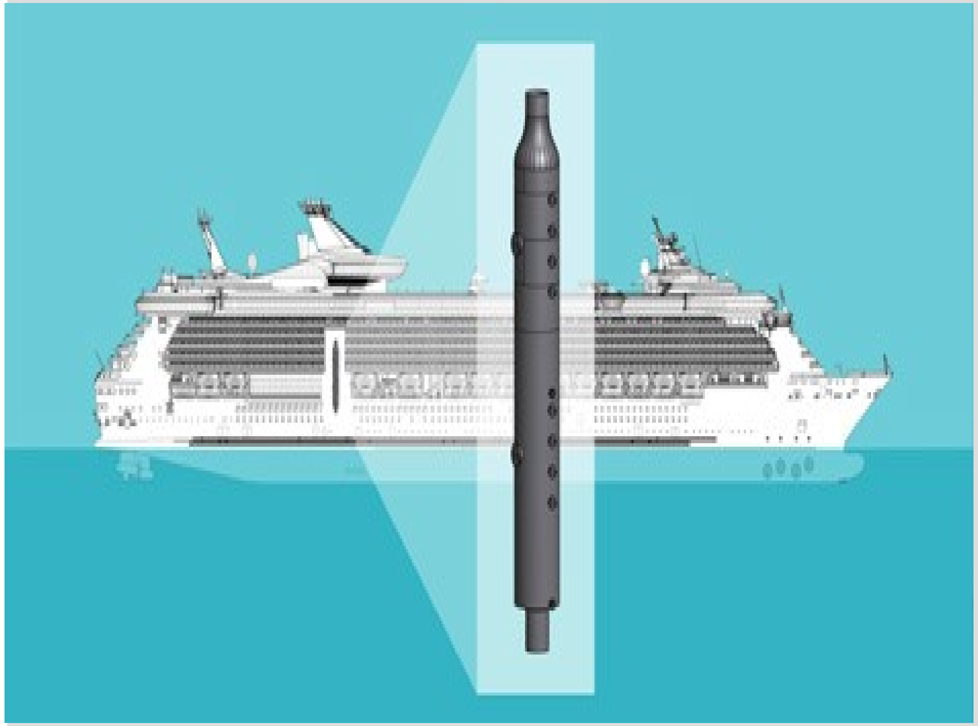
# Who do these regulations apply to?

- Annex VI to the International Convention for Prevention of Pollution from Ships – Regulation 14
- Applies to all vessels registered with Flag States that have accepted the regulations and applies in all waters belonging to Port or Costal States that have ratified Annex VI of the International Convention for the Prevention of Pollution from ships
- New sulphur cap will or is likely to affect 70,000 ships worldwide – DNV GL

# How can compliance be achieved?

**Lower Sulphur Fuels eg. LNG, CNG/blended fuels**


**Exhaust Gas Cleaning Systems (Scrubbers)**



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# How can compliance be achieved?

**Out of the hands of the average ship owner/operator**

**Lack of availability of compliant fuels all over the world**

**The high demand and lack of fuel industry preparedness (lower supply)**

**the fuel prices could be extremely high**

**The lower the sulphur content the higher the cost of the bunker fuel**

**For LNG, ships require additional equipment on board including piping and machinery**

**Costs of installing are extremely high**

**Ships will need to be dry docked for around 40 days – lose trading time**

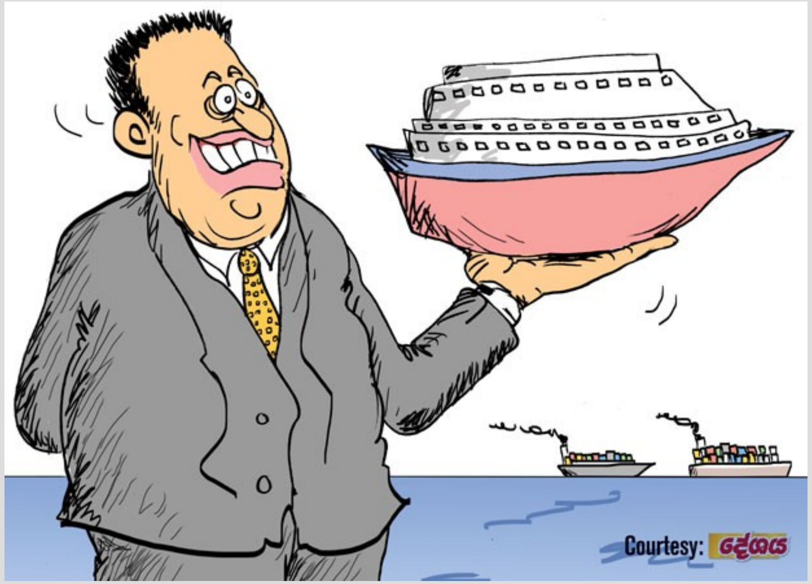
**Ships structures to be altered – fit for purpose might be affected**

**Additional costs on crew to operate the scrubbers**

**Old ships may not have time left to make up the investment**

# What are ship owners doing?

According to DNV GL a total of 3,756 ships (both in operation and under order) have installed scrubbers




Non-compliance in open waters but compliance in ports – agreement on carriage ban for HFSO from 1st March 2020

Ships that have been quickest to adopt the devices are the larger vessels such as oil tankers and container ships

The Exhaust Gas Cleaning System Association has estimated that 4,000 ships will be operating with scrubbers by January 2020

Closed loop (discharge of waste water into a facility onshore) vs open loop (discharge into the open sea)

## Challenges to Financing Scrubbers

- Financing of scrubbers on ships - relatively simple, if vessels are not already mortgaged.

- Challenges that ship owners will face if the ships are already mortgaged:

  - Restrictions in existing finance documents
  - General principle that once equipment is installed on a ship, it forms a part of the ship itself
  - Junior lenders for scrubbers will need to negotiate inter-creditor terms with senior lenders- time, cost, security

# Some Possible Financing Solutions

- ✓ Retention of title to scrubbers by the financier and lease to the owners, Put Option
- ✓ Scrubber financier provides capital through sub participation of existing loans – *Pari Passu* security
- ✓ Set Off Rights vs Scrubber Loan Payments – Scrubber Financier as Charterer
- ✓ "Pay As You Save" Models – A motivation for all stake holders involved

# PART II

# SANCTIONS

# What are sanctions?

- **Sanctions are restrictions that governments impose on certain types of transactions with targeted countries/persons as a tool to achieve foreign policy or security goals**

- **They are used as an alternative to military action for fulfilling political objectives as well as to restore international peace and security**

- **Multiple forms: trade restrictions, restrictions on the supply of arms to or the import of goods from the sanctions target, restrictions on travel by sanctioned individuals, financial sanctions intended to freeze the assets of the sanctioned person or entity or block access to capital markets and services**

# Fallout of breach of Sanctions

- Charterers and brokers will avoid business with the sanctioned entity - it will effect their relationship with charterers, ship brokers, insurers etc

- Sanctioned entity will face a potentially huge blow to its finances

- Increased isolation from international shipping

- Entities in any business with the sanctioned entity may review their agreements with the sanctioned entity to ensure they are not in violation

# What can you do?

- Verify Cargo/Vessel Origin or History
- Monitor for AIS Manipulation during Voyages
- Review all applicable shipping documentation
- Know Your Customer
- Clear Communication with International Partners
- Leverage Available Resources

# Recent Issues

- Recently the US has sanctioned more than 25 entities involved in “oil for terror” network stretching from India to Lebanon

- **Cosco Shipping Energy Transportation** – world’s second largest crude tanker owner – 2 of its subsidiaries have been sanctioned over alleged dealings with Iran – being on such a block list blocks the companies from doing business in the US, having any assets in the US (however the parent company that has large operations in the US will not be affected) and are denied any services from American banks such as loans, foreign exchange etc

# Thank you for listening!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