

**Vessel bunker compliance with IMO's Marpol Annexe VI**

21<sup>st</sup> October 2019

Dear Valued Customers,

From 01<sup>st</sup> January 2020, all ocean carriers must comply with the amendments to Annexe VI of the Marpol convention which stipulates that ships will use fuel with no more than 0.5% sulphur content.

Current Heavy (HFO) or Intermediate (IFO) Fuel Oils that we use to bunker our ships will no longer be compliant and we will need to switch to Low Sulphur Fuel Oil (LSFO) if available, or Marine Diesel Oil (MDO) if it is not. These more refined fuel types will command a higher price per tonne & will result in higher operating costs on the trades that we service. Our ships, in accordance with flag state requirements, will not be able to carry any non-compliant fuel on the 01<sup>st</sup> January 2020 and as such the switch to new compliant fuel types will need to be effected towards the end of November.

We will maintain quarterly Bunker Adjustment Factor (BAF) reviews on all trades, however we wish to advise that a Low Sulphur Surcharge (LSS) will be introduced on the 01<sup>st</sup> December 2019. Current indications are that the differential in non-compliant versus compliant fuel prices are between +15.7% and +38.8% depending on trade. With rising demand as ships switch to compliant fuel globally, we expect that the pricing will be highly volatile over the coming months but we would like to provide some clarity for our customers wanting to plan cargo bookings between now and the end of the year.

From 01<sup>st</sup> of December 2019, LSS applicable on all cargo across all trades\*:

USD 75 per dry teu

USD 112.5 per reefer teu

USD 5.26 per Revenue Tonne for breakbulk & lcl.

\*LSS for Asia/Europe/Africa/Americas to & from the Pacific Islands and the Norfolk Island / Cook Island trade will be communicated separately.

The LSS fee applied from 01<sup>st</sup> December 2019 will be factored into the next quarterly BAF review on 01<sup>st</sup> January 2020 and adjusted accordingly. Future adjustments will be based on the revised BAF mechanism which we will make available. Part of this process will involve an inclusion of the current BAF and Currency Adjustment Factor (CAF) into the Base Ocean Freight (BOF).

Your Account Manager will be in touch to discuss this further with you.

Thank you for your continued support.

Yours sincerely,

**Pacific Direct Line**

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