



**IMO 2020 : Update on Bunker Adjustment Factor (BAF) and new Environmental Fuel Fee (EFF) for Sealand Asia**

Dear Customer,

From 1<sup>st</sup> January 2020, a new regulation will come into force to reduce air pollution from ships globally. Whereas today ships can use fuel with up to 3.5% sulphur content (outside Emission Control Areas), the new global sulphur cap will be 0.5%.

The cost and timeline for compliance with the new regulation is significant, which we are experiencing already now.

**Update on Bunker Adjustment Factor (BAF)**

As previously communicated, our revised Bunker Adjustment Factor (BAF) is designed to adjust contract rates within the duration of a contract, based on fluctuations in fuel-related costs. It applies to contracts with validity longer than 3 months.

In 2019, we have used the changes in fuel price for high-sulphur fuel (IFO380) to calculate the BAF. From 1<sup>st</sup> January 2020, the BAF tariff will be calculated using the fuel price for compliant low-sulphur fuel minus the bunker price baseline and multiplied by trade factor. The trade factor is calculated based on actual consumption per loaded container on the trade and the trade factor for Intra-Asia is 0.5. The last used reference of high-sulphur fuel price (IFO380) will be set as "Bunker price baseline" for 2020 bunker price increase.

The BAF tariff for reefer containers will be the BAF tariff for standard (dry) containers multiplied by a factor of 1.5.

**New Environmental Fuel Fee (EFF)**

The steep oil price increase that result from compliance to the IMO 2020 regulation will also be impacting the short term business. As such, effective from 1<sup>st</sup> November 2019, Sealand - A Maersk Company Asia will introduce an Environmental Fuel Fee (EFF), which will apply to all spot business and contracts with validity up to 3 months.

The EFF tariff will be calculated as the price difference between high-sulphur fuel (IFO380) and low sulphur fuel at Singapore bunkering port, multiplied by a trade factor of 0.5 (same formula used for BAF). The EFF tariff for reefer containers will be the EFF tariff for standard (dry) containers multiplied by a factor of 1.5.

The EFF tariffs will be reviewed monthly in case of significant fuel price fluctuations (more than 50 USD/ton).

The initial EFF tariff effective from 1<sup>st</sup> November 2019 (based on price calculation date) is as below:

Scope	20'Dry	40'Dry/40'Hdry	45' Hdry	20'Reef	40'HRef
<b>All countries</b>	USD 37	USD74	USD89	USD 56	USD 111

In Emission Control Areas (ECA) where we have applied Low Sulphur Surcharge (LSS), this will be replaced by EFF for short term business and BAF for long term business. We may implement LSS if there are further change to the regulations on fuel requirement in ECA zone.

Please do not hesitate to contact your local Sealand – A Maersk Company Asia representative if you have any questions on the impact on your business of the IMO 2020 regulation.

Yours sincerely,

**Sealand – A Maersk Company Asia**