



Ministry of Transport
MARPOL Annex VI submissions
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BP submission to the MARPOL Annex VI consultation

Thank you for the opportunity for BP to provide feedback on New Zealand's potential accession to MARPOL Annex VI: Prevention of Air Pollution from Ships (Annex VI).

BP strongly supports the reduction in air pollution from ships that the global sulphur cap will bring, and we support the consistent implementation of MARPOL Annex VI to create certainty for industry participants, as is the International Maritime Organisation's intent.

In this submission the following definitions are used:

- High Sulphur Fuel Oil (HSFO) – a residual product containing more than 0.5% sulphur
- Very Low Sulphur Fuel Oil (VLSFO) – fuel oil containing less than 0.5% sulphur, usually a blend of distillate and residual elements
- Marine Gas Oil (MGO) – a range of distillate products (some blended), some referred to as "Marine Diesel" with a sulphur content of up to 0.5%
- Liquefied Natural Gas (LNG) – fuel for shipping based on super-cooled gas, normally used as fuel by ships transporting LNG

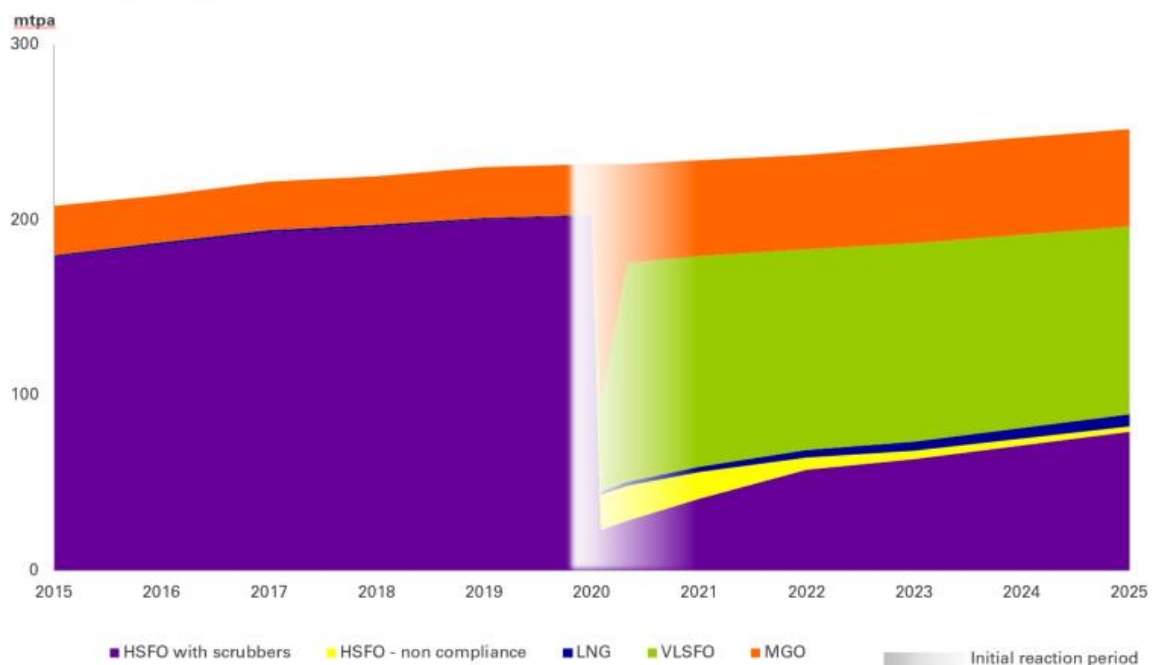
By way of introduction to BP's response it is worth noting how BP believes the changes expected in 2020 will impact the global supply of marine fuels. There are a variety of options for compliance with the requirement to use marine fuels with less

than 0.5% sulphur content, including continuing to use high sulphur fuel oil in conjunction with exhaust gas abatement technology often referred to as scrubbers.

At a broad level BP believes that the global refinery system will be capable of adapting and supplying fuel in line with the requirements of the regulation. The graph below summarises our global assumptions regarding the likely breakdown between the different compliance methods, including levels of non-compliance.

MARPOL - Likely route to compliance

Global bunker demand



BP's consultation response relates specifically to aspects in the Ministry's discussion document that directly relate to BP's business as a marine fuel supplier.

Q14. What are the costs associated with moving to a low sulphur fuel limit of 0.5 percent?

It is BP's understanding that New Zealand's refining capability to produce, and the national supply chain infrastructure to store VLSFO is currently limited. This, combined with the cost of importing VLSFO, means the overall cost of the fuel has potential to be significant.

BP believes its customers who consider conversion to marine diesel as an option will need to consider mitigating risks including leaks, filter compatibility, and engine and furnace compatibility, and we emphasise the need to use best practice to mitigate risks.

Due to the cost of vessels changing to VLSFO and the likely higher cost of this fuel it is also possible that shipping freight costs to NZ will rise, regardless of whether NZ becomes a signatory.

Q15. How easy would it be for the global shipping industry to source 0.5 percent sulphur fuel?

VLSFO is expected to be available globally and BP will be supplying compliant fuel at a global level from 1 January 2020, however availability, accessibility and pricing in New Zealand is currently not known and will depend on market factors and adoption dates for New Zealand.

Q18. If not, where and how will international visiting ships obtain their low sulphur fuel?

International vessels visiting New Zealand have the option of obtaining VLSO from an overseas port, or alternatively could choose to bunker marine diesel in New Zealand.

It is BP's understanding that the global refining industry has the capability to supply sufficient VLSFO to meet global bunker demands. It is possible some companies may choose to import VLSFO, however tankage would need to be identified to store the fuel. BP is currently considering its position in this respect.

Q20. If low sulphur fuel is unavailable, is diesel the most likely option that will be used?

It is BP's view that if VLSFO were unavailable, and in the absence of ships with sulphur abatement technology (HSFO supplied to scrubbers is expected to be ~5% of the bunker market globally), marine diesel is the most likely option that would be used.

Q22. What are the costs of switching to diesel?

The cost of fuel oil is historically less than crude oil, whereas marine diesel is more expensive relative to crude oil so underlying fuel costs would be expected to increase. There will be additional cost to convert a vessel, including cleaning fuel systems which must also be taken into consideration however many vessels already have at least some provisions for burning clean fuels.

Q30. If low sulphur fuel could not be locally produced, what will happen to the 3.5 percent sulphur fuel currently produced as a by-product of the refining process?

It is BP's expectation that the HSFO 3.5 percent sulphur fuel could be exported for use offshore or by refineries with the capacity to blend to VLSFO, or used domestically by industrial fuel users or in the manufacture of alternative non-fuel products such as bitumen.

Q35. What are the benefits and costs for the domestic sector of Annex VI?

As summarised above, BP supports achievement of the domestic sector benefits of Annex VI as identified in the consultation summary, including a reduction in carbon emissions and improvement in air quality around our ports and harbours, investment certainty for ship owners and fuel suppliers, and commitment to a level playing field for international maritime regulation.

Q38. If New Zealand is to accede to Annex VI, is 2021 a reasonable timeframe to bring the requirements into effect? Please provide your reasons for your answer.

In some instances, there may be financial and operational implications for marine fuel suppliers and buyers due to the increased cost of imported VLSFO, and impact on existing supply and storage agreements.

It is BP's view that the timeframe from an Annex VI compliance decision to accession should be at least two years to allow sufficient time for full implementation.

If you would like to discuss our submission further, in the first instance please contact:

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Yours sincerely,

A handwritten signature in black ink that reads "Debi Boffa." The signature is written in a cursive, flowing style.

Debi Boffa
Managing Director
BP Oil New Zealand Ltd