Mobil Oil New Zealand Limited

MARPOL Annex VI submission to Ministry of Transport

11 February 2019

Introduction

Mobil Oil New Zealand Limited (Mobil) is pleased to make this submission to the New Zealand Ministry of Transport's/*Te Manatū Waka's* assessment of whether the New Zealand Government should ratify the International Maritime Organisation's (IMO's) International Convention for the Prevention of Pollution from Ships (MARPOL) 73/78 Annex VI, which pertains to reducing marine fuel sulphur limit standards to 0.50% by 1 January 2020.

Given statements made in the New Zealand Ministry of Transport's discussion paper that New Zealand's stated ambition is to be a global leader on Climate Change and strengthen its credibility and influence in international climate negotiations, and to enable New Zealand to influence climate policy at the IMO, Mobil accepts that this will be a key factor in the Ministry's advice as to whether New Zealand should accede to the Annex VI.

Mobil notes also that New Zealand has already acceded to two of the four optional annexes of MARPOL, while multiple other jurisdictions have already acceded to Annex VI.

In principle, Mobil is not opposed to the objectives of MARPOL 73/78 Annex VI. However, the capability to accede to MARPOL 73/78 Annex VI will depend on the availability and cost of low sulphur fuel within the New Zealand market, as well as significant changes to both marine fuel supply infrastructure and the domestic marine vessel fleet.

We expect that any reduction in marine fuel oil sulphur limits will result in significant costs both to our business and the business of our customers. There may also be other, broader economic impacts for New Zealand.

It is Mobil's position that deferring ratification of MARPOL 73/78 Annex VI for the domestic marine fleet until the end of 2023 is required. This will provide a reasonable timeframe in which the investment and changes, that are necessary to ensure compliance, can be made.

At the very least, Mobil considers that the New Zealand Government should allow an extensive implementation timeframe so that the marine industry and fleet can adequately prepare for the introduction of MARPOL 73/78 Annex VI compliant fuel.

Mobil is amenable to further engagement with the Ministry of Transport if required, in order to further discuss the issues raised in this document.

Key points submitted for consideration by New Zealand Ministry of Transport:

Internationally flagged vessels

It is Mobil's experience that a small percentage of internationally flagged vessels visiting New Zealand are already fitted with exhaust gas treatment systems ("scrubbers"), which ensure compliance with MARPOL 73/78 Annex VI. Mobil acknowledges that this number is likely to increase in the lead-up to the Annex VI deadline for compliance.

Mobil's intends to continue to support the fuelling of internationally flagged vessels utilising these abatement technologies via our proprietary terminal in Mount Maunganui.

Domestically flagged vessels

Mobil considers that it will not be cost-effective to install abatement technology in domestically-flagged vessels that are already in service within the deadline for delivery of the instrument for MARPOL 73/78 Annex VI, due to the prohibitive cost of installation and the limited availability of dry-dock facilities.

As such, Mobil considers that the domestic fleet will largely be reliant on Annex VI-compliant fuel grades.

Switching to Annex VI-compliant fuel grades will also have ramifications for New Zealand's domestic marine fleet. This change will require corresponding engine modifications, which will have both financial and time-related consequences for domestic marine industries.

Supply security

The availability of high quality and Annex VI-compliant fuels depends on two factors: the availability of these fuel grades internationally and domestically, and competition for supply from other users of ground fuel product equivalents.

All residual oil-based marine fuel oil that Mobil currently sells in New Zealand is manufactured by Refining New Zealand (RNZ).

Mobil is aware that RNZ is assessing its investment strategy in response to MARPOL 73/78 Annex VI.

While it is up to RNZ to make its own business decisions regarding potential investment in the capability to produce a compliant residual- or distillate-based marine-grade fuel oil, Mobil considers that any such investments RNZ make are unlikely to be in place ahead of 1 January 2020.

As an alternative, Mobil would look to import internationally-refined fuel to cover its MARPOL 73/78 Annex VI compliant fuel requirements in New Zealand.

However, notwithstanding any logistical challenges that would be managed by Mobil internally, importation relies on the availability of that fuel grade, which would likely be in high demand given other jurisdictions have already acceded to MARPOL Annex VI.

While Mobil does not currently anticipate any issues in sourcing compliant fuel grades, we believe it would be prudent of the New Zealand Government to consider that compliant grades will be in high demand, and this may be further heightened due to competition from users of corresponding ground fuel grades. Security of supply is critical to an effective and efficient marine industry in New Zealand.

Cost delta

Mobil notes that any likely MARPOL Annex VI-compliant distillate fuel alternative would trade at a price significantly above high-sulphur marine fuel oil.

Accounting for this, it can be inferred that switching to a compliant fuel will have cost repercussions for the domestic marine industry in that it would increase the operating costs of vessels, in addition to the initial cost of investment to ensure compliance.

This may have flow-on impacts for New Zealand's economy more broadly.

Infrastructure investment – Commercially sensitive information

In order to support the use of MARPOL Annex VI-compliant fuels, Mobil's marine fuel storage and associated infrastructure will need to be substantially modified so that it can accommodate the relevant compliant fuel grades.

To achieve this, Mobil will need to undertake significant capital investments at its marine fuel terminal facilities, including Lyttelton, Mount Maunganui and Kaiwharawhara (Wellington). In Mobil's experience, investments of this scale take several years to plan, finance, develop and implement.

Mobil notes that other fuel suppliers also rely on our proprietary assets to service their marine customers through various third party arrangements.

Indicative timeline

From Mobil's perspective, the best outcome for the marine industry is that we would supply high-sulphur fuel oil to the internationally-flagged fleet via our Mount Maunganui, Kaiwharawhara and Lyttelton bunkering terminal operations (to meet international fleet obligations), while continuing to supply high sulphur fuel domestically until MARPOL 73/78 Annex VI comes into force for New Zealand's domestic industry.

In the event the New Zealand Government does accede to MARPOL 73/78 Annex VI, Mobil believes that the Government must take prudent steps to ensure the transition is not financially onerous for the marine industry or its supporting industries, and that it should further ensure that it sets clear, reasonable and transparent timelines for compliance, to ensure that the necessary investment in infrastructure can occur.

Mobil also considers that moving to accede to MARPOL 73/78 Annex VI prematurely could impact the availability of compliant fuel grades, and the New Zealand Government should consider deferring accession by a minimum of five years.

Mobil strongly recommends that the Ministry of Transport consider any potential timeframes carefully in its final National Interest Analysis to provide certainty so that Mobil can ensure our customers can access the high quality and compliant fuel options they need.