

Market Report

IMO 2020: Group I supply readiness

By Jeff Biamonte

With the Jan. 1, 2020, enforcement date of the International Maritime Organization's (IMO) global 0.5 percent cap on sulfur fuel fast approaching, vessel owners and operators are working to understand the full implications on their fleets and the potential compliance options best suited for their business.

The right solution will be dependent on each fleet and individual vessel, as there is no “one-size-fits-all” approach for complying with the upcoming regulation. IMO 2020 will ultimately propel the marine industry into a multi-fuel future with a range of options. Some in the industry are considering the continued use of high-sulfur fuel in conjunction with an exhaust gas cleaning system, also known as scrubbers, or the use of liquefied natural gas (LNG). However, these solutions might not be suitable for all vessels.

Another option is the use of compliant low-sulfur (0.5 percent sulfur content or below) fuel options that meet IMO



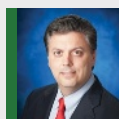
2020 standards. Low-sulfur fuels, including distillate, residual and blended alternatives, will likely be initially favored by the majority of the industry.

Adoption of compliant low-sulfur fuel options will have a ripple effect on lubricant formulations. Vessel owners and operators will need lubricants specifically designed to work with their fuel choice, engine technology and operating conditions.

Group I base stocks — particularly Group I heavy neutrals, as well as bright stock — are highly valued and well-suited for marine applications that value high viscosity and solvency, and they will continue to be highly relevant in the foreseeable future. However, IMO 2020 may pose a challenge for some refineries because of the potential reduced demand for their high-sulfur fuel production and an increased demand for compliant fuels.

Individual refiners can meet the challenge by investing in resid destruction or desulfurization facilities, or by changing to lower-sulfur and lighter-crude feedstocks. However, these options may come at a significant capital investment. For some Group I base stocks producers, the cost of investment and/or the higher feedstock cost might prove to be a challenge to their continued operation. As a result, some producers may rationalize Group I operations post-IMO 2020, accelerating existing concerns around future availability.

With Jan. 1, 2020, approaching, base oil producers and suppliers will need to understand these potential challenges and position themselves to make their base stocks production resilient to the regulation. Changes abound in the marine industry in light of IMO 2020, and it's important now more than ever for individual finished lubricant manufacturers to work with their base stocks producer to determine the compliance option best suited for their operations. ♪



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