

Hamburg, 8 October 2018

Hapag-Lloyd establishes Marine Fuel Recovery (MFR) mechanism


- **Environmental regulation and costs from low-sulphur fuel represent a major challenge**
- **New MFR allows causal, transparent and easy-to-understand calculation of fuel oil costs**

With a stricter International Maritime Organisation emissions regulation (IMO 2020) coming into force as of 1 January 2020, the new sulphur cap for compliant fuel oil will be lowered from 3.5% to 0.5%. This new regulation will significantly improve the ecological footprint of the shipping industry, and the majority of all vessels are expected to be operated with low-sulphur fuel oil by then. Using low-sulphur fuel oil will be the key solution for the shipping industry and Hapag-Lloyd to remain compliant. Furthermore, it is the most environmentally friendly solution in the short term.

At the same time, the utilisation of the compliant low-sulphur fuel oil comes along with an increase in fuel costs, which experts estimate to initially amount up to 60 billion US dollars annually for the entire shipping industry. On the assumption that the spread between high-sulphur fuel oil (HSFO) and low-sulphur fuel oil (LSFO 0.5%) will be 250 US dollars per tonne by 2020, Hapag-Lloyd estimates its additional costs being around 1 billion US dollars in the first years. Therefore, a Marine Fuel Recovery mechanism was developed, which will be gradually implemented from 1 January 2019 and replace all existing fuel-related charges.

“We embrace the level playing field and environmental improvements resulting from a stricter regulation, but it is obvious that this is not for free and will create additional costs. This will be mainly reflected in the fuel bills for low-sulphur fuel oil, as there is no realistic alternative for the industry remaining compliant by 2020. With our MFR, we have developed a system for our customers that we think is fair, as it allows for a causal, transparent and easy-to-understand calculation of fuel costs,” said Rolf Habben Jansen, Chief Executive Officer of Hapag-Lloyd.

The MFR is based on a formula that combines consumption with market prices for fuel oils.


$$\text{MFR}_{[\text{per TEU}]} = \text{Fuel price}_{[\text{per TO}]} \times \frac{\text{Fuel consumption}_{[\text{TO}]}}{\text{Carried TEU}}$$

It takes into account various parameters, such as the vessel consumption per day, fuel type & price (specific for HSFO, LSFO 0.5% and LSFO 0.1%), sea and port days, and carried TEU. These parameters derive from a typical representative service in the market on a specific trade. The MFR also takes price fluctuations better into account, as it comes along with an improved coverage of upward and downward developments of market price changes for fuel oil. Overall, it aims for transparent calculation of costs.

Furthermore, Hapag-Lloyd is thoroughly analysing other technological options for the reduction of emissions that might be able to cover a small share of a fleet. This is why trials with a LNG conversion of one ship as well as Exhaust Gas Cleaning Systems (EGCS) on two others will be conducted in the year 2019.

MFR samples for standard dry containers at different fuel prices for selected trades

Marine Fuel Recovery (MFR) per TEU for different fuel prices per tonne*

| Trade | USD 400 | USD 525 | USD 650 |
|---|---------|---------|---------|
| East Asia – North Europe | 182 | 223 | 264 |
| East Asia – North America East Coast | 221 | 271 | 321 |
| North Europe – North America East Coast | 152 | 168 | 184 |
| East Asia – North America West Coast | 117 | 144 | 171 |
| East Asia – South America West Coast | 210 | 271 | 333 |
| North Europe – Indian Subcontinent | 115 | 140 | 164 |

* Market price assumptions for HSFO or LSF0 0.5%. Also includes LSF0 0.1% under the assumption its market price is 660 US dollars
 Note 1: The same MFR applies to both directions
 Note 2: The sample calculation is only indicative and is based on currently available market data

Detailed information about the composition of the Marine Fuel Recovery (MFR) Mechanism is available on the [Hapag-Lloyd website](#).

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About Hapag-Lloyd

With a fleet of 226 modern container ships and a total transport capacity of 1.6 million TEU, Hapag-Lloyd is one of the world's leading liner shipping companies. The Company has around 12,000 employees and 389 offices in 127 countries. Hapag-Lloyd has a container capacity of around 2.5 million TEU – including one of the largest and most modern fleets of reefer containers. A total of 120 liner services worldwide ensure fast and reliable connections between more than 600 ports on all the continents. Hapag-Lloyd is one of the leading operators in the Transatlantic, Middle East, Latin America and Intra-America trades.

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