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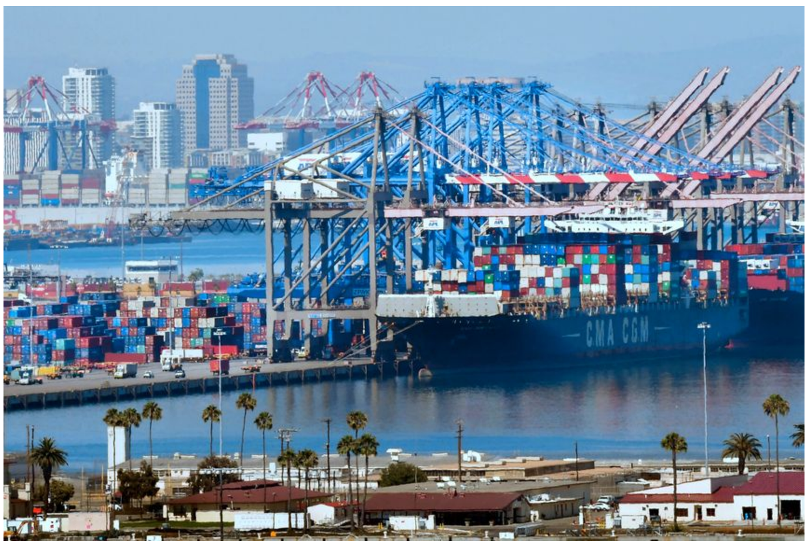
POLITICS

U.S. Seeks More Time for Ships to Switch to Cleaner Fuels

Trump administration worries that costs for consumers and businesses will be driven up by a requirement that ships use cleaner fuels by 2020



New rules by the International Maritime Organization, an arm of the United Nations, would require oceangoing commercial ships to use low-sulfur fuel starting in 2020. Above, the Port of Long Beach in California. PHOTO: FREDERIC J. BROWN/AGENCE FRANCE-PRESSE/GETTY IMAGES

By Timothy Puko and Benoit Faucon

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The Trump administration is pushing to ease the rollout of new international rules to power commercial ships with environmentally cleaner fuels, fearing the measures will drive up costs for consumers and businesses.

The rules, set roughly a decade ago through the International Maritime Organization, an arm of the United Nations, take effect on Jan. 1, 2020, and aim to slash the amount of sulfur in marine fuel for oceangoing ships.

The International Energy Agency, which advises governments on energy policies, has warned that the measures—by banning cheap energy sources and requiring ships to run on premium fuels —could cause a surge in demand for specific fuels that ripples across commodity markets and affects prices for crude, diesel and other petroleum products.

International oil prices have recently surged above $80 a barrel and some predict $100 is possible, driven by a reinstated U.S. ban on Iran oil exports and dwindling spare capacity among members of the Organization of the Petroleum Exporting Countries.

The new maritime demand is expected to tighten supplies further, especially for low-sulfur diesel but also in oil markets more broadly. That could raise prices for all types of fuels—from home heating oil in Pennsylvania to boating fuel in Florida and gasoline across the country—just as the presidential primaries enter full swing, analysts said.

The White House says the administration is focused on the damage rising fuel costs might have on the economy, but some administration officials concede the timing of the implementation could have political implications in an election year.

“Few things terrify an American president more than a spike in fuel prices,” said Bob McNally, a former energy adviser to then-President George W. Bush. “If President Trump learns that IMO 2020 risks a big fuel oil-price spike in the winter of a presidential election, he is going to object.”

A spokesman said the White House isn’t seeking to withdraw from the agreement, and declined to characterize administration plans as an effort to delay implementation. Instead, the shipping and energy markets may face less disruption if the rules were phased in in the name of “experience building,” he said.

Such a move is necessary to “mitigate the impact of precipitous fuel-cost increases on consumers,” the White House said in an email to The Wall Street Journal. “The administration wants to ensure that IMO 2020 occurs in a manner that is not harmful to consumers and the global economy.”

IMO officials were baffled by the White house stance. They said the U.S. and Canada since 2015 have had stricter sulfur limits in place on fuels for ships calling on their coasts than those required by the IMO in 2020. Shipping and energy executives said the cost for shipowners of the cleaner fuels would amount to about $15 billion a year.

White House officials are alarmed by internal and external projections that suggest the global economic costs could surpass $100 billion, with the U.S. portion of that potentially rising to more than $10 billion.

These analyses remain estimates, and officials say there is no certainty how much costs will rise. But what is clear is that shippers are already planning to pass potentially billions of dollars in compliance costs to consumers.

“The U.S. is ready to accept some degree of economic pain” to achieve its goals against Iran, one U.S. government official said. “But the implementation of IMO 2020 [standards on marine fuel] complicates matters.”

A March 2018 IEA report warned “maritime and refining industries face a huge challenge to implement.”

“It is not clear how successful they will be, especially as demand for non-marine gas oil grades is growing steadily,” the report said.

The White House is gauging the support of other countries for a more staggered approach, according to senior administration officials. The administration is backing a shipping-industry proposal for enforcement of the new measures to gradually increase over time, an approach that will be discussed at a U.N. IMO conference next week in London.

Major flag states like Panama, Liberia and the Marshall Islands along with trade bodies have said the IMO should examine a possible “grace period” of a few months until all oceangoing vessels empty their tanks of high-sulfur fuel. Some have also asked for ships not to be penalized if they can’t get the cleaner fuels at some ports.

The rules are aimed at cutting pollution from commercial ships burning high-sulfur fuel, which causes respiratory ailments and can aggravate heart disease. Ships contribute about 13% of total sulfur-dioxide emissions, burning heavy fuel with sulfur levels more than 2,000 times the level currently allowed for cars in the U.S., according to the U.N.

Modifying the rollout will be difficult. The IMO—and its rule-making authority—is set by a congressionally ratified treaty. U.S. officials have yet to make any formal objections, and while they can “at any time…they can’t do anything to the 2020 implementation deadline,” a senior IMO official told The Journal.

Senior administration officials also have been hearing a wave of opposition to any delay in implementing the rules from U.S. refining and oil companies, typically political allies of Republicans who control the White House and Congress. While some smaller refiners may face challenges with costly improvements, most U.S. oil-and-gas companies and big refiners stand to be big winners from selling more higher-grade fuels.

U.S. refiners have invested an estimated $100 billion since 2008 to produce cleaner fuel, in part to comply with maritime rules, according to the American Fuel & Petrochemical Manufacturers, a trade group that includes most of the nation’s refiners. Lobbyists are planning to push administration officials to support such investments.

“The industry has made substantial investments over the last decade, and we’re ready to supply IMO-compliant fuels,“ said Derrick Morgan, who oversees federal and regulatory affairs at AFPM. “Changing at this late in the game would be a bad thing.”

—Costas Paris contributed to this article.

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