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ExxonMobil
Marine Fuels & Lubricants

Hon Cyd HO Sau-lan
Chairman
Subcommittee on Air Pollution
Control (Marine Light Diesel) Regulation
Panel on Environmental Affairs
Legislative Council
The Government of the Hong Kong
Special Administrative Region
(via email – sszeto@legco.gov.hk)

February 14, 2014

Hon Chairman HO,

Re: Air Pollution Control (Marine Light Diesel) Regulation (“Regulation”)

We refer to your facsimile letter dated February 6, 2014 inviting ExxonMobil Hong Kong Limited (“EMHK”) to provide input regarding the captioned Regulation.

As a responsible corporate citizen, EMHK welcomes and supports the government’s goal of improving the air quality of the city through long-term policies and action plans that are supported by sound science and appropriate cost / benefit analysis. EMHK has participated in various prior consultation sessions organized by the Environmental Protection Department (“EPD”) and put forward our views from the perspective of an international marine bunker supplier, including two written Position Statements to the EPD on August 28, 2012 and April 23, 2013 respectively. On July 17, 2013, we had also provided our views in writing to the Legislative Council’s Panel on Environmental Affairs, of which you are also the Chairperson. Herein, we would like to reiterate a few key factors for your Subcommittee’s review and consideration.

- (1) Maintain global alignment and consistency with IMO requirements for marine fuels;
Maintain flexibility for the market to supply to both OGVs and local vessels**

Fuel quality requirements for ocean-going vessels (“OGVs”) in Hong Kong waters should remain consistent with the International Maritime Organization (“IMO”) requirements. This would effectively be a pre-requisite qualification to obtain IMO approval of Hong Kong waters as an Emission Control Areas (“ECA”). It is our considered view that the proposed Regulation is not aligned with the IMO requirements and timeline.

Under MARPOL Annex VI, the maximum sulphur content of fuel oil consumed in approved ECAs is currently set at <1.00%S and will reduce to <0.10%S from January 1, 2015. It is also noted in Shenzhen Municipal Government’s Air Quality Enhancement Plan issued in September 2013⁽¹⁾ that they plan to tighten controls on sulphur content in marine fuels and to establish an ECA in the Pearl River Delta (“PRD”) region requiring OGVs entering within 24 nautical miles of shore and during berthing, to use fuel of sulphur content of less than 0.10%.

The captioned Air Pollution Control “Marine Light Diesel” Regulation, however, is to legislate specifications for diesel with a cap of 0.05% S for all local marine fuel supply in Hong Kong. This is not consistent with the IMO requirements and timeline. As Hong Kong is trying to work with neighbouring ports towards an ECA in the PRD, we are of the view that a cap of 0.10% S would be consistent with future sulphur requirements in the international market.

Note (1): http://www.szhec.gov.cn/tzcy/usqp/tzqj/201309/20130927_85881.html

Even though there are no current ECAs in the Asia Pacific region, it is expected that some demand for <0.10% S fuel in the region would be called for by ships bunkering at Hong Kong port along their journey to the US/Canadian ECA or the North Sea/Baltic Sea ECA. We are concerned that the proposed specification for the supply of diesel only with 0.05%S cap for local marine use could potentially put the Hong Kong port at a disadvantaged competitive position. When the IMO ECA fuel requirement (<0.10%S) comes into effect in 2015, vessels that need ECA fuel may not be bunkering such fuel in Hong Kong if the <0.05% S fuel commands a premium above the <0.10% S fuel. The decision not to choose Hong Kong as bunkering port may further reduce opportunities for Hong Kong's other maritime services.

On the other hand, the issue will be further complicated when the proposed "Mandatory fuel switch at berth" is in force. It is our understanding the current proposal would allow OGVs to use <0.50%S diesel (e.g. for consumption within Hong Kong waters and other ports) while local fuel suppliers will be restricted to supplying <0.05%S diesel. To maintain Hong Kong as a competitive international bunkering port, we propose that the legislation require OGVs to use <0.10% S fuel, similar to other ECAs and that local fuel suppliers be given the flexibility to supply <0.10% S fuel to OGVs, without being constrained by a <0.05% S limit.

(2) Be equitable in implementation across all operators with effective control mechanisms

We noted that during the Subcommittee's recent meeting on February 5, 2014, member of the Subcommittee had asked EPD to consider how to handle emergency sales of diesel oil from one user to another user at sea.

In our previous letters to the EPD and the Panel on Environmental Affairs, we had reiterated the need for the HKSAR Government to consider more equitable and effective control mechanisms to detect any potential breaches of these legislations when implemented, such that the EPD can be assured of achieving the emission reduction target expected from the proposed legislations. The current proposal does not have any plan to regulate and monitor the fuel consumption of local vessels or OGVs. This would give way to potential manipulations (such as the one noted in the previous paragraph) and thus hamper the effectiveness of emission reductions. Therefore, there should be specific policies and action plans to monitor and ensure that vessels are using the required lower sulphur level fuel or to achieve the equivalent level of emissions through the use of an exhaust gas cleaning system.

(3) Respect supply / demand dynamics of international market

In the Legislative Council Brief⁽²⁾, it is indicated in the "Economic Implications" paragraph that "the overall impact on consumer price inflation is not expected to be significant". During the Subcommittee meeting, member had raised concerns over the price after the implementation of the Regulation.

We wish to highlight that product prices are primarily shaped by supply and demand dynamics in the international and local markets. While Mean of Platts Singapore FOB prices may serve as a reference, it does not always exactly reflect the price trend in the export and import ports in terms of timing and availability. The ultimate selling prices are set based on a number of factors including import prices, operating and logistics expenses and market competition. Historical import price differentials should not be considered as indicative for future market prices.

Note (2): http://www.legco.gov.hk/yr13-14/en/isl/sublcw/sub_1314.htm#topbl

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Instead, we are of the view that **aligning Hong Kong fuel standards with IMO standards for ECAs would help ensure that fuel price will remain linked with international markets, and would be less restrained in avails when requiring a unique grade of its own for Hong Kong.**

We would also like to highlight that, in order to ensure readiness in supplying <0.05%S marine light diesel on or before April 1, 2014 (as indicated by the EPD and the draft Regulation), we have to import lower sulphur content light diesel before the regulation is approved. Since end users are not required to consume the lower sulphur fuel until the effective date, suppliers are burdened to incur the additional costs. We would suggest that **for such product specification change in the future, a grace period after the approval of the regulation be provided to suppliers** so to mitigate the cost and operational impacts.

We hope that the above points clearly articulate our views and concerns associated with the proposed Regulation in its current form and that the HKSAR Government and the Subcommittee on Air Pollution Control (Marine Light Diesel) Regulation take our views into consideration when finalising the legislation.

Yours faithfully,
For and on behalf of
ExxonMobil Hong Kong Limited



Emily Chou
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Copy:
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