

ExxonMobil Hong Kong Limited
 22/F Central Plaza,
 18 Harbour Road,
 Wanchai,
 Hong Kong
 +852 3197 8888 Telephone
 +852 3197 8372 Facsimile

ExxonMobil
Marine Fuels & Lubricants

Hon Cyd HO Sau-lan
 Chairman
 Panel on Environmental Affairs
 Legislative Council
 The Government of the Hong Kong
 Special Administrative Region
 c/o Mrs Mary TANG, for Clerk to Panel
 (via email)

July 17, 2013

Hon Chairman HO,

Re: Panel on Environmental Affairs meeting on 22 July 2013 on

- **Mandatory fuel switch at berth for ocean going vessels in Hong Kong waters**
- **Upgrading the diesel standard for local vessels**

We refer to your email dated June 25, 2013 inviting ExxonMobil Hong Kong Limited (“**EMHK**”) to the Legislative Council Panel on Environmental Affairs (“**the Panel**”) meeting on Monday, 22 July 2013 to discuss the subject of upgrading the diesel standard for local vessels. Regrettably, we would not be able to attend this meeting, but will provide our views on the subject as well as the other agenda item on mandatory fuel switch at berth for ocean going vessels in Hong Kong waters with this written submission.

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. With operations globally and in Hong Kong, EMHK has participated in various 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 28 August 2012 and 23 April 2013 respectively. Herein, we would like to reiterate a few key factors for the Panel’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 for ocean-going vessels (“**OGVs**”) should adhere to the International Maritime Organization (“**IMO**”) requirements and signatory countries to MARPOL Annex VI are expected to comply with the IMO protocol to qualify to be approved Emission Control Areas (“**ECAs**”). It is our considered view that the proposed legislations are 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. As Hong Kong is a signatory to IMO’s MARPOL Annex VI, the proposed mandate for OGVs to switch to fuels <0.50%S at berth in Hong Kong waters would make Hong Kong a quasi-ECA outside the IMO protocol.

(Please refer to part (1) & (2) of chart in next page)

Sulphur Cap Regulations	2009	2010	2011	2012	2013	2014	2015	2020 or 2015
(1) International Maritime Organization (IMO)								
Globally for international waters		4.50%				3.50%		0.50%
OGVs calling approved ECAs	1.50%			1.00%				0.10%
(2) With EPD's proposed "Upgrading Diesel Standard"								
HKG- local fuel suppliers			0.50%					0.05%
HKG- for local vessel/river vessel use			0.50%					0.05%
(3) With voluntary programs in Hong Kong								
OGVs- Fair Wind Charter	4.50%			0.50%				n/a
OGVs- HKSAR Gov't Incentive Scheme		n/a			0.50%			n/a
(4) With EPD's proposed "Mandating Switch Fuel at Berth"								
HKG- local suppliers			0.50%					0.05%
OGVs calling HKG				4.50%				0.50%

Given that the Hong Kong port is reliant on imports for its fuel supplies, it is probable that, despite the proposed "Updating diesel standard" requirements which are being placed specifically on local fuel suppliers, the market for both local and international vessels will be impacted by the proposed change. We are concerned that the proposed specification for the supply of diesel with <0.05%S cap for local marine use could potentially put the Hong Kong port at a disadvantaged competitive position.

We understand that the EPD is proceeding to legislate and implement specifications for low sulphur diesel (with a cap of 0.05%S) mandating this level for all local marine fuel sales in Hong Kong. The issue will be further complicated when the proposed "Mandatory fuel switch at berth" is in force, as local fuel suppliers will be restricted to supplying <0.05%S diesel but some OGVs may use <0.50%S diesel (e.g. for consumption within Hong Kong waters and other ports) and some OGVs will be required to use <0.10%S diesel for calling ECA ports after 2015.

(Please refer to part (1) & (4) of chart above)

Bunker buyers will find fuels supplied in Hong Kong being more stringent in sulphur specification than required and thus being potentially not cost efficient versus other competitive ports in the region. This may affect their decision in choosing Hong Kong as their bunkering port for other fuel products and their choices would effectively be restricted. To maintain Hong Kong as a competitive international bunkering port, we propose that local fuel suppliers be given the flexibility to supply <0.50%S fuel to OGVs for their consumption at berth in Hong Kong thereby aligning what is supplied to OGVs versus what OGVs have the flexibility to use.

(2) Maintain alignment with ISO technical standards for shipping industry

Fuel specifications should be aligned with the appropriate international or regional technical standards as refiners produce and bunker buyers purchase to the technical standards. Since the 1980s, the International Organization for Standardization ("ISO") specification has been accepted as the standard for marine fuels (bunkers). The latest version is ISO 8217: 2012. We welcome the EPD's proposal to adopt the international specifications of ISO 8217 for fuel quality parameters (except for sulphur level).

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

We note that the EPD's proposed "Updating diesel standard" legislation will apply to sale, supply or distribution of marine light diesel, and there is no plan to regulate and monitor the fuel consumption of local vessels or OGVs. On the other hand, when the proposed "Mandatory fuel switch at berth" legislations come into force, OGVs may bring in <0.50% fuel from other ports. Once again, the Hong

Kong port's competitive position could potentially be disadvantaged. We also encourage 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.

(4) Establish effective control mechanisms and meaningful and long term emission reduction target

The proposed "Updating diesel standard" and "Mandatory fuel switch at berth" legislations should generate measurable and meaningful emission reductions at costs acceptable to vessel operators. As a marine bunker supplier operating globally and in Hong Kong, we support fuel quality changes that are supported by sound science. We note that the EPD had estimated that emission reduction will be 19% and 10% of SO₂ and RSP respectively of the emissions from the marine sector in 2011. We would welcome the EPD to share with the trade and the public the air pollution models applied and the plan to communicate such.

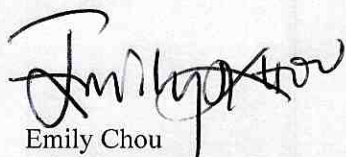
(5) Maintain flexibility for compliance through equivalent controls

As denoted in MARPOL Annex VI, ship operators may control sulphur oxide emissions through the use of low sulphur fuel or equivalent arrangements. To be consistent with other global jurisdictions that have taken similar action, we encourage the HKSAR Government to consider enabling the use of other available products or technologies to facilitate compliance, both today or into the future.

Overall, it is important for the HKSAR Government to cooperate with the governments of Guangdong, Shenzhen and Macao to evaluate the feasibility, the need for and the potential cost-effectiveness of the various alternatives to improve the air quality of the Pearl River Delta Region. If the HKSAR Government is pursuing an Emission Control Area, we propose that the HKSAR Government adherence to the IMO regulations and processes. Under IMO procedures, an ECA is appropriate only if the air quality benefits are documented and justified when comparing the relative costs of reducing emissions from ships with land-based controls, and the economic impacts on shipping engaged in international trade is considered.

We hope that the above points clearly articulate our views and concerns associated with the proposal in its current form and that the HKSAR Government and the Panel on Environmental Affairs take our views into consideration when finalising the legislation.

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



Emily Chou
Sales & Operations Manager
Marine Fuels Hong Kong
ExxonMobil Marine Fuels & Lubricants

Copy:

Ms. Grace Lam, Vice President, Public & Government Affairs, HK & S China, ExxonMobil Hong Kong Limited

Ms. Jessica Chong, Communications Manager, Public & Government Affairs, HK & S China, ExxonMobil Hong Kong Limited