REPORT TO THE UNION OF GREEK SHIPOWNERS

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HIGHLIGHTS

CHINA, U.S. HIT PAUSE BUTTON ON TRADE CONFLICT

U.S. AGENCIES READY THEMSELVES FOR IMO 2020 MARINE FUEL RULE IMPLEMENTATION

CHINA, U.S. ANNOUNCE INTERIM TRADE DEAL; SUBSTANIAL U.S. TARIFFS REMAIN

Leaders of China and the United States announced on December 13, 2019, that they had agreed not to further escalate the Sino-American trade war and to roll it back partially. However, the trade issues between the two powers continue, and significant tariffs remain in place. Given the prior volatility of negotiations, it would be a mistake to assume that a return to normalcy is close at hand.

The most immediate result of the so-called Phase One agreement is that the United States declined to impose additional tariffs of 15 percent on nearly $160 billion of Chinese imports that were scheduled to go into effect on December 15. The U.S. also reduced from 15 percent to 7.5 percent tariffs on almost $120 billion of Chinese products first imposed on September 1 of this year. However, tariffs of 25 percent remain on roughly $250 billion of Chinese products.

In response to the U.S. action on tariffs, China cancelled retaliatory duties on some agricultural products, metals, and ethanol that were planned to go into effect on December 15. Also, according to the U.S., China has agreed to increase imports of American goods and services in 2020 and 2021 by a total of $200 billion more than the total in 2017; this would amount to an 80 percent increase from this year's level of American exports. It would include Chinese purchases of either $50 billion of American farm goods in 2020 and 2021 (according to President Trump) or $40 billion (according to Trade Representative Robert Lighthizer). China has not confirmed these numbers publicly. Some estimates are that the trade war has cost American farmers $17 billion in exports up until now.

While the U.S. Trade Representative released a "Fact Sheet" describing the agreement in broad terms, the 86-page text has yet to be made public. A White House press release characterized the agreement as "historic," "incredible," and "tremendous." President Trump has indicated that he will sign the agreement in mid-January.

According to a press release from the U.S. Trade Representative, the Phase One deal "requires structural reforms and other changes to China's economic and trade regime in the areas of intellectual property, technology transfer, agriculture, financial services, and currency and foreign exchange. The Phase One agreement also includes a commitment by China that it will make substantial additional purchases of U.S. goods and services in the coming years."

Phase One was first announced on October 11, following a White House meeting between President Trump and China's vice premier. That announcement was probably premature, as negotiators worked for several weeks to enable the subsequent December 13 roll-out. In addition, during the interim period, the President suggested that trade negotiations with China might well extend past the 2020 presidential election.

Perhaps the most significant aspect of this Phase One announcement (but unremarked uponby the American side) is that it represents the abandonment of President Trump's prior position that all U.S.-Chinese trade issues had to be resolved in a single comprehensive agreement. Now he sems willing to accept progress by means of several interim steps. He was successful in carrying by narrow margins several heavilycontested midwestern farm states in the 2016 election. Perhapshis willingness for an interim deal that might reverse the economic harm inflicted on the U.S. agricultural sector by his trade war may represent his effort to retain this key voting bloc in his effort to be re-elected in 2020.

U.S. PREPARES FOR IMO 2020 FUEL RULE

The U.S. Government has taken small steps regarding the imminent application of the IMO sulfur cap for marine fuel.

On December 11, 2019, the U.S. Environmental Protection Agency (EPA) announced a rule change to enable American refineries to produce and deliver for sale IMO-compliant marine distillate fuel (5,000 ppm sulfur content). The fuel is to be used by ships outside of the U.S. Emission Control Areas (ECAs), as even lower-sulfur fuels (1,000 ppm) must be burned within them. Explaining the reason for the regulatory change, EPA saidthat failure to act "would hinder the ability of U.S. refiners to supply compliant 2020 global marine fuel to ships engaged in international transportation,… This means that a ship wishing to purchase fuel in the United States would be able to buy only 5,000 ppm residual fuel – if it is available; otherwise the ship would be limited to purchasing higher-price ECA fuel or delaying its fuel purchase to the next port of call to avoid that addition cost…. In sum, removing the restriction on the distribution of distillate fuel between 1,000 ppm and 5,000 ppm in the United States, for use outside of ECA boundaries, will provide greater flexibility for U.S. fuel suppliers participating in the global marine fuel market, which could reduce fuel costs in that the ship operator would not be faced with either purchasing more expensive ECA fuel or going to another country to purchase fuel. This change, requested by U.S. refiners, will also provide a level playing field for all potential U.S. suppliers – those that supply distillate or blends as well as residual fuel."

In September of this year, the U.S. Coast Guard issued a clarifying statement regarding the use of Exhaust Gas Scrubbers in waters near the U.S.: "All fully operational exhaust scrubbers that are tested, surveyed, and verified in accordance with MEPC 184(59) or MEPC 259(68) and are appropriately granted equivalencies by a flag administration are authorized to operate in the North American and U.S. Caribbean Sea Emission Control Areas. All non-emergency machinery not serviced by the exhaust scrubber must use compliant fuel (0.10 percent or less sulfur content) to meet MARPOL Annex VI Regulation 14. These exhaust scrubbers must be operated in accordance with applicable state and local regulations. Vessel owners and operators should contact state and local jurisdictions for questions regarding their regulations."

In a document of slides distributed to maritime representatives, the U.S. Coast Guard discussed how it will verify compliance with the 2020 sulfur cap. For the most part, Coast Guard inspectors will rely on paper documentation: bunker delivery notes, written change-over procedures, and other relevant documentation. In certain instances, a more detailed inspection will take place; these instances include lack of orinconsistent bunker delivery notes; crew not following change-over procedures; faults or errors on ECCS. Fuel samples will be taken for testing and verification only if necessary.

Effective March 1, 2020, if non-compliant fuel is found on board a vessel without an approved and operational EGCS, the vessel may be subject to an order to offload the non-compliant fuel, take aboard compliant fuel sufficient for the subsequent voyage, or take other remedial action.

These actions signal that the views of those within the Trump administration who had expressed apprehension about the possible adverse economic impact of IMO 2020 did not prevail. Those concerns were expressed to the UGS delegation last spring by Mr. Wells Griffith of the National Security Council (NSC). Recent reports suggest that a reorganization of the NSC staff has forced Mr. Griffith out. He apparently will move to an agency that sponsors U.S. exports. In contrast, the lobbying campaign in favor of IMO 2020 by the group calling itself the Coalition for American Energy Security has proven successful. In a letter to Senators, the Coalition stressed that American refineries are ready to capitalize on the anticipated need for low-sulfur marine fuel: "And the U.S. refining industry is well positioned to supply low-sulfur marine fuels. The U.S. refining industry has invested nearly $100 billion over the last decade to increase processing capacity, improve operating efficiency, increase crude slate flexibility, and produce cleaner fuels, including low-sulfur fuels like those needed for IMO 2020."

DOCUMENTS INCLUDED

U.S. Trade Representative, December 13, 2019: "Fact Sheet – Agreement between the United States of American and the People's Republic of China."

U.S. Environmental Protection Agency, December 11, 2019: U.S. Refiners to Deliver Cleaner Marine Diesel Fuel with Key Regulatory Change."

Federal Register, December 18, 2019, pages 68335-69341: U.S. Environmental Protection Agency, Final Rule: "Amendments Related to Global Marine Fuel."

U.S. Coast Guard, December 2019: Slides – "USCG Enforcement of IMO 2020 Sulfur Cap."

Coalition for American Energy Security, December 10, 2019, Letter to Senators regarding IMO 2020 Fuel Rule.

Bloomberg, December 6, 2019: "Trump Energy Adviser Leaving White House after Ukraine ?Subpoena."