CAUGHT IN THE ACT

MATURING EMISSIONS’ ENFORCEMENT PUSHES LOW SULFUR DEMAND

EYES ON THE PRIZE
2020 fuel availability deadline brings opportunities

A LION’S APPETITE
Owners and charterers must change OW strategy
Coriolis-based mass flow meters aren’t new. The science behind them harks back to discoveries made in 1843 on the different directional flow of liquids in the northern and southern hemispheres. The first commercial units hit the markets in the 1970s, yet it’s taken over four decades for the bunkering industry to latch on to the benefits of mass flow meters.

That lag is surprising given the ongoing issues related to bunker quantity over that time; the frequency of cappuccino bunker claims encapsulates the quantity challenges the industry regularly faces.

Added to which, the traditional tank dipping method is time consuming and prone to inaccuracies — a vicious cocktail that inevitably leads to repeated disputes on the quantity of fuel delivered. One vendor puts the time savings of mass flow meters versus tank dipping at three hours per delivery. What ship owner wouldn’t want to save three hours in port?

The bunker sector can’t blame the technology for the slow uptake: the technology is based on that used for custody transfer applications in the oil and gas industry and has been in place for decades.

At least one ship owner recognized the benefits of mass flow meters early on. Fed up with being shortchanged, Maersk started introducing flow meters to its fleet back in 2008, but the ship owning giant proved to be the exception rather than the rule on the onboard installation front.

For ports, Singapore was the first to throw down the mass flow meter gauntlet. It announced in April 2014 that it will be mandatory to use a mass flow metering system for marine fuel oil bunkering in Singapore from January 1, 2017. It’s helpful lump sum incentive of S$80,000 (US$63,500) per marine fuel oil bunker tanker will no doubt help to facilitate the smooth fit-out of barges and tankers in preparation for meeting the deadline.

As the cutoff date approaches, should the industry view Singapore’s move as a tipping point? Yes, Singapore has the might of the veritable Maritime and Port Authority where other jurisdictions lack a dominant port agency to certify systems, but where there’s a will surely there is a way.

What role could and should the IMO take when it comes to the global certification of mass flow meters? Could it draw on the lessons learnt from its involvement in approving contentious ballast water management systems to benefit the roll-out worldwide of mass flow meter technology?

Singapore has set the groundwork; the bunker industry now needs to overcome the pitfalls and make this technology work. Transparent and time saving — what reputable owner, charterer, supplier or trader wouldn’t want to harness both of those virtues in marine fuel supplies going forward?

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CONCORD ENERGY COMMISSIONS FUJAIRAH TERMINAL

Singapore-based energy trader Concord Energy will start construction of a 1.1 million cu m crude oil and petroleum products storage facility at Fujairah in the fourth quarter of this year, with commissioning targeted in mid-2018. The new facility will have about 400,000 cu m of crude storage tanks connected to the VLCC jetty with flow rates of 12,000 cu m/hour, and a total 700,000 cu m of gasoil, gasoline and fuel oil storage connected to petroleum product jetties 2 to 9 at the Port of Fujairah, the company has announced. “We are in discussions with several anchor customers who are showing keen interest in our crude and fuel oil tanks. A major Asian national oil company will be committing to a long-term lease for some of the crude and fuel oil storage,” said Concord Oil Terminal’s managing director Raouf Kizilbash. “Recently, the market for gasoil storage has been growing in Fujairah and our terminal will also cater for gasoil and gasoline customers,” said Kizilbash. Additionally, the new terminal has been designed for high pumping rates, which will allow for more tank farm flexibility, for instance switching between gasoil and gasoline storage depending on market demand, Kizilbash added.

FINLAND’S NESTE TO LAUNCH HIGH VISCOSE MFO

Finnish renewable diesel supplier, Neste, will launch a low sulfur marine fuel which has a significantly higher viscosity than currently available products at the end of 2017, the company has said. “The new solvent deasphalting (SDA) unit to be commissioned at our Porvoo refinery enables the launch of a new type of product. As a result, we are able to produce a heavier product with a sulfur content of under 0.1% and highly competitive other properties compared with distillate-based products available in the market,” said Neste’s oil products business development manager Varpu Markkanen. Neste is currently offering two low-sulfur marine fuels (Neste MDO DMB and Neste RMB) which contain less than 0.1% sulfur and, has time-chartered the 4,514 dwt M/T Lotus for bunkering at ports in Helsinki. The products meet the requirements set out in the EU Sulfur Directive for ships operating in the Baltic Sea, North Sea and English Channel. Neste is currently supplying its low-sulfur marine fuels to Tallink Grupp’s ships that operate in Finnish ports and bunker fuel in Helsinki and Turku. The low-sulfur marine fuels are distributed from Neste’s terminals in Naantali and Kokkola, from where products are trucked to Finnish ports. Additionally, ships can bunker ex-pipe at the Porvoo and Naantali refinery harbors.

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RUSSIA'S ROSNEFT, PIETRO BARBARO TO START OPERATIONS BY DECEMBER

Russia’s Rosneft and Italy’s shipping company Pietro Barbaro intend their recently-unveiled international sea freight joint venture to start operations in the next four or five months, a source close to the business has revealed. The JV will carry Rosneft’s energy resources as well as offering services for third parties, although the Russian oil group, which has been aiming to expand its shipping business, will have priority, the source said. The JV expects to operate dirty tankers for crude and heavy products as well as clean tankers for light products, with the deadweight of 50,000 mt and more, the source said. “How many tankers we will end up with will depend on how the joint venture goes,” the source said. “We plan...the most modern [tankers] the market has to offer that adhere to top standards of safety and security.” The source declined to say what share each party will have in the JV. Previously, when the JV was announced after a signing at the St Petersburg International Economic Forum, Rosneft said cooperation with the Italian company would allow it “to strengthen its position in the tanker market, increase the economic efficiency of its logistics business dimension and as a consequence boost the profitability of its operations.”

PHILLIPS 66’S RECOVERY OF OW BUNKER DUES HITS SNAG

Oil trader Phillips 66 International Trading has had its appeal for summary judgement against six vessel owners in Singapore dismissed and has been ordered to pay costs, court papers showed. According to the court papers, Phillips 66 had entered into three contracts with OW Bunker Far East and Dynamic Oil Trading for the sale of bunkers totaling $6.98 million between September 10, 2014, and October 13, 2014. Six vessels contracted to Phillips 66 were held in November 2014 when buyers OW Bunker Far East and Dynamic Oil Trading failed to make payment. The vessels were the 5,600 dwt Star Quest, 5,700 dwt Nepamora, and 4,000 dwt Petro Asia owned by United Maritime, as well as HW Shipping’s 3,900 dwt Luna, New Maritime’s 3,900 dwt Zmaga and Oceanlink’s 5,200 dwt Arowana Milan. Judge Steven Chong upheld an earlier court decision to disallow the commodity trader’s case for a summary judgement. Instead, Chong ordered the trader to pay the vessel owners of the Star Quest, Nepamora, Petro Asia, Zmaga and the Arowana Milan costs of $2,500 each, and $3,000 in costs to the vessel owner of the Luna.

FRANMAN SETS UP BUNKERING DIVISION

Greek shipping services group Franman is to add bunkering to the range of marine services it offers, the company said. The company has set up a bunker broking division with additional market analysis and intelligence and claims assistance services. According to the company, the bunker division will offer “competitive prices and a reliable quality service through their extensive network of suppliers across the world.”

DANISH BUNKER COMPANY MONJASA SEE DS PROFIT

Danish bunker company Monjasa has revealed it saw profit increase on lower revenue in 2015. The company reported profit of $24 million in 2015, compared with $22 million in 2014, in its 2015 annual report. Annual revenue at the company slipped over the period on lower oil prices to $1.6 billion from $2.2 billion. However, sales volume rose over the period from 3.9 million mt to 4.1 million mt, a 7% increase. Growth was through reselling activity as well as through physical supply, according to the company. The company said it had built up market share in bunker oil activities in Latin America and consolidated its position in West Africa. In addition, it said that “a cautious launch of oil trading activities has solidified the growth and performance in the physical supply activities.” Looking ahead, the company said its focus would remain its core business areas, its cost structures, compliance, ISO and OHSAS certifications, and, not the least, its staff.
**BIG PORT SERVICES HAS APPEAL QUASHED**

Russian bunker supplier Big Port Services DMCC has been ordered by a Singapore court to pay China Shipping Container Lines (CSCL), the owner of the vessel Xin Chang Shu, a combined sum of $13,000 inclusive of disbursements in the latest judgment in a two-year legal tussle. Big Port had appealed the Singapore Supreme court’s decision to strike out its writ and the arrest of the vessel Xin Chang Shu, and the dismissal of its application for a stay in proceedings in favor of arbitration. But Chong again rejected the appeal and ruled Big Port Services pay CSCL costs of $10,000. He also ordered the bunker supplier to pay CSCL $3,000 for its further application to re-appeal the dismissal of its stay application, saying it was “misconceived and amounted to an abuse of court process.”

**MALIK SUPPLY STRENGTHENS PRESENCE IN SKAW ROADS**

Danish bunker fuel company Malik Supply, also known as Nordic Marine Oil, has added two new bunkering barges at the Danish port of Skaw Roads bunker market. The barges will supply ultra low sulfur fuel oil and 380 CST fuel oil as well as marine gasoil (MGO), a company spokesperson confirmed to S&P Global Platts. One barge has 6,000 mt capacity while the other is 800 mt. The company previously had a single bunkering barge at the port supplying MGO. “We are aiming to increase our market share in the Skaw Roads bunker market,” the spokesperson said. Malik is an independent bunker fuel supplier based in Aalborg, Denmark.

**ECOSLOPS TO REACH OUTPUT CAPACITY IN 2017**

Portugal’s Ecoslops, which recycles slops and oil residue into marine fuel, is on track to reach its designed output capacity of 30,000 mt/year at its Port of Sines plant by next year, the company has said. Over April-May, Ecoslops produced 2,100 mt/month of regenerated slops, giving the company confidence that it could achieve a regular output of 2,500 mt/month by the end of this year, said Ecoslops’ chief executive Vincent Favier. The 30,000 mt/year Port of Sines plant is able to process the material to ISO B27 standards. The company collects waste oil from shipowners at the port and also imports the hydrocarbon waste. Last month, the company took delivery of a fourth tanker to meet expanded business operations. The volume of slops collected each month has more than doubled from 400 mt (dehydrated), and the fourth tanker was bought to meet increased collection needs, Ecoslops said. Additionally, the company’s gross margin has doubled since it acquired its first tanker last August as the average cost of slops including transport has fallen by 70%. “We are reiterating our objectives of signing deals for three new sites by the end of 2017 and seeing our Sines site break even by the end of 2016,” said Favier.

**QATARGAS AND SHELL TO DEVELOP LNG AS A MARINE FUEL**

Qatargas and Shell have signed a second memorandum of understanding to explore the development of LNG as a marine fuel within the Middle East region, according to a statement released by Qatargas. The newest MOU signed between Qatargas, Shell and United Arab Shipping Company or UASC, follows an earlier agreement signed between Qatargas, Shell and Maersk in February to also explore the development of LNG as a marine fuel in the Middle East. In the newest relationship with UASC, the project partners will also explore the opportunity to convert UASC’s existing vessels to use LNG.
Cockett Marine Oil has appointed Cem Saral its Chief Executive Officer effective September 1. Saral replaces Karl Beeson, who has decided to step down after eight years. Saral joined Cockett Marine Oil on March 1, 2015, after three years in the fuel oil trading team at Vitol, a 50% shareholder in Cockett Marine Oil. He has over 20 years’ experience in the marine fuels supply chain and has held a number of senior positions in Europe, the Middle East, the US and the Far East. In related news, Cockett Marine Oil has strengthened its trading team in Hong Kong with the appointment of one of its traders, Bai Di, as trading manager. Bai Di previously worked at Chimbusco International Petroleum in Singapore and Hanwa Co. Ltd., his LinkedIn profile showed.

### OHIOCONNECTION MARINE HIRES MARINE LUBRICANTS TRADER

Marine fuels company OceanConnect Marine has hired Christos Katarachias as a marine lubricants trader for its new Greek office. Katarachias, who will be based at Voula, Athens, is an experienced lubricants trader having previously worked for Aegean Marine Petroleum and OW Bunker. The company is a longtime supplier of marine lubricants and the move is part of a strategy to formalize the company’s marine lubricants offer. “Our dedicated Marine Lubricants Sourcing Center in Greece serves as the global hub for servicing all of OceanConnect Marine’s worldwide marine lubricants inquiries,” said Katarachias. OceanConnect is a global bunker company with offices in the US, the UK and Singapore as well as other locations.

### VOPAK ASIA PRESIDENT VAN DER VOORT TO LEAVE SINGAPORE

Vopak Asia President Patrick van der Voort returned to Amsterdam on July 15 and was succeeded by Dick J.M Richelle, currently division president, the two executives confirmed. Van der Voort has been leading the Singapore office for nine years, and supervised the completion of Southeast Asia’s first independent LPG import and storage terminal, the Vopak Banyan Terminal. Richelle holds a degree in business economics from Erasmus University, Rotterdam in the Netherlands and has more than 20 years of experience in Vopak’s storage business.

### HONG KONG’S SEA TRADER OPENS OFFICE IN SEOUL

Hong Kong bunker trader Sea Trader International has expanded its bunkering business by opening an office in Seoul, the company said. Sea Trader has appointed Bryan Park as its representative, and Jin Koo Kim as sales manager and their appointments will help build contacts with South Korean shipping companies and local refineries, the company said. Park has wide experience in vessel operations and forward freight agreement trading having worked in Hyundai Merchant Marine from 2007-14, and Hyundai Corporation for five months in 2014. Kim worked at Eukor Car Carrier in bunker procurement from August 2014 to May 2016. He started his career at OMA CGM Korea in September 2011.

### AET’S KENNY PHUA JOINS RAFFLES SHIPBROKERS

Kenny Phua, who was a dirty tankers chartering manager with AET Tankers, has now joined Raffles Shipbrokers, according to market sources. Phua has joined the dirty tankers’ desk at Raffles, a 25-year-old Singapore-based brokerage, sources said. It handles bunkering, crew management and container freight forwarding.

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**COCKETT MARINE OIL APPOINTS CEM SARAL CEO**

**ADANI BUNKERING HIRES TRADER FOR SOUTHERN INDIA OPERATIONS**

**BW GROUP CFO NICHOLAS GLEESON RESIGNS**

**VOPAK ASIA PRESIDENT VAN DER VOORT TO LEAVE SINGAPORE**

**HONG KONG’S SEA TRADER OPENS OFFICE IN SEOUL**

**AET’S KENNY PHUA JOINS RAFFLES SHIPBROKERS**
FLYING HIGH

New ECA measures have driven sales of low sulfur MGO, but is the spike sustainable?

BY LARA SHINGLES

WHEN THE SULFUR content of marine fuel burnt in Emission Control Areas was reduced from 1.0% to 0.1% on 1 January 2015 speculation was rife on what enforcement assets ECAs would deploy to detect and monitor ships’ emission levels, and how stricter enforcement would affect refining and oil markets – and, subsequently, low sulfur bunker prices.

Now, more than one year later, the market is beginning to get answers. ECAs including the Baltic Sea area, the North Sea area, the North American and US Caribbean Sea area are starting to implement plans to crackdown on ship operators skirting pollution limits using a variety of techniques, from emission-sniffing drones to installation of state-of-the-art equipment.

NEW THERE TO HIDE

In Europe, the European Maritime Safety Agency and the European Space Agency have championed miniature-aircraft technology to control ships’ emission levels in the English Channel, the North Sea, the Baltic Sea and the Gulf of Bothnia.

EMSA has unveiled plans to work with ESA on two pilot projects intended to utilize emission-sniffing drones to detect ship operators skirting pollution limits. The drones will be flown around an area of more than one million sq km to track pollution from ships sailing in those waters.

Leendert Bal, head of operations for EMSA, said: “Member states are struggling to enforce the low sulfur directives. There is a lot of concern by ship owners that there is no level playing field so we need to do as much measuring as possible, and drones will help us do more measuring.”

It is still unknown what class of drones the agencies intend to use, however both say they are looking for an aircraft that could fly for a minimum of four hours, with a 20 km range.

EMSA added that the drones will be fitted with both sulfur and CO2 sensors, in addition to equipment that will be able to recognize individual ships by way of unique onboard identification beacons. They will be flown through a ship’s exhaust plume to conduct routine assessments of sulfur levels along shipping routes and monitor specific ships that have previously violated ECA regulations, allowing regulators to establish a ‘black list’ of emission rule violators.

Erik Lewenhardt, head of corporate communications for Stena Group, noted that there have been some concerns that the drones may malfunction and collapse on ships. However, he added: “If we can get around that, anything that can measure emissions in the open water will be positive.”

The first test flights were scheduled to depart from Hamburg, Germany in July. If they are successful, drones could be regularly monitoring ships by the end of 2016.

Elsewhere, in the UK, the Maritime and Coastguard Agency has awarded hazardous material and risk management specialist Lucion Marine the contract to provide fuel oil sampling and testing services at ports across the country.

The contract, which will run until 2020, consists of the provision of a sampling and analysis service to monitor the sulfur emission levels of bunkers in ships in UK ports and ensure that the MARPOL regulations are strictly adhered to.

More than 240 ships each year at 13 major ports, including Aberdeen, Belfast, Port of London and Port of Tyne, will be tested.

Samples will be sent to a laboratory for testing in accordance with ISO and BS EN methods, and the verification of sulfur content will be sent to the MCA in a full report. The full process, from taking the sample to providing an analysis report, is expected to take three days.

The US Coast Guard and Environmental Protection Agency, meanwhile, have announced a coordinated enforcement campaign, designed to ensure compliance with the new sulfur limits in the North American and US Caribbean Sea ECAs.

Under the campaign, the USCG will continue to check bunker delivery notes and other records during Port State Control and Flag State visits to ships. The USCG and EPA are also developing plans to jointly board ships, and carry out fuel oil sampling and in-the-field screening for sulfur levels.

Cynthia Giles, assistant administrator, enforcement and compliance assurance, EPA, said: “Making sure that everyone plays by the rules will help level the playing field for companies that comply, while reducing harmful air pollution in coastal and inland communities.”

That said, members have been asked to ensure that their crews are making full and accurate entries in the applicable logbooks regarding all operations involving bunkers, and that fuel sampling is carried out if appropriate. “Crews should always be open, honest and cooperative when dealing with Coast Guard and EPA staff,” added USCG-EPA.

The EPA had already released a penalty policy for violations of the sulfur in fuel standard and related provisions for ships, reinforcing its commitment to pursue violations of international air pollution requirements by ships operating in the North American and US Caribbean Sea ECAs.

While not an official IMO ECA, China has also introduced ECA regulations, requiring all ships to use fuel oil containing 0.5% sulfur or less while at berth in core ports of Shanghai, Ningbo-Zhoushan, Suzhou and Nantong from 1 April, 2016.

A CONSISTENT SPIKE

While the approaches taken by ECAs to tackle ships’ emission levels in their respective waters might differ, the result is the same: stricter enforcement of sulfur content requirements.

With fewer places to hide, bunker suppliers should not only expect sales of sulfur marine gasoil (MGO) to spike, if they haven’t already, but also to remain consistently high throughout 2016 and into 2017 as nations ramp up detection and monitoring abilities.

Sales of low sulfur gasoil and diesel at the Port of Rotterdam almost tripled in 2015 compared with the previous year, from 0.7 million to 1.8 million cu m. Unsurprisingly, the Port of Rotterdam Authority concluded that the increase was a result of the more stringent sulfur requirements for maritime shipping in the North Sea and the Baltic Sea.

The Authority also suggested that the use of low-sulfur fuels may actually be greater than indicated by the 2015 figures. It noted that the adoption of stricter sulfur requirements in ECAs has led to the introduction of new products, which would not necessarily have been captured in the generic low sulfur fuel bracket. “This includes the production of so-called ‘ECA fuels’, while ultra-low sulfur fuel oil (ULSFO) is now also available on the market,” it said.

Indeed, a report published by
the Port of Rotterdam in February indicated that sales of so-called ULSFO, with no more than 0.1% sulfur, may have added up to 800,000 to 900,000 mt in 2015, a figure that CJA (Niels) Groenewold, leading barge operator and chief executive of the VT Group, said will likely hold in 2016.

Out East, the port of Singapore recorded its highest ever sales of low sulfur MGO in the same month that China implemented first-stage ECA measures. According to data from the Maritime and Port Authority of Singapore (MPA), sales of low sulfur MGO reached 127,600 mt in April. This represented an increase of 45.8% on March volumes, and more than double the 61,500 mt recorded in April 2015.

Although the MPA is more hesitant than the Port of Rotterdam Authority to confirm a direct link between the introduction of its country’s own ECA regulation and the number of vessels calling at its ports for low sulfur MGO, it can certainly be suggested. Whether or not sales of low sulfur MGO at the port of Singapore remain consistent throughout 2016, potentially as a result of stricter sulfur requirements, the MPA is planning to continue working closely with its bunkering stakeholders “to ensure that Singapore remains relevant and responsive to the bunkering demands of vessels that call at the port”, said the Authority.

Aside from maintaining close relationships with stakeholders, bunker ports should consider implementing other, pre-emptive methods, such as employing more suppliers, to satisfy higher demand, and remain just as relevant and successful in the year ahead.

THE CHALLENGES OF HYBRID FUELS

Since the stricter sulfur limit of 0.1% was implemented in ECAs, ship owners and operators have been presented with a variety of options to comply with the ECA regulatory requirement, including MGO, liquefied nitrogen gas and biofuels.

In addition, oil companies have developed new grades of marine fuel for use in ECAs, known as heavy-distillates, ULSFO or hybrid fuels, which have the potential to burn faster and cleaner than the traditional fuel oil counterparts mentioned previously, but only if their challenges are understood and can be addressed.

According to Veritas Petroleum Services (VPS), the biggest downside of these new fuels, which consist of marine diesel fuels, blended diesel fuels and low viscosity residual fuels, is that they do not comfortably fit into the current ISO 8217 marine fuel specifications, forcing the fuel buyer to compromise in the selection of the most suitable specification for ordering and comparison.

While these fuels are extremely paraffinic with virtually no aromatics, VPS also warns that it is the very paraffinic nature of these fuels that can, at the same time, create potentially serious handling issues when in contact with fuels containing cracked residues.

Paraffinic fuels, which are made from natural gas, biomass or hydrotreated vegetable oils, produce almost zero sulfur and aromatics and would, therefore, provide an immediate improvement in air quality, but both ship operators and crew need to understand exactly how to handle these fuels safely. As such, vessels that trade in and out of ECAs have to manage the changeover process very carefully, it continues – not to mention, on board treatment needs to be maintained at its highest efficiency.

Georgios Sigalas, account manager at VPS, said: “Ship operators must be very vigilant about the use of these fuels by testing deliveries routinely and monitoring supplier performance. Attention should be given to their quality and availability trends. Compatibility test with other products on board vessel must also be included.” He adds that mixing ECA fuels with other fuel types, including MGO, should be avoided. Subsequently, while there are several major suppliers offering this type of fuel, such as ExxonMobil, Shell and Neste Oil, most ship owners and operators have, for now, decided on the use of the well-known and understood MGO.

This is due to three factors, VPS concludes: the favorable bunker prices; the assumption that suppliers need to undergo a learning curve before their new products are optimized; and the anticipation of operational feedback from the early adopters of these newly developed fuels.
Opportunities abound for suppliers willing to look beyond the IMO’s fuel availability report

BY CARLY FIELDS

IN JUST TWO MONTHS, marine fuel suppliers will find out if they have three or eight years to prepare for the enforcement of a 0.5% global cap on sulfur in marine fuels. All eyes are on the pending fuel availability report due to be published at October’s International Maritime Organization Marine Environment Protection Committee meeting.

If the fuel availability study confirms that there is enough suitable fuel to supply the global fleet with bunkers compliant with the MARPOL annex VI global sulfur limit, that meeting could set the date of the global 0.5% cap on sulfur in marine fuel as January 1, 2020. If the review is inconclusive or if the conclusion is that there will be insufficient availability by that date, the deadline could be pushed back to January 1, 2025.

Ship operators and refiners will need as long a window as possible to ensure they can meet the demands of the regulation, whether that be through investment in compliance methods such as scrubbers, switching to alternative fuels such as LNG, or securing sufficient quantities of compliant fuel.

These options offer tantalizing opportunities to suppliers willing to bet big on the deadline being set in 2020, according to industry veteran Adrian Tolson, senior partner of maritime consultancy, 20|20 Marine Energy. Speaking exclusively to Bunker Bulletin, Tolson says that the industry should make preparations now for a 2020 deadline.

“Politically, I don’t think IMO really has a lot of choice but to go ahead with regulation in 2020. If you’re IMO and you decide to stretch the deadline to 2025 the political outcry would be pretty significant. I don’t think anybody wants to deal with that in shipping at the moment.”

TRADING PLACES

And when it does come into force it will completely alter the supply picture, altering the fundamental structure of the industry from a residual-based bunkering business to a distillate-based one.

“That’s not an entirely true statement because you can have residual-based 0.5% bunkers, but not in the volumes you need to supply 320 million mt/year,” says Tolson. “So you have a large shortfall to deal with and there will be significant changes going on.”

One of the biggest developments could be the demise of the traditional west-east export trade in favor of Eastern sources of distillates, which is produced more prolifically in Asia. Could the super bunkering hub of Rotterdam lose its crown to an Eastern supplier within five years?

“There will be some interesting changes. I think certain ports will change and that some of the bigger ports may not be the bigger ports in the future. I could see Singapore doubling in the next five to 10 years,” says Tolson.

“These could be transitional changes but I do think the very big ports will get bigger because if you have a specialist product that has to be blended it would tend to be cheaper and more economical in the big, high-volume ports.”

Other well established bunkering locations could suffer. Los Angeles, for example, is a port that has primarily been supplied in recent years by high sulfur fuel from Mexico that already requires significant blending. The question is, where does this fit with a 0.5% sulfur cap?

“It’s not that they couldn’t produce it, but I don’t think they could produce it in the volumes that they currently do,” says Tolson. “It could cause some major shifts in certain locations, for example in locations that are dependent on a high sulfur supply location and don’t really have a competitive position for 0.5% sulfur. It is critical that ports look at how they want to position themselves for the 2020 regulation. They need to seriously consider their infrastructure, and make the right investment decisions to ensure that they are competitive within the new market.”

SEEKING GUARANTEES

For ship operators, decision-day is fast approaching and they are looking for guarantees from suppliers. If 2020 proves to be the target date, operators will have to weigh up the risk that low sulfur fuel may not be available in sufficient quantities by the deadline versus a rush into investments in scrubbers if they can be certain that high sulfur fuels will still be available when their ships bunker on January 1, 2020.

“It’s there now but will it be there in three years at a competitive price to the alternatives that makes sense for your scrubber investment?” asks Tolson. “The smart supplier would be out there offering a guarantee on the product and trying to ensure that they will have high sulfur fuels available for vessels with scrubbers installed.”

Of course, there’s no guarantees that would even be possible - it would largely depend on supply positions and relationship with suppliers, but the fact remains that refiners will still be producing high sulfur fuels and, to a certain degree, suppliers could try to secure it for a competitive price today.

“I think if you locked it in at today’s ratio against crude you’d probably be in a very positive situation come 2020. One of the clear facts is that when the shift takes place in 2020 you will have an excess amount of high sulfur fuel around the world in a market of likely higher crude prices from what they are today.

“It’s likely that product will have to find a new home and it will have to find its market price in those conditions. That price will probably be a lot cheaper than its current price, which will increase the difference between HFO and distillates, which makes the investment in scrubbers all the more attractive,” concludes Tolson.

There are, it seems, opportunities out there, but the window is closing and suppliers will need to act fast to be ahead of the curve when the crucial date is set by the MEPC’s 70th session on October 24-28.
OW, LIONS, AND LAST-ING APPETITE

Owners and charterers need to change strategy or be dinner

GUEST FEATURE

The Classic Folk tale of Androcles and the Lion may date back to antiquity. Its lessons, however, apply today, in the worlds of bunker trading, generally, and to the OW situation in particular.

For those unfamiliar with the tale, a nomadic slave finds himself in a cave – which happens to contain a wounded lion. He successfully earns the lion's gratitude by removing a thorn from its paw. Years later, Androcles is a guest at a banquet, not unlike a vessel arrest, where the host is emboldened to do a commensal or add a nun to the party. The host now wants to remove a thorn from Androcles, but, is it “typical” to pay twice for the same thing?

The UK Supreme Court was just a step up from the High Court observation about ten months before, where the High Court judge (Mr. Justice Males) had observed the following:

“53. As already indicated, I cannot accept the possibility that the Owners could have a liability to the trader, Rosneft, which paid the physical supplier for the bunkers, but never was paid under some system of law other than English law and, if so, that the vessel may be exposed to arrest in some jurisdictions. However, in circumstances where those arrests, owners and charterers must pay twice (or more) for the same bunker supply: to ING, the unpaid physical supplier and unpaid intermediaries.

SUPPORT FOR ING

The UK Supreme Court - May 2016 - ING v OW BUNKER MALT Limited and another (Appellants) v OW Bunker Malta Limited and another (Respondents) [2016 UKSC 23, May 11, 2016].

“Fairly typical”? Yes, perhaps considering the provision of bunkers, but, is it typical to pay twice for the same thing?

The Court’s opinion opens observing:

“The essential problem arises from the insolventcy of the OW Bunker Group. The physical suppliers to vessels, owners that they may be exposed to paying twice over, once to their immediate bunker supply group now insolvent, and again to the ultimate source of the bunkers who may claim rights under a reservation of title or maritime lien. The concerns stem from the fact that are understood to be fairly typical conditions on which bunkers are supplied worldwide.”


Mounting Exposure

We could supplement the High Court’s observation - which the UK Supreme Court affirmed to read: “…exposure to claims with the possibility of arrests (piracy, shipwreck, mutiny, and multiplicity of claims for different entities providing exactly the same thing making shipowners pay multiple times for the same thing) is one of the risks which shipowners run.”

Is this true, but are these necessary and avoidable risks?

One can’t blame the physical suppliers - who provided the fuel which was sold in the first place. Essential to the OW sales terms and conditions ING has relied on to claim everything and the debt buying companies against the entities ordering the bunkers - it stands in for is paragraph “L.4” which says:

“These Terms and Conditions are subject to variation in circumstances where the physical supply of the Bunkers is being undertaken by third party (herein Macoil) which insists that the Buyer [which OW’s terms also defines as the Vessel’s Owners/Charterers] is also bound by its own terms and conditions. In such circumstances, these Terms and Conditions shall be varied accordingly, and the Buyer shall be deemed to have read and accepted the terms and conditions imposed by the said third party.”

However, few OW entities ever undertook actual physical supply. OW instead “undertook” most all of its bunkers to third party physical suppliers.

The third party physical supplier terms invariably insist that they be paid directly by the vessels’ owners and charterers and that they have a maritime lien in rem against the vessel, which the physical supplier, has supplied. They also insist that their direct contractual relationships be paid from the owners/charterers and others directly contracting for the supply.

Speaking Plainly

What in plain language does this mean? OW’s own language, which ING insists on (and which it must insist on in order to attempt to recover anything) means that physical suppliers - who have given most of their credits (bunkers) to the vessel owners/charterers - have the right to recover not only by arresting the vessels supplied, but also directly against the entities ordering the suppliers’ bunkers.

What OW’s own “L.4” requires of ING is its mark-up or commission over and above the price of the physical suppliers’ bunkers. It also establishes ING, as trustee and fiduciary, as having the responsibility to receive and then pay to the physical supplier the value of the physical supplier’s bunkers. But, clearly, OW terms’ clause “L.4” does not return the value of the physical supplier into something that ING ever owns or could be assigned.

This makes complete sense; it makes no sense that anyone claiming payment who has paid nothing for the
underlying supplies, should receive anything. What owners and charterers (and their insurers) are now seeing is the natural result of their less-informed, initial decisions following the relatively unprecedented situation. Before, owners and charterers could control. They imagined that they only owed money to bunker traders, who took complete title to the bunkers those owners/charters bought. But that’s not true or right. Nearing two years out from OW’s collapse and as a result of their misguided strategy of penalizing to physical suppliers and intermediaries, owners/charters and their insurers are seeing what should have been the expected consequence of their short-sighted decision. ING arrests in one place favorable to them, and suppliers/intermediaries arrest in another as much or more favorable to them. ING opposes the suppliers’/intermediaries’ participation in an arrest, insisting on independent London arbitration or otherwise. The suppliers/intermediaries (also encouraged by no less than the UK Supreme Court) forge ahead in court (not bound by arbitration) insisting that they should independently be paid. This all goes back to the owners/charters’ fundamental decision about who should suffer from the ING thorn.

KEY QUESTION

The dominant question post-OW-insolvency for bunker traders is have you paid the physical supplier? Many owners and charterers have not, as they didn’t want to pay twice. However, the strategy of ignoring the thorn and hoping the lion would forget, was not a well thought out one. Their lions – the unpaid physical suppliers – may have long memories, especially when they are informed by empty stomachs. What, then is the answer going forward? Owners/charters and their insurers, and physical suppliers and intermediaries in the chain behind any ultimate OW entity (through which ING claims) together now must insist that the physical suppliers, and intermediate entities, are paid what all originally agreed to be paid.

The Canada Federal Court Conprotex decision, at the time of writing on appeal to the Canada Federal Appeals Court, sensibly reaches this result. In consideration of OW Group’s sales terms clause L.4, this would seem to be the right result: everyone receives what they agreed on at the beginning. This would even include ING, which would receive the mark-up, over and above what the OW entities were to pay the physical supplier.

Presently and perhaps emboldened by the Supreme Court’s RES COGITANS decision, ING is, now nearing two years after OW’s insolvency, insisting even more vehemently that physical suppliers and intermediary traders not be paid. If owners and charterers fail to resist this, their vessels (and insurers) will have to pay twice for the same bunkers - a bad experience all owners/charters/insurers would agree.

But there is another way: beginning with OW’s terms’ clause L.4, owners/charters/insurers should insist that there should only be one payment for one bunkers provision, and that in each the transaction should receive what each agreed to receive. The bunker supplier and the intermediary to the OW entity should each receive the original, agreed payment without duplicates. So, back to Androcles and the Lion, where we started. The physical suppliers - aka our lion – may find it hard to forget that ING thorn and the pain it caused. Owners/charters and their insurers, need to make sure that there is reliable means to assure this particular lion - provider of the very means to propel their vessels and which extends credit – is appeased.

Post-OW insolvency their first question in a bunkers transaction should be, “how can I make sure the physical supplier is paid”? The OW L.4 clause may be the yet unsung responder to this question. Owners/charters must insist in their transactions that traders (and their thorny financiers) have no more rights to recover - by arrest or directly - anything more than they have paid for their physical supply. They also should, now in OW/ING situations and going forward, recognize physical suppliers’ recovery rights for the supply only those suppliers have provided.

Years from now or probably sooner, owners/charters and their insurers will be face-to-face in the Circus Maximus with the lions they either have chosen to help or stick. At that point, the physical suppliers will choose whether to dine with or on those who made the earlier choice of not paying, by which point ING will be but a distant memory.

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In the bunker market, it’s just not the blend of fuel that has to be right. Whatever your position in the supply chain, the combination of business intelligence you use is also crucial. Platts Bunker Portfolio has been specifically developed with this in mind, offering you a unique mix of products to fuel your decision-making.

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Why marine credit managers are losing sleep – and what we can do about it

BY JASON SILBER, GLOBAL HEAD, PLATTS OCEAN INTELLIGENCE

A CHRONICALLY anemic world economy, steep drop in oil prices, the decline in imports to China and a massive surplus of ships has placed financial pressure on many maritime companies. More than a few have gone bankrupt. In such perilous times, Platts Ocean Intelligence is there to help these credit executives get some sleep.

Platts Ocean Intelligence (OI for short, and which Platts acquired a year ago) produces credit assessment reports for the marine fuel market which includes oil majors, national energy conglomerates, independent energy companies, commodity houses as well as marine fuel physical suppliers and traders. Our analysts are located at S&P Global Platts offices in London, Singapore, New York, Mumbai and soon Houston.

Large trading companies employ a skill set different than that used by analysts in other sectors. Their approach is investigative journalism, interviewing, digesting copious amounts of varied information on thousands of companies in the shipping industry. Their conclusive credit assessment reports are written for customers who routinely extend millions of dollars in unsecured credit to customers they may never have heard of, sight unseen, with not even a handshake, smile or nod – never mind a contract.

How do marine analysts go about their business? Several ways: a tentacled network of industry credit contacts that enables them to sift through rumor and innuendo and get to the bottom line. A set of intelligence tools and an intimate knowledge of the industry provide the wherewithal to develop a portrait of a subject company’s operations, reputation and likely financial status – but first and foremost, its ability to pay its bills on time.

Given the relative paucity of information readily available to our analysts, the strength of OI’s credit assessments have been nothing short of (to borrow a Trumpism) tremendous.

With shipping markets in the doldrums, Bunker Bulletin caught up with several marine fuel industry credit VIPs and asked them what keeps them up at night. The answer was unanimous: a deep fear of that good-looking, reliable customer going belly-up overnight.

Paul Millar, credit manager for the Bomin Group and an eminence grise of the credit industry, stressed that actually, he really doesn’t lose too much sleep for two main reasons: firstly, Bomin has credit insurance for its customers, and secondly Bomin enjoys full support of the multi-billion dollar M&B group.

This doesn’t mean however that he’s utterly carefree: he’s got his worries. Take the offshore industry: anything that isn’t wind or dredging is of grave concern. Or that bulk player that puts on a brave face, pretending they’re not suffering and probably paying very well, but in reality losing money and bank support – and stepping even closer to the cliff’s edge. His suspicions are especially aroused when a customer he hasn’t seen in some time suddenly comes around asking for credit. He contends that in the marine industry size still matters, especially to banks. Generally the bigger you are, the less likely you are to fail – but don’t be complacent in thinking this applies to all of the big boys. He also comments on what is in fact an open secret: credit decisions in the bunker market are often made on instinct rather than fact.

Lasse Hojgaard, group credit manager at Bunker Holding, says that it’s macroeconomic fundamentals that keep him up at night: an excess supply of vessels with many companies only able to keep their head above water with the help of low bunker prices, with no light at the end of the tunnel in the short term. Several other credit managers preferred to remain anonymous: one says that he’s worried about that solid payer who suddenly vanishes. So how to decide who’s really healthy? Look for the source of the company’s cash: is it from ample reserves saved during the good times? Is it from strong bank facilities? Or has the company raised equity via cash injections from ownership?

This manager also worries about bunker traders or resellers: should one default, there would be little recourse for a physical supplier to retrieve money by arresting the ship supplied by the now-bankrupt reseller. That’s because it was the reseller who was the direct counterparty of the ship operator, not the original supplier to the reseller. He also points out that the decline in bunker prices has enabled many small bunker traders to enter new markets, which has narrowed margins substantially for everyone. Yet once bunker prices rise again these players may quickly vanish.

And there are other customers in parlous financial shape that this manager doesn’t deem credit risks – some of the most prominent container companies in the Far East or eastern Mediterranean, all financially strained operators. Though not state-owned, such players are considered national flagship carriers which, when push comes to shove, wouldn’t be allowed to fail by their national governments. Another anonymous bunker executive disputes that notion, pointing to other quasi-national carriers that did in-fact go bankrupt.

And finally, he has a nightmare of oil prices shooting up, since low bunker prices are the only thing keeping large swathes of the shipping business alive. If oil does skyrocket, many bunker suppliers will lose big money in bad debts. Might be enough to end a few bunker companies.

And this is why Platts Ocean Intelligence exists: to make sure that bleak-eyed credit executives get some sleep, or at least have fewer nightmares.

www.oceanintelligence.com
BUNKER BULLETIN

GUESTFEATURE

THE FUEL MEASUREMENT CHALLENGE

Bunker deliveries don’t need to be fraught with discrepancies, disagreements and uncertainties

BY IAIN WHITE, GLOBAL MARKETING MANAGER, EXXONMOBIL

BUNKER DISPUTES are frustrating, time-consuming and largely avoidable. Unfortunately, they are all too frequent. One of the most common causes of fueling disagreements is a discrepancy between the amount of fuel that is believed to have been bunkered and the amount invoiced. So what can vessel operators do to ensure they get what they pay for?

Even the most careful use of traditional manual tank dipping can be subject to error when measuring the quantity of fuel that has been delivered on board. Measurements can be compromised by changing weather conditions causing vessel movement, discrepancies in ship/tank geometry and inaccurate tank dips. In addition, complex calculations related to temperature, level and volumetric conversion are also susceptible to human error.

Another cause of measurement error results from frothed fuel in the receiving tank. Because traditional measuring techniques measure by depth, a tank with froth can overstate the volume of fuel dispensed. Froth or compressed air in the receiving tanks can cause rattling float valves, acute movements of the supply hose during delivery, bubbles on the sounding tape and an excessive venting of air.

A mass flow metering system can save up to three hours per delivery compared with manual tank dipping.

While the best intentioned can easily make mistakes, there is a need within the industry to address this challenge. The most common measurement issue, regularly reported in the media, is known as the “cappuccino effect.” This is achieved by compressed air being injected into the fuel via the transfer pump or supply hose during the transfer. It can also occur as a result of the barge adding compressed air into its tanks to increase the apparent volume of the fuel before its transfer.

BUNKERING BEST PRACTICE

Fortunately, there are ways to reduce uncertainties and increase the integrity of the measurement process.

The first is to use mass instead of volume to measure the amount of fuel dispensed. Secondly, the integrity of this type of measurement can be enhanced when port authorities or independent third party agencies are required to inspect and seal the whole delivery system, not just the meter.

The mass flow metering system (MFMS) offers both the characteristics of an accurate measurement system. It ensures that you get what you pay for when refueling from a barge. In addition, a port authority or independent third party can inspect the system and install physical seals. These seals provide unique numbers for all critical elements to verify system security and guarantee traceability. The system’s technology uses the Coriolis-effect to constantly monitor and accurately measure the mass. In addition, the meters measure the density and temperature of fuel deliveries. This enables the system to detect any water or air going in to the receiving tank and compensate accordingly.

An MFMS can save up to three hours per delivery compared with manual tank dipping. This can translate into significant financial and resource savings for vessel operators. Additionally, an MFMS can provide vessel operators with an automated process that is free from manual calculations, making the system easier to use, more transparent and less susceptible to error.

In order to ensure that you gain all of these benefits it is important that you work with a supplier using an accredited MFMS, with a reputable independent agency doing the accreditation.

In ports where an MFMS is not available, there are a number of steps that can be taken to verify the correct quantity:

• Check the sounding of the barge tanks before and after bunkering to confirm the tank quantities.

• Check the fuel temperature prior to the transfer so that the mass can be calculated. Temperatures should be taken at the top, middle and bottom of the bunker barge tanks, and an average calculated for each tank.

• Check that the density values are accurate.

• Ensure the draughts of the bunker barge are taken before and after bunkering to compare the change in displacement with the quantity of delivered fuel.

ExxonMobil operates third-party accredited MFMS in Hong Kong and Singapore. This technology offers vessel operators proven levels of integrity, security and efficiency for fuel quantity measurement. Bunkering has never been more consistently accurate, transparent and secure.
**LOSING STEAM**

Clean tankers come off the boil as arbitrage opportunities wane

The second quarter of 2016 noted record lows on all Long Range tanker rates as arbitrage opportunities on long-haul voyages continued to remain marginal.

For example, freight rates on LR tankers sailing the Mediterranean to Japan route, basis 80,000 mt, hit 13-year lows by the end of June at $21.82/mt. The Med-Japan route is considered to be the daily bread for LR tanker shipowners in Europe, but marginal naphtha arb from Med to Asia kept a lid on Europe’s most liquid LR tanker route.

The second hit came from the foreign exchange issues in West Africa. The Central Bank of Nigeria decided to abandon the currency’s peg to the dollar to attract liquidity. But, the decision failed to bring any uptick of dollars available with Nigeria.

The lack of dollars available with Nigeria and in Nigeria and the resulting force majeures which were declared on Nigerian crude oil grades such as Qua Iboe, Bonny Light and Forcados, also remained stubbornly shut amid an ample supplied Asian naphtha market.

With Europe and Asia remaining the preferred loading zones for the bigger LR tankers, and the USGC trans-Atlantic and USGC-Asia arbitrages shut throughout much of the quarter, that has also left the LR1 tankers opening in the Americas with few opportunities.

As a result, freight on the USGC-trans Atlantic route slid to w62.5, or $11.06/mt over June 10-14. On a Worldscale basis, this was the lowest since closing at w57.5 on November 6, 2015, but on a dollar per metric ton basis this reflected a 16-month low, according to data from S&P Global Platts.

**PRESSURE MOUNTS**

Arbitrage economics for shipping middle distillates from the USGC to Europe remained under pressure during the second quarter, despite a heavy spring refinery maintenance season in Europe.

This was also despite the strength in the European market caused by prompt demand into France during the labor strikes. The latter actually curtailed diesel arbitrage activity due to discharge delays at ports there and uncertainty over the ability to move diesel inland from the terminals.

Another arbitrage - naphtha flows from the USGC to Asia - has also remained stubbornly shut amid an ample supplied Asian naphtha market.

With Europe and Asia remaining the preferred loading zones for the bigger LR tankers, and the USGC trans-Atlantic and USGC-Asia arbitrages shut throughout much of the quarter, that has also left the LR1 tankers opening in the Americas with few opportunities.

As a result, LR1 tanker rates on the USGC slumped to new lows -- providing further downward pressure on the MR market.

Freight on the USGC-trans Atlantic route on an LR1 tanker closed out the second quarter at a record low of w6.75, or $8.41/mt. This is the lowest it has been on both a Worldscale and dollar per metric ton basis since Platts began assessing the route in December 2014.

**WEST AFRICAN ISSUE**

On the crude side, it was a particularly difficult second quarter for Suezmax owners across the world, with average freight rates in the key loading hub of West Africa dropping to their lowest level since 2010. The average rate assessment on the WAF-UK Continent route, basis 130,000 mt, in the quarter was just $10.59/mt, compared to freight rates in the third quarter of 2010.

As a result of the disruption to supply, Nigeria’s crude oil and condensate production fell by almost 50% from the start of the year.

Though there were some new deliveries in the quarter, the primary reason for the lower rates was the frequent attacks on oil pipelines in Nigeria and the resulting force majeures which were declared on Nigerian crude oil grades such as Qua Iboe, Bonny Light and Forcados.

As a result of the disruption to supply, Nigeria’s crude oil and condensate production fell by almost 50% from the start of the year to around 1.1 million b/d at the end of May, an official from Nigerian National Petroleum Corp. said in a report.

As Nigeria is usually the world’s largest Suezmax loading area, the reduced production levels lowered overall demand for ships and meant that the WAF Suezmax position list was often far more well-supplied than it has been in recent years. Charterers used the longer WAF tonnage list to keep freight rates at depressed levels for much of the quarter.

There was a slight recovery in supply towards the end of the quarter, but oil facilities in the region remained vulnerable to attack.

Indeed, at the beginning of July there were reports of fresh attacks in the Niger Delta. As long as loadings are disrupted in Nigeria, the likelihood of Suezmax owners achieving the type of freight rates seen in 2015 would appear extremely unlikely.

**IRANIAN WINDOW**

But Iran continues to offer a slight window of opportunity for the tanker market.

Shipowners were able to bank on heavy premiums for gasoline deliveries to the country. As Iran had stepped up purchases of gasoline from major parts of the Middle East and due to the lack of full availability of insurance even after the lifting of sanctions, shipping companies capitalized on the demand by charging a sizable premium to make deliveries.

From the dirty tankers market, Suezmax and Aframax tankers have charged premiums for shipping Iranian fuel oil or crude out of the country.

A number of S&P Global experts worked on this article, namely Wanda Wang, Sameer C Mohindru, John Morley, Shubh Shukla, Barbara Tramer, Deipa Vijayasingam, and John Delapp.
OPEN FOR BUSINESS

The expanded Panama Canal: a game-changer for world trade or an expensive gamble?

THE EXPANDED PANAMA CANAL opened amid great excitement and even greater expectations on 26 June, with the first commercial transit of the neo-panamax vessel COSCO Shipping Panama through the Agua Clara Locks on the Atlantic side of the country.

The inaugural transit capped a $5.25 billion expansion project started 10 years ago; more than 75% of Panamanians approved the project in a nation-wide referendum in 2006, and, in 2007, construction began.

“When the doors opened at the Agua Clara lock, it was like I was seeing the opening of the future of my country,” Guillermo Manfredo, canal pilot, said. “It has put Panama on a new path”. Where that path will lead, however, remains to be seen.

Speculation has been rife among shipping-related personnel since the announcement of the project. What kind of an impact would the expanded Panama Canal have on shipping and the wider, global industry?

And, the inaugural transit, which brought with it the promise of a new era of global trade, appears to have done little to put an end to the speculation.

Interest in the expanded Panama Canal is tepid among US Gulf Coast and Caribbean dirty tanker market participants, as draft restrictions make large Aframaxes the largest tanker able to transit its new lock system, and they are unlikely to leave their lucrative home markets for the new system.

Shipowners are taking a wait-and-see approach about the effects of the canal’s expansion.

“It’s not going to be a game-changer, because you won’t be able to get the bigger ships through,” one said. “You can only get a partially laden Suezmax through.”

As part of the expansion project, the Panama Canal Authority took the decision to add two new larger locks at each end of the canal that would allow bigger ships to use the waterway.

LARGER LOCKS

The Neopanamax locks can handle ships with a beam of 160.7 feet, length of 1,200 feet and a draft of up to 50 feet. Previously, ships were limited to 95 feet in length, 106 feet in width and a draft of 39.5 feet.

The new beam and length measurements will accommodate a Suezmax tanker, the ship of choice for moving large crude cargoes in the region, but the draft is a few feet shallow.

“When we were looking at expanding, it was not on our radar that the United States would start to export crude oil,” Manuel Benitez, deputy administrator of the Panama Canal Authority, said.

But, the Panama Canal was not behind on the tankers front, he said.

“One of the first light oils exported from the United States went through the [old configuration] of the canal,” Benitez said. “The new system will allow ships carrying about 800,000 barrels to come through. We will not only see crude coming from the United States, but also Venezuela and other countries in the region.”

Market participants speculated that barrels from the West Coast of South America that would normally be headed to the US West Coast could be routed to the US Gulf Coast instead.

“If it works to move crude from Ecuador or Colombia to the US Gulf Coast through the canal, they will,” a shipowner said. “But, if it comes down that moving the barrels to the Far East makes more sense, they will do that. It will all come down to economics.”

Ecuadorian heavy crude grades like Napo and Oriente typically earn higher netbacks on the USWC, which limits the markets these grades are usually exported to, according to an industry source familiar with the Latin American market.

“There is a very limited market for these crudes on the US Gulf Coast, because there are so many other medium sour alternatives,” the source said.

The exception to this could be freight combinations through the canal that would enable an economic exchange of Ecuadorean heavy crude for USGC light sweet crude like Domestic Sweet Blend, which could then make its way to the Peruvian market.

A shipbroker said that when ships are put on subjects for Esmeraldas, Ecuador-USWC journeys, they typically carry options for USGC discharges. “But none are going that way yet,” he said.

NEW ROUTES, NEW OPPORTUNITIES

Barrels of Colombian crude Vasconia currently make their way through the Trans-Panama Pipeline to the port of Chiriqui Grande on the west coast of Panama before being reloaded on ships and sent up to the USWC market.

“TPP has been underutilized, people are under water on take-or-pay contracts, and the term deals are running themselves out, so [shippers] mostly look at those [pipeline tariffs] as sunk costs,” he said.

Sending an Aframax loaded with Vasconia through the canal and on up to the USWC would be more cost efficient than transporting crude volumes on TPP and reloading.

Brazilian grades also could stand to benefit from movement on the expanded canal. Normally, these crude volumes travel south on a Suezmax around the Cape of Good Hope.

“But, as we have storage in the Caribbean, we may have one more alternative to get to the West Coast,” an industry source familiar with the Latin American market said. The...
**FEATURE**

**EXPANDED PANAMA CANAL GIVES MARKET NEW TRADING OPTIONS**

On June 26, the newly expanded Panama Canal opened for business. While traders and analysts don’t believe there will be an immediate impact on oil trade flows due to currently unfavorable arbitrage economics and infrastructure bottlenecks at some US ports and the canal itself, new opportunities are expected to emerge as more shippers begin to take advantage of the shorter route.  

**COMPATIBLE CARRIER SIZES BEFORE AND AFTER CANAL EXPANSION**

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**PANAMA'S TRANSIT TIME ADVANTAGE FROM HOUSTON TO CHIBA, JAPAN**

- USGC LPG to Asia: $12-$15/mt lower than via Cape of Good Hope  
- LPG, LNG: 54 days via Cape Horn, 51 days via Cape of Good Hope, 30 days via Panama Canal

HEDGING YOUR BETS

In the refined oil product markets, there is already an established arbitrage-driven trade route from the Gulf Coast to markets in Asia, such as Japan and South Korea. Naphtha is a key product that is transported on this route, which also sees the movement of blendstocks, such as reformate. Condensate also moves on this route either on clean or dirty tankers. Currently, the bulk of the clean products on this route move on Medium Range clean tankers which are able to carry a 38,000 mt cargo. Long Range 1 tankers are also used, to a lesser extent, although cargo sizes via the existing canal are limited to 55,000 mt due to draft restrictions. 

With the expanded locks, LR1 tankers will be able to fully load 60,000 mt cargoes, while Long Range 2 tankers carrying cargoes of 80,000-90,000 mt could also be used.

The expansion coming at a time of low freight rates, low bunker fuel costs and loose product markets, the impact on the clean tanker market is not likely to be as significant as it might have been in a time of high rates and operating costs.

"I don't think we're going to see a big impact at all," said a US-based shipowner source. "If you look at the utilization rate through the Panama Canal right now, it's quite low for tankers, and from what we gather it's going to be quite expensive for tankers in the expanded canal. It makes more sense for the container and cruise ships. I don't forecast it to be that much of a hit with the tanker market."

According to transit data from the Panama Canal Authority, crude and product tankers accounted for 655 transits in 2015 - just 5% of the total 12,386 transits made. In 2014, crude and product tankers accounted for 4,900 total transits through the canal. Sources say this figure is not expected to rise significantly.

"We're in a relatively low freight environment at the moment, and if you add canal costs to that, it takes away the arb opportunities," said a US-based shipping analyst, adding the Gulf Coast-Asia arbitrage so far this year has been largely shut.

**GLUT WOES INTENSIFY**

Despite Benitez’s comments, and the promise that the commercial opening of the expanded Panama Canal on June 27 would bring with it an era of cheaper freight, it will likely not be enough to stimulate additional East Asian LPG demand.

If it works to move crude from Ecuador or Colombia to the US Gulf Coast through the canal, they will. But, if it comes down that moving the barrels to the Far East makes more sense, they will do that. It will all come down to economics.

The new Pacific route from the US Gulf Coast will cut the journey to Asia by a third to 15-25 days, versus the Cape of Good Hope passage. But it will exacerbate the glut in a region already awash with additional volumes from the Middle East, where producers such as Saudi Aramco have been boosting spot LPG exports this year to maintain market share, sources said.

Any extra transit costs and weather management will be considered marginal, and would not discourage traders from using the new route, though shipowners were cautious about rushing to use it on concerns over current low freight.

"There’s no arb to Asia for us and consensus seems to be it’s going to stay tough for a while," a US shipbroker said. "Owners have no incentive to shorten those voyages right now."

Added a Gulf Coast trader: "[The canal is] cheaper than going the long way but with the market in contango, you’re somewhat compensated for going the long way."

Other shipbrokers said transit via the canal was discussed at a discount based on their time charter equivalent calculations. But they would not expect low freight offers, as they believe owners would rather avoid the shorter route during this environment of low freight, and prefer the longer route to create ton miles.

Another shipping source said the shorter voyage would favour LPG importers and those who have placed their fixed cargoes to Asia. But for traders who have not yet sold their cargoes, the preferred route might still be via the Cape, as it gives them the opportunity to divert to Southeast Asia.

"And if bunkers keep being fairly cheap, we still might see Cape laden," he added.

A number of S&P Global experts worked on this article, namely John DeLapp, Ramthan Hussain, Andrea Salazar, Takeo Kumogai, Barbara Troner, Mary Hagan, Deepa Vijiyasingam and Wanda Wang.
There is also the suggestion that the Chinese government will roll out initiatives to boost domestic steel consumption. “There is some talk the Chinese government may lower interest rates to stimulate spending and this is supporting a stronger iron ore market today,” a Shanghai trader said in early July.

Lower interest rates and lower credit would spur demand for seaborne tons, sources said. “It is now July, and banks have collected back their mid-year loan draws from borrowers in June. Everybody believes more lending will be available, so people are willing to pay more to get the cargoes they want,” a steelmaker source said.

Capesize freight rates for a good part of June stayed stable while the freight derivative or forward freight agreement prices spiked with Capesize August paper trading at a shade below $4,000 and the Q4 paper trading at the $5,000 levels. Some support is also coming in the form of slippages in the newbuilding deliveries of Capesize vessels.

Going forward, a key concern for shipowners will be the expected return of Capesize vessels sitting idle into the market with rates holding steady.

As of early July, there were around 27 Capesize vessels idling at various ports and anchorages around the world. Some 20 vessels are in cold lay-up, while seven ships are said to be just idling temporarily.

**COAL RUSH**

The rush of thermal coal cargoes bound for China and India during Q2 has come as a surprise for market watchers. The winning vessel classes have been the Panamaxes, preferred for China-bound cargoes, and Supramaxes, mainly heading to India. Along with the increase in the coal cargo volumes, the handsome availability of grain stems from the South and North Atlantic markets has been lending good support for these vessels, according to industry sources.

The Panamax South Kalimantan to East Coast India 50,000 mt coal route on the Supramax vessels touched $6/mt on June 13, a high for the year so far. South Kalimantan freight prices has translated into demand for moving metallurgical coal on the East Coast Australia to China 75,000 mt route. The rate on this route ticked up from the low-$6s/mt to $6.85/mt on June 30.

While coal stem volumes for Panamax and Supramax vessels in the Pacific market are fairly steady for the Supramax vessels, they are currently on the lookout for nickel ore cargoes out of the Philippines.

Nickel ore exports have been slow since the beginning of the year, with a 27% drop in export volumes year to date compared with the same period last year, according to Arrow Research. Also adding to the woes of the Supramax and, to an extent, Panamax market, is the news of ban on Bauxite mining in Malaya’s Kuantan region being extended, sources said.

**SOYBEAN SUCCESS**

This year’s soybean harvest has reached the ports in Brazil and Argentina and this has been the most liquid (and lucrative) Panamax export route from the Atlantic to the Far East for the last quarter.

The front-haul route from Brazil to China has steadily pushed up over the second quarter. Platts assessed the soybean export route from Santos, Brazil, to Qingdao, China, basis 60,000 mt at $14.75/mt on April 1. This route peaked at $17.75/mt on May 19 before closing at $17.50/mt on June 30.

These levels are significantly lower than the same period last year, when this route averaged out at $22.80/mt over the quarter, according to Platts data. The lower prices can largely be attributed to lower bunker prices this year, but fleet growth has played a major role as well with a huge number of Ultramax to Kamsarmax vessels being delivered this year.

Export volumes for soybeans and soybean meal from South America have also been relatively stable, Brazil is projected to export 75.5 million mt, a 1.5% increase on last year. Argentinian exports are projected to reach 43.45 million mt, a 1.6% decrease.

The new corn harvest is also coming down quite physically in South America but market sources have reported that many corn stems are now being switched from South America up the US Gulf. Brazilian exports of corn are expected to reach 23 million mt this year, up 0.5 million mt, while Argentina exports are up to 23 million mt for this year’s harvest, a 5 million mt rise. There has been an increase in US exports and according to the USDA, “Reduced corn production in Brazil and harvest delays in Argentina have improved the relative competitiveness of US corn in recent weeks.”

This rise in US exports led to unseasonably high front-haul freight rates in the US Gulf in June. Usually front-haul rates peak here in the third and fourth quarter, when grains start being exported from the Mississippi River in huge volumes. The grain route from New Orleans, Louisiana, to Qingdao, basis 60,000 mt, was valued at $25/mt on May 4, but this number had risen to $29.25/mt by June 30.

In the same period last year, voyage rates actually fell by $1.25/mt, although bunkers did see significant rises this year, which contributes to rising freight rates.

August is normally a relatively slow month in the dry bulk market with many market participants away on holiday and few strong loading areas until the US grains season kicks off in September. However, the harvest has been delayed in South America, so exports are expected to keep pushing out through August. This rise in US front-haul activity also had the effect of running down the tonnage list in the North Atlantic which means it could stay relatively firm in spite of the weak outlook for steel and coal demand.

“A number of S&P Global experts created this article, namely Andrew Khaw, Shriram Sivaramakrishnan, Xiaojuan Gao, and Peter Farrell.”

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PROMOTING TRANSPARENCY

Mass flow meters might only be mandatory in Singapore, but other regions are bringing in the technology

BY JULIAN MACQUEEN

A RECENT, TECHNICAL development in bunkering that has yet to become the norm – but may well in the future – is mass flow metering.

The common practice in bunkering is to check the volume of fuel delivered during bunkering by checking the space left in the ship’s tank. Verification may be confirmed by independent professionals – a port authority official, an agent of the ship operator or some other technical officer, such as a bunker surveyor – with the bunker delivery note acting as a final receipt on the transaction.

This system works well enough and is more or less standard practice for companies involved in the bunkering industry.

But the introduction of the mass flow meter is an attempt to formalize this process by measuring the flow rate in the pipe, and gauging the quantity as well as the mass and density of the bunker fuel passing through into the ship’s fuel tank. By doing so, a more precise assessment of what has gone into the tank should result. As its name suggests, the metering equipment comprises a unit which is installed on the bunker barge.

How would a bunker supplier arrive at a decision on whether or not to install MFM? One reason would be, quite simply, because they have to. The Maritime and Port Authority of Singapore oversees the biggest global bunkering market and from the start of next year has made it compulsory for bunker barges operating in the port to have MFM onboard.

There are 60 registered bunker suppliers in Singapore of which around a third have already installed the equipment. The first to do so was ExxonMobil Marine Fuels in 2012. By early 2015, it had delivered 2 million metric tonnes in the port by this method.

To date, just over a third of registered bunker suppliers in Singapore have installed MFM on their barges.

The authority is keen to promote ‘transparency’ in the bunker industry and has put its faith in MFM as one way of achieving this. To date, just over a third of registered bunker suppliers in Singapore have installed MFM on their barges. If Singapore has the greatest concentration of MFM to date, where else are they popping up?

MIDDLE EAST PIONEER

United Arab Emirates bunker supplier Gulf Petrol Supplies (Bunkers) installed the equipment on one of its barges in June. The company operates in Fujairah and Khor Fakkan and is the first supplier in the Middle East to do so.

Again, transparency featured as a reason for installing the equipment. “This will bring fair competition among all suppliers if used by all,” the company chief executive said. “The market will be more transparent.”

A mass flow meter is planned for a second barge in 2017.

The move is notable given that Fujairah is another sizeable bunker market, ranking among the top three bunkering destinations (Singapore and Rotterdam are the other two) globally.

In Istanbul, CYE Petrol now has six MFM, the first ones appearing on the company’s barges in August 2014. “This service goes down well with the shipping industry,” the company said at the launch of its latest MFM in May. In addition, in the company’s view, the system fosters “a better image” for the bunker industry as well as making physical delivery more efficient.

Is the image of the bunker that bad that it needs urgent polishing and bolstering by applying new technology?

The collapse of OW Bunker a year and half ago led to a string of court cases over unpaid bunker bills. Not the best sort of publicity, admitted. But more than that, MFM are about promoting a more transparent and efficient system for delivering bunkers to ships. That’s the view of the International Bunker Industry Association which represents the interests of bunker companies globally.

IBIA has developed standard operating procedures for fuel surveyors for bunkering with MFM. IBIA said the standard operating procedures will not conflict with safety and environmental considerations or local conditions and were there “simply to develop and promote industry best practice”. The final approved standard operating procedures should be ready this year.

To date, just over a third of registered bunker suppliers in Singapore have installed MFM on their barges.

ExxonMobil Marine Fuel
GLOBAL MARKETS REVIEW

The sharp decline in global fuel oil demand in 2015, down 200,000 b/d on the year according to the IEA, moderated or even reversed in H1 2016, on slowing European declines and a rise in US fuel oil consumption.

In Asia, China’s fuel oil demand is set to decline 24.5% to 215,000 b/d in 2016 as teapot refineries gain increasing access to imported crude.

More positively, in Singapore record bunker sales and falling imports in June caused fuel oil stocks to fall - Singapore’s fuel oil imports from the West slowed in Q2 from high levels in Q1.

Japanese utilities may opt to import crudes rather than low sulfur fuel oil during the summer demand season, traders said.

In Europe fuel oil continues to be displaced by distillates in marine use, and tighter environmental regulations are encouraging switching to natural gas: a Platts study shows LSFO demand in the region roughly halving by 2020.

However, falling demand has been offset by declines in production; in key producer Russia, last year’s changes to export taxes meant May exports were down 23% year-on-year according to the Energy Ministry data.

In Latin America, the faltering economies of Brazil and Venezuela dampened fuel oil demand, but this was somewhat offset by reduced output: Brazil recorded a 30,000 b/d year-on-year decline of fuel oil production, according to official data.

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ASIA MARKET OVERVIEW

A month on month rise of more than 85% in China fuel oil imports coupled with steady end user bunker fuel demand lent support to the Singapore HSFO market in the latter half of April. A surge in western arbitrage fuel oil inflows into Singapore in May, however, led the cash differential for 380 CST HSFO to fall steadily through the month. It touched a 2-month low early June.

The rise in fuel oil inflows led stock levels in Singapore to touch a record high of 31.2 million barrels in the week ended June 1 and a firming crude also led May bunker fuel demand to grow at a steady clip, as shipowners apparently rushed to meet requirements in anticipation that the flat price would firm further.

Singapore’s May bunker fuel sales rose 18% year on year to a record 4.36 million mt. May sales were also up 6.2% from April’s 4.11 million mt. The last time Singapore’s bunker fuel sales hit a record high was in August 2015 when the port saw sales of 4.29 million mt.

With under 6 million mt of western arbitrage fuel oil expected to arrive in Singapore for July and August - well under the monthly average of over 4 million mt - the Singapore high-sulfur fuel oil market garnered strength.

The cash differential for 380 CST HSFO rose from a three-month low of minus $4.38/mt in early June to touch a 2-month high of minus 84 cents/mt on July 8.

The Singapore 180 CST HSFO cash differential also hit a near four-month high of 46 cents/mt by mid-July, amid incremental demand for the lower viscosity grade fuel oil from the regional utility sector, especially Bangladesh and Pakistan.

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Platts Bunkerworld is an online service providing extensive news coverage of the global bunker fuels market from trade flows and commerce to technical specifications along with current price benchmarks.
Abundant fuel oil supply into Fujairah from producers within the middle east, especially from Iran after the lifting of sanctions early this year, led the premium for the mainstay 380 CST bunker fuel to slide from late January to mid-April.

Fujairah delivered 380 CST bunker spot premium to the Mean of Platts Arab Gulf 180 CST high sulfur fuel oil assessment fell from a 1-month high of $24.28/mt in late January to $9.89/mt on April 11, S&P Global Platts data showed.

Going further into the second quarter of the year however, summer season utility demand for fuel oil from within the region meant less product availability. This led the Fujairah delivered 380 CST bunker spot premium to MOPAG 180 CST HSFO assessment to surge to a near 10-month high of $26/mt towards the end of May.

Higher-than-average availability of Iranian fuel oil for exports this summer due to a heightened emphasis on gas-fired power generation then led to ample product availability for bunkering in Fujairah.

The Fujairah delivered 380 CST bunker spot premium to MOPAG 180 CST HSFO dropped from a 10-month high reached end-May to a 14-week low of $11.4/mt on July 25, Platts data showed.

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ROTTERDAM MARKET OVERVIEW

The Rotterdam high sulfur fuel oil market recovered from weak territory through April, topping out at the beginning of July, driven by a tighter supply picture from Russia and a pick-up in VLCC fixtures to Singapore.

FOB Rotterdam HSFO barges versus M1 swaps strengthened from a low of minus $11.00/mt (contango) in early April to reach a 20-month high of plus $3.50/mt (backwardation) in early July. This was driven by several Russian refineries in maintenance from April to mid-June, reducing M100 shipments from the Baltics into Northwest Europe. The structural decline in Russian fuel oil exports, combined with a slow recovery in refinery runs after Spring maintenance season, also impacted supply, as did outages at a hydrocracker and VDU unit at Russia’s Kirishi refinery.

On the demand side, export interest has picked up with five VLCCs booked to load out of Rotterdam in July to Asia, compared with four in June. As a result, stock levels in Rotterdam in July have declined to one of the lowest levels in 2016, at just below 6 million barrels. This saw European fuel oil cracks rise to a five-month high mid-July at minus $11.25/b, their highest since February.

The combination of reduced supply from Russia and rising demand from Asia’s bunker hub, Singapore, has led to a consistent tightening in the Rotterdam HSFO market. With the arbitrage East looking open for August loading – in part thanks to 43 newbuild VLCCs for this year keeping freight at its lowest in almost five years, and Singapore stocks at average levels – the outlook for Q3 looks moderately supportive.

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AMERICAS MARKET OVERVIEW

US bunker fuel prices weakened relative to the overall oil complex in Q2, with poor demand leading to greater competition for fewer inquiries. Values for IFO 380 in the largest US bunker fuel markets - New York, Houston and Los Angeles - tumbled relative to the global crude benchmark, ICE Brent. Los Angeles IFO 380 averaged a $16.75/b discount to front-month ICE Brent in the quarter, down 20% from a $14/b discount in Q2 2015, S&P Global Platts data showed. Though Los Angeles was the weakest bunker fuel market relative to crude of the three ports, the New York market saw the largest decline, falling 55% from 2015 to average a $12.25/b discount in Q2 of this year.

Houston IFO 380 prices also fell from 2015, averaging a $15.75/b discount in the quarter. Sources in those markets said business was slower, which increased competition and lowered margins. Illustrating those weaker margins, the marine fuel supply arm of French oil major TOTAL suspended its Houston operations in July.

Margins in the three ports had seen a slight plateau or improvement in Q1 only to fall again in Q2. They are now at their lowest levels since summer 2014.

Outside of North America, it appears Balboa, Panama, strengthened relative to the Houston market, which both supplies Panama with product but also can compete for business. The Houston-Balboa IFO 380 spread averaged about $17.60/mt in Q2 - with Balboa at a premium - compared with just less than $17/mt in Q2 2015. That widening spread could be short-lived: summers can be slow for business in Panama and since the close of Q2, the spread averaged $13.40/mt in July.

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