GOING FOR GOLD
CHINA’S OIL FUTURES AMBITION DRIVES CRUDE TRADE SWITCHES

END OF THE PARTY
Reality bites for tanker owners

A STARRING ROLE
IMO urges bunker industry input to R&D
The International Maritime Organization has taken the first pivotal steps on its road to fuel use transparency under the spirit of the last year’s climate agreement made in Paris.

At COP 21, shipping was publicly relieved of any official responsibilities to meet climate change requirements, much to the chagrin of environments. However, the IMO is keen to demonstrate that shipping is an industry that can self-regulate with aplomb and the outcome of the latest Marine Environment Protection Committee (MEPC) meeting is testament to that.

MEPC’s 69th session approved a draft proposal that requires ships globally to record and report their fuel consumption. This ‘mandatory data collection system’ is being billed as the first in a three-step process towards a decision on “whether any further measures are needed to enhance energy efficiency and address greenhouse gas emissions from international shipping,” said the IMO.

Under the system, ships weighing 5,000 gross tonnage or more will be required to collect a variety of data, including consumption data, for each type of fuel used. The aggregated data will be reported to ship’s flag state at the end of each calendar year, and the flag state will issue a Statement of Compliance to the ship if the data has been reported in accordance with the requirements.

Flag states will be required to subsequently transfer this data to the IMO Ship Fuel Consumption Database. The IMO, in turn, would then be required to produce an annual report to the MEPC, summarizing the data collected. The data supplied will be kept anonymous.

But really this is just the appetizer to the starter; there’s no real sustenance here. If approved at the next MEPC session in October, data will not be collected before 2018 as the proposals need to be incorporated into the International Convention for the Prevention of Pollution from Ships (MARPOL). After that, the IMO will presumably want a decent body of data before taking any further decisions on how to address GHG emissions form shipping. Realistically, the industry should not expect any tangible effects from the monitoring and measuring until 2020 at the earliest.

Given the long lead-in time, it’s a crying shame that this level of detailed data on fuel use has not been required before now. Cold, hard stats on what fuel is being consumed and where would have been useful, for example, in the run up to the introduction of the emission control areas back in 2005. Could this data have helped predict the shortfalls in low sulfur availability? Would it have given a greater depth of understanding of the fuel consumption patterns in set regions?

In an era that relies on big data to inject efficiency into everything we do, this move is welcomed. But next time, let’s aim to be ahead of the curve, not 10-15 years behind it.
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BUNKER BULLETIN

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Special thanks to Maurice Geller,
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STATE OF PLAY

More uncertainty for the bunker industry, as IBIA chairman predicts a further decade of weak oil prices

IT’S NOT BEEN A GOOD START to the year for the bunker industry; yes, prices are up, but they are a long way short of levels from the same time last year. In Rotterdam, the key bunkering hub for Northwestern Europe, the monthly average for 380 CST fuel oil in January was $122/mt. By April, this had moved back up toward $200/mt. However, set this against prices for the same fuel grade a year earlier and April’s prices are still $100/mt off the mark. Low sulfur marine gasoil (MGO) is trailing further behind, with prices $160/mt less than they were in April 2015.

Low prices are not necessarily a bad thing. Bunker traders thrive on volatility of which there has been more than enough in the last three months to keep them happy. However, the worrying thing about the current weak price environment is what it is saying about demand for bunkers from shipping.

HANDS OF TIME

Turn the clock back 10 years and the world economy was still riding high on a prolonged super boom, driven for the most part by the spectacular performance of the Chinese economy. But since 2008 that growth has slowed and with it, global trade. It was shipping, that brought the oil and dry bulk commodities to China’s factories. And it is the dry bulk sector that is feeling the cold winds now.

During the boom, shipowners ordered new ships. As prices stay depressed and the focus remains on economic growth, reduced trade and greater energy efficiency in shipping. The IBIA chairman said there was still riding high on a prolonged super boom, driven for the most part by the spectacular performance of the Chinese economy. But since 2008 that growth has slowed and with it, global trade. It was shipping, that brought the oil and dry bulk commodities to China’s factories. And it is the dry bulk sector that is feeling the cold winds now.

Still, the bunker industry remains upbeat and the industry’s confidence was expressed in earnest by the International Bunker Industry Association’s (IBIA) annual dinner, held in London in February during International Petroleum week with 2,500-6,000 plus attendees. If bunker people are worried about their prospects, they didn’t show it over their gourmet food and carefully selected wine flights.

Chairman Robin Meech, IBIA’s new chairman, hit the nail on the head when he highlighted ship emissions as one of his key concerns for his forthcoming term of office. Certainly, regulatory pressure is changing the bunker market, though, for the time being at least, cheaper bunkers have sidelined the emergence of alternative marine fuels. But change is on the horizon.

EYES OFF THE BALL

"Shipowners have taken their eyes off the ball in relation to future global sulfur regulations," said marine fuels consultant Adrian Tolson, who was speaking at a marine fuels conference during IP week.

“While this is understandable to a certain extent, margins have significantly decreased for fuel suppliers and traders, which is stifling investment in infrastructure," he added.

According to Tolson, due to that indecision, “refiners won’t invest in producing more middle distillates to meet the inevitable shortfall in 2020.”

Tolson anticipated that if the global emissions regulation is implemented in 2020, and crude prices have reached $80/barrel by that date, the major impact will be on the price of distillates. Tolson did not elaborate on the sources of the $60/b. The International Energy Agency is less bearish in its future oil price forecast, expecting it to move higher as world oil markets work off the current excess supply, returning to balance at 80/b in 2020, which would compound the issue even further.

Margins have significantly decreased for fuel suppliers and traders which is stifling investment in infrastructure. Refiners won’t invest in producing more middle distillates to meet the inevitable shortfall in 2020

"Higher priced distillates will see the issue of bunker procurement, the erosion of profits, and concerns over compliance back on shipowners’ boardroom agendas," he added.

As prices stay depressed and the focus remains on traditional fuels, bunker companies continue to prosper. However, the worrying thing about the current weak price environment is what it is saying about demand for bunkers from shipping.

BURSTING THE BUBBLE

This, however, could be short-lived. “Lower oil prices have yet to stimulate economic growth or oil consumption,” Meech told an IBIA conference at the end of last year.

He said that rather than growing, he was seeing signs that bunker demand may be flat or softening in major bunkering centers like Singapore, the Amsterdam-Rotterdam-Antwerp region and Gibraltar.

Meech added that global bunker demand growth would likely remain slow over the next decade, rising from around a current 2.5 million mt to about 3.0 million mt by 2026.

The major difference between now and then is that in 2026, the share of residual fuel will have dropped from about three quarters of overall consumption at present to less than a third, due to the introduction of the global 0.5% sulfur cap.

Demand, it seems, will remain suppressed by lower economic growth, reduced trade and greater energy efficiency in shipping. The IBIA chairman said there was little evidence to show that slow steaming – reducing ships’ speed to cut down fuel consumption – had ended with lower oil prices and he predicted that oil prices would remain weak over the next decade on the back of new market fundamentals.

Bunker companies will need to do what they have always done: use the uncertainty in the market today to their best advantage and evolve to meet the changing marine fuel demands of tomorrow.
COSCO’S BUNKER FUEL SALES SURGE 33%, BUT REVENUES DIP

Hong Kong-listed Cosco International Holdings’ 2015 bunker fuel sales rose 33% from 2014 to $1.15 million. Despite the higher sales volume, Cosco International’s revenue for its marine fuels segment fell 30% to HK$2.8 billion, the Chinese marine services provider said in its annual report. The unit includes its wholly-owned subsidiary and Singapore-based bunker supply and trading arm Sinfeng Marine Services and a company called Double Rich, which trades fuel and oil products and marine fuel supply in Double Rich, under the Gulf brand,” the executive added. Dutch company Enviem carries out downstream activities in the northwestern Europe oil market. Double Rich was the merger of Gulf Oil Nederland and Demarol. Harderwijk is a part of the Hinduja Group, a diversified group of global companies in more than 35 countries, selling fuel and lubricants.

INDEPENDENT BUNKER BROKER OPENS US OFFICE

UK-based bunker broker Lindsay Blee has set up an office in the United States. Called Lindsay Blee Americas, the Florida office will have two brokers to support customers across the United States as well as central and south America. The move complements company bases in the UK and Singapore. “This expansion gives our customers a true global partner capable of fuelling their fleet anywhere in the world,” said Lindsay Blee’s managing director James Hills. “Our experienced staff have worked in the Americas markets and will be able to assist our clients in getting the fuel they need from quality suppliers in ports both large and small,” he added. The independent company has been operating since 1957.

FINCO ACQUIRES GULF’S WHOLESALE BUNKERING BUSINESS

Dutch oil trader FinCo Fuel Holding has acquired Gulf’s wholesale bunkering business from oil products company Enviem. The acquisition includes Gulf’s terminals, barges and trucks, and its lubricant business. FinCo will operate under license from the Gulf Oil International Group. Separately, FinCo Fuel Holding is a joint venture of Gulf has acquired the lubricant business of Enviem. “We are active in the downstream market in the Netherlands and northwestern Europe and the acquisition fits in with our strategy,” a FinCo executive said. “We will continue to operate the Gulf brand, as is a strong brand especially with lubricants, and (will be) bunkering in the northern part of the Netherlands under the Gulf brand,” the executive added. Dutch company Enviem carries out downstream activities in the northwestern Europe oil market. Enviem was created by the merger of Gulf Oil Nederland and Demarol. Harderwijk into one holding company in 1997. At that time, Gulf was delivering liquid fuels to various sectors and Demarol had 77 filling stations and an LPG company. Gulf took over supplying the filling stations following the merger. Gulf Oil International is part of the Hinduja Group, a diversified group of global companies in more than 35 countries, selling fuel and lubricants.

AKZONOBEL UPGRADES FUEL USE PREDICTION TOOL

The marine coatings business of AkzoNobel has launched a new version of its Intertec Vision tool which it says provides “accurate and transparent predictions on the fuel and CO2 savings potential of fouling control coatings, prior to application.” The new version of Intertec Vision incorporates data for the cruise sector, the company said. The first version of Intertec Vision, launched in October 2015, incorporated ship powering requirements of more than 85% of the world’s deep-sea fleet market, including bulkers, tankers and container ships. Hull coatings play a key role in reducing friction, allowing vessels to save fuel because of less water resistance during voyages. Intertec Vision provides vessel owners with “tangible proof of the ROI from the comparison of fouling control coatings prior to application,” according to Michael Hindmarsh, Project Lead for Intertec Vision. AkzoNobel described Intertec Vision as “a pioneering free digital consultancy service for ship owners” developed by AkzoNobel’s own scientists in partnership with leading academic and commercial research institutes, and in consultation with more than 30 shipowners and operators worldwide.

GRINDROD BOOSTS MARINE FUELS SALES

South African business conglomerate Grindrod says increased volumes benefited its marine fuels business in 2015, which offset tight margins in the sector. The volume growth came from increased geographic representation, it said, following expansion to “increase coverage in the Far East.” A company presentation to analysts in connection with its 2015 fuel year results showed profit from the marine fuels part of its shipping segment, which also includes dry bulk and tanker shipping activities, rising from $6 million in 2014 to $8 million, a 33% increase. Grindrod’s 2015 financial report said nothing about the name of the companies involved in its marine fuel business, however it owns 50% of global bunker trader and supplier Cockett Marine Oil. The other 50% is owned by global commodities company Vitol. The physical supply division of the Cockett group is called V-Marine Fuels. Grindrod also owns Unicorn Shipping whose fleet includes bunker tankers in the South African ports of Cape Town and Durban.

HARLEY MARINE ASIA SECURES SINGAPORE LICENSE

Harley Marine Asia has received a bunkering license from the Maritime and Port Authority of Singapore to offer marine gasoil. As at Mid-April, there were 60 bunker suppliers in the city-state port, offering a spectrum of marine fuels. The total number of suppliers was a slight increase from July 2015, when the exit of Raffles Bunkering left the port with 59 authorized bunker suppliers. Singapore is the world’s largest bunkering hub.

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AEGEAN GEARING UP FOR SUPPLY OFF SOUTH AFRICA

Global bunker supplier Aegean Marine Petroleum Network expects to attract passing ships with a new operation offering bunkers at anchorage in South Africa’s Algoa Bay, making it the first company able to offer fuels outside port limits (OPL) in the country. The company has secured permission from the South African Maritime Safety Authority to deliver bunkers and perform ship-to-ship transfers in Algoa Bay, an area that includes two ports, Port Elizabeth and Coega. Aegean has also obtained bunkering licenses from Transnet National Ports Authority in Port Elizabeth and Coega Ports, according to its latest quarterly company news magazine. The company said South Africa “is ideally positioned within the East-West shipping routes” which currently offer few bunker supply alternatives. Aegean has established a local private company, Aegean Bunkering Marine Services Pty Ltd with a 26% share allocated to a South African partner to look after Aegean’s business in the country. Aegean said it will offer the possibility to supply ships with RMG 380 – a 380 CST fuel oil grade – and marine gasoil. That will make Aegean’s offering different from the oil majors that have a supply monopoly in South Africa’s key bunkering ports – Durban, Cape Town and Richards Bay – where typically the only fuel oil grade offered to the market is RMF180, a 180 CST fuel oil grade.

PHOENIX TAKES DELIVERY OF FIRST TIMECHARTERED BARGE

Phoenix Oil Supply, which set up as a new physical bunker supplier and cargo trader in the Amsterdam-Rotterdam-Antwerp market a year ago, has taken its first time chartered barge. As of March 1, Phoenix took the Alpha, a 3,150 mt bunker barge with double hull/bottom on time charter. The 2007-built vessel is equipped with an in-line blender and a traditional flow-meter. “We started low profile with spot barges only, but the increased demand and the close co-operation with Toyota Tsusho Petroleum almost forced us to take it a step further,” company founder and managing director Vincent de Vos told Platts. “Looking back over the first year we have grown the company and become a recognized supplier with a stable and loyal customer base,” he added. So far, the company has supplied 155,000 mt of product, de Vos said. Phoenix supplies all products and covers the full ARA range, but as it is based in the Netherlands it focuses most on that area.

ARKAS HOLDS FIRM TO TURKEY TOP SALES SLOT

Turkish bunker supplier Arkas Bunkering said that its sales in 2015 increased 53% year on year, helping it “once again” take the top spot for marine fuel sales in Turkey. According to the 2015 Fuel Oil Market Report prepared by the Energy Market Regulatory Authority of Turkey (EPDK), Arkas Bunkering ranked first, with bunker fuel sales reaching 677,001 mt last year, it said in a statement. This meant Arkas’ annual sales grew from 443,069 mt in 2014, or 53%. “Thus Arkas is not only increasing its own market share but contributing to the growth of the Turkish bunker market,” the company added. Bunker sales at Istanbul, Turkey’s main bunker market, rose 12% to 2.1 million mt in 2015, data from EPDK showed. Arkas said this means it supplied one out of three ships taking on fuel in Turkey.
GAZPROMNEFT MARINE BUNKERING SALES DOWN 8% ON YEAR
Sales by Russian bunkering fuel company Gazpromneft Marine Bunker fell 8.1% on the year in 2015 to 3.7 million mt from 4 million mt, the company said. In 2015, the company had a 21% share of the Russian bunkering market, it added. In the north European and Baltic bunker market, Gazpromneft Marine Bunker said it has a 20% share of ultra low sulfur fuel sales. In the Black Sea bunker market, bunkers sales increased by 18% on the year in 2015 to 796,000 mt, while direct supply to ships rose 22%, reaching 892,000 mt, the company said in a statement. It has operations in the ports of Novorossiisk, Tuapse, Sochi, Taman, Kavkaz and Ternyuk. Gazpromneft Marine Bunker said the 2015 results made it the market-leading marine fuels supplier in the Black Sea region, pegging its market share at 20.3%.

TUMPAN MEGAH TO OFFER MARINE GASOIL IN TANJUNG PELEPAS
Malaysian bunker supplier Tumpaan Megah Development will offer marine gasoil using its 1,200 dwt bunker tanker at the Port of Tanjung Pelepas in Johor, the company said. Tumpuan Megah started operations at Labuan port in 2014 and later sealed a partnership deal on December 29 last year with Selaput Sdn Bhd, a subsidiary of Raya International, to offer bunkering services in Pasir Gudang, Raya International has proposed an issue of 20.5 million shares to raise capital for marine gasoil purchases from Singapore and local suppliers as well as to expand its bunkering business, Platts has previously reported. Tumpuan Megah is looking forward to establishing itself further in the Malaysian market, an official in the company said, adding that the tanker will be “an asset” for the company.

CEPSA PREPARES FOR EMULSION FUEL OIL PRODUCTION IN 2017
Spanish oil major Cepsa expects to start commercial production and supply of Marine MSAR, the Quadrise emulsified fuel oil, during the first half of 2017, according to a company executive. The MSAR production unit at the company’s San Roque refinery near Gibraltar has an annual capacity of 350,000 mt, Alberto Martinez-Lacaci, director for marine fuels at Cepsa, told Platts in an interview. Shipping company Maersk Line was expected to begin vessel trials with the emulsified fuel oil produced by Cepsa in May. The trial is expected to last for about eight months. If the trials go well and results in engine makers issuing a “Letter of No Objection” to use the product, it could be sold commercially by the second quarter of 2017, according to Martinez-Lacaci. Cepsa expects demand for the product, developed by Quadrise Fuels International, to be strong due to cost savings and operational benefits. “We could double capacity,” Martinez-Lacaci said. “The emulsion contains about 30% water, and earlier trials of emulsified fuels have suggested that there may be operational efficiencies to be had, plus a reduction in emissions.

CEPI BUNKERING PARTNERSHIPS AT CARACAS AND MOUNT ST. ELIZABETH
Spanish oil major Galp expects to start producing and supplying Marine MSAR, a marine fuel oil, in the third quarter of 2017, as part of a partnership with Wexxus Bunkering Group. Wexxus has been supplying the product in five west coast countries, and is targeting Latin America as part of the partnership. Cepsa expects to start producing and supplying MSAR in the first half of 2017, as part of a partnership with Quadrise Fuels International. The partnership is expected to start supplying the product in the second quarter of 2017.

DOHA BUNKERING PARTNERSHIP TO BE LAUNCHED IN 2017
Qatargas and Shell have signed an agreement to cooperate on the supply of marine fuel in Doha. The agreement will see Qatargas and Shell cooperate on the supply of marine fuel in Doha, with Shell acting as the exclusive sales agent. The agreement is expected to be signed in the first quarter of 2017, and is expected to be in place for five years. Qatargas and Shell are expected to supply up to 600,000 mt of marine fuel per year to Shell, with the option to increase the supply to 800,000 mt per year.

CEPI BUNKERING PARTNERSHIP IN SAO PAULO
Spanish oil major Cepsa has signed a partnership agreement with the Port of São Paulo to supply marine fuel oil. Cepsa will supply marine fuel oil to the Port of São Paulo, with a focus on meeting the increasing demand for marine fuel oil in the region. The partnership is expected to start supplying the product in the third quarter of 2017, and is expected to be in place for five years. Cepsa expects to supply up to 200,000 mt of marine fuel oil per year to the Port of São Paulo, with the option to increase the supply to 400,000 mt per year.

BUNKER BULLETIN
VPS
Malcolm Cooper
Steve, who bring with them an exceptional combination of in-depth knowledge of science and cutting-edge technology associated with testing services and R&D, and broad industry experience in inspection, testing and certification, join our management team,” VPS CEO Gerard Rohaan said.

COCKETTE MARINE OIL APPOINTS SENIOR SUPPLY TRADER AT FLORIDA OFFICE
Global bunker supplier Cockette Marine Oil Group, or CMO, has appointed a senior supply trader at its Florida office. Frank Ray joins the trading team with a “wealth of experience in global fuel sourcing,” particularly in the cruise shipping segment, according to CMO. “The appointment will enable the Group to increase its customer business in the US, and provide various structured and strategic supply options across the Americas,” CMO Group’s chief operating officer Cem Saral said. The company has also appointed Arthur Janssen as a trader at its Rotterdam office. Saral added this would enable the group to increase its customer business in Europe “with a special focus on North Europe.”

FUEL TESTER VPS ANNOUNCES TWO SENIOR APPOINTMENTS
Global fuel testing provider Veritas Petroleum Services has appointed Malcolm Cooper as group technical & business development director. Cooper, who holds a Ph.D. in Analytical Chemistry, most recently worked for rival fuel tester SGS in a business development role, having previously led its Oil, Gas and Chemicals UK business.
In a second appointment, Steve Bee will join the company as group commercial director on July 1. Bee holds a Bachelor of Science (Honors) in Applied Chemistry and was most recently the global business director at InterTek ShipCare, where he was responsible for business strategy and the autonomous running of InterTek’s Global Marine Services. “We are extremely pleased to have Malcolm and Steve, who bring with them an exceptional combination of in-depth knowledge of science and cutting-edge technology associated with testing services and R&D, and broad industry experience in inspection, testing and certification, join our management team,” VPS CEO Gerard Rohaan said.

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GLANDER INTERNATIONAL HIRES GUYSON KANG AS BUNKER, LUBRICANT TRADER
Global Marine Fuel, lubricant trading and brokering firm Glander International Bunkering has hired Guyon Kang as its bunker and lubricant trader, the company announced in a statement. Kang was previously a sales manager with dry cargo specialist Maersk Line-Safmarine from May 2013 to March this year.

BUNKER FUEL COMPANY BOMIN MAKES KEY EXECUTIVE CHANGES
The Bomin Group, a global physical supplier and trader of bunker fuel, has appointed Thomas Roller as the sole managing director of Bomin Bunker Holding. Thomas Johanssen, the former joint managing director of Bomin Bunker Holding, has been appointed director public affairs of Marquard & Bahls, a private-owned independent petroleum company. Jan Christensen has been appointed as global head of bunker operations, a newly created position, for the Bomin Group. Christensen will take over responsibility of further developing the company’s global infrastructure and ensuring delivery of services across all regions.

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IBIA APPOINTS NEW BOARD MEMBERS
Two new industry executives have joined the board of the International Bunker Industry Association (IBIA). Bob Sanguinetti, CEO and captain of the Port of Gibraltar, and Henrik Zederko, CEO of Dan-Bunkering, have been elected to the board for the first time, while Mustafa Muhtaroglu, CEO of Energy Petrol, has been re-elected for a new three-year term.

FUJAIHRA TRADING FIRM FNSA FUEL EXPANDS TRADING OPERATIONS
Fujairah-based bunker trading company FNSA Fuel has expanded its trading and operations staff amid growth in the Fujairah bunker market. The company has increased the number of traders to six from four previously, bringing its total trading and operations staff to nine. FNSA CEO Captain S.K. Bhasin told Platts. “We see growth in the Fujairah market; there are tank farm expansions and, earlier this month, a new physical bunker fuel supplier in the market,” said Bhasin. He was referring to Al Sharq Al Matwatset, which was approved to operate at UAE’s Fujairah port in March, bringing the total registered bunkering suppliers to 16, according to the port’s website.

MONJASA APPOINTS SVEND STENBERG MOLHOLT AS GROUP COO
Denmark-based global bunker player Monjasa Holding has appointed Svend Stenborg Molholt as its new group chief operating officer. He steps up from an internal position as business development manager, having previously worked with global shipping companies including the Danish conglomerate A.P. Moller-Maersk Group. Monjasa said it was “a natural step forward” to appoint a group COO, having developed into a more diversified trading group in recent years. In 2014, it had total revenue of $2.5 billion and sold five million tonnes of oil products, according to a statement.

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AS ONE OF the largest consumers and producers of oil and other energy products, China’s growing role as a global leader in the energy arena is beginning to have a major influence on crude oil trade flows and shipping market dynamics. Several Chinese companies now rank among the largest energy companies in the world, and two companies in particular—CNPC and Sinopec—are major players in the physical markets for crude oil. Given the increasing size and impact of China’s energy giants on the world stage, it’s easy to appreciate China’s appetite to exercise its influence in the broader realm of open market pricing. Enter China’s plan for its first crude oil futures contract, which is heavily linked to Middle Eastern crude rather than China’s previous mainstay crude supply from West Africa.

The timing of the launch is uncertain, but the goal is clear. The Chinese government’s vision is to have its commodity markets priced off its own exchanges and its own price references. An exchange has been established in Shanghai’s free-trade zone under the purview of the Shanghai Futures Exchange, and international companies are being encouraged to help develop the contract into a benchmark for China’s oil imports.

Perhaps in preparation for this, Chinese oil companies have been ramping up their presence on global energy markets in recent years, particularly in the spot crude oil markets of the Middle East. Some in the markets see this as a precursor to participation in the Shanghai crude oil futures contract, in the sense that these companies can source large volumes of crude as and when needed from the open markets of the Persian Gulf. Those supplies of oil could underpin the new futures contract, which will be physically deliverable using different grades of oil.

If that is the case, the success of China’s futures contract will depend at least in part on the continued openness and efficiency of trading in Middle Eastern crude.

WEST AFRICAN IMPACT

The increased Chinese participation in Middle Eastern crude markets has had a direct impact on the West African crude market and tonnage once used to regular activity from this region. Its evolving trading strategy has begun to influence its buying patterns, with fewer and fewer West African cargoes finding their way to the Middle Kingdom. This has in turn dramatically impacted ship owners’ earnings, Worldscale rates for that key West Africa-Eastern route, and tonnage availability patterns.

For example, China typically accounts for 40%-60% of total buyers of Angolan crude and bought 52% and 62% in the March and April loading programs respectively, according to Platts data. But as of end-April, Chinese end-users had bought just 25% of the May-loading program. China, Taiwan, India, and Europe’s US appear to be picking up the slack. This has come as freight rates for WAF-East routes have, perhaps counterintuitively, begun to rise. Freight rates varied between Worldscale 70 and 80 over the second and third weeks of April, from W55 in early March. This too can be linked to China’s increasing dependence on Middle Eastern crude.

The West African freight market has begun to feel the impact of a tonnage transition from the once hot market off the coasts of Nigeria, Angola and Ghana to the now piping hot market in the Middle East. With this shift, the Middle Eastern market has begun to become a more attractive venture for shipowners: as of mid-April, there were 10 Suezmaxes available in West Africa for May fixings, versus a three-month average of 16 to 17 ships.

At the same time and equipped with their recently acquired ability to import crude oil independent of CNOC and Sinopec, China’s small independent “teapot” refiners, have been buying up select grades of short-haul crude oil. This has in turn impacted the West African freight market as tonnage once fixed for these cargoes out of Africa is shifting its focus towards East Russia.

China’s decision to substantially relax regulation of crude imports has brought the country’s massive independent refining sector into sharp focus. The government’s move to allow qualified independent refiners to apply for quotas and import licenses means those refiners are moving from the background of the global oil markets to front of mind for companies active in global crude trading, and those seeking to understand price movements in crude markets around the world.

Of course, with decreased flows of West African crude to China other buyers have begun to show demand, and hence shipping routes north to Europe, west to the US and east to India and Taiwan have been bolstered. China’s corporate strategy is having a significant impact on global crude and shipping markets and trade routes, and shipowners’ earnings will continue to realign as the Middle East becomes a more dominant supply hub for China. In tandem, West African- and -south routes will continue to help support shipping rates from a region that once relied so heavily on Chinese interests.
IMO LOOKS TOWARDS LOW-CARBON FUTURE

Global shipping regulator leads the battle against greenhouse gas emissions following 2015 Paris agreement

BY LARA SHINGLE AND UNNI EINEMO

THE 2015 PARIS CLIMATE CHANGE AGREEMENT dropped any reference to emissions from international shipping and aviation, and left the UN’s shipping agency, the International Maritime Organization, as the main arena for the industry’s fight against greenhouse gas emissions. Instead of buckling under the pressure of such task, however, the IMO has continued to show a strong commitment to addressing GHG emissions from ships engaged in global trade by building on its own, long-standing and well-established mandate.

Indeed, the agency’s mandate to regulate GHG emission regulation from international shipping can be traced back to a resolution on CO2 emissions from ships adopted by the October 1997 International Convention for the Prevention of Pollution from Ships Conference, which adopted the 1997 MARPOL Annex VI on Regulations for the prevention of air pollution from ships.

To date, almost 1,000 new-build ships have been certified to the technical energy-efficiency design requirements set out by the IMO, and secretary general, Kitack Lim, was more than confident in the agency’s ability to certify plenty more when he spoke exclusively with Platts in March.

The IMO has two sessions of the Marine Environment Protection Committee, or MEPC, tabled for 2016, providing good opportunity to pursue and make good progress on additional measures, including the development of the data collection system to monitor and report the fuel consumption from international shipping and, therefore, analyze the energy efficiency and CO2 emissions from international shipping.

The MEPC will also continue the discussion on establishing a cap or target on CO2 emissions from international shipping, a debate which started at MEPC 68 last year and, according to Lim, needs thorough consideration still.

“I think the first step of this discussion is to establish the mechanism for reporting emissions,” he said. “One cannot talk of a cap, or for that matter introducing any measure, without knowing what the actual emissions are for each ship.”

“It is also important to remember that shipping is the servant of global trade, and that there is a clear linkage between the overall amount of shipping activity and the amount of global trade – if trade grows, so will shipping activity. IMO Member States will need to bear this in mind when discussing such [issues] as a cap on the shipping sector as a whole.”

LOW-CARBON CULTURE

The IMO has implemented two further regulations to reduce GHG from shipping: the Energy Efficiency Design Index, or EEDI, for new ships, and the Ship Energy Efficiency Management Plan, or SEEMP, for all ships.

Operational and technical measures alone, however, may not be enough to stem emissions, said Lim. “We also need to focus on establishing a culture of ‘low-carbon’ shipping, so that operational energy-efficiency measures can be fully implemented.”

“While new ships are required to be built to be more energy-efficient, for existing ships, the mandatory SEEMP does not, in itself, prescribe the measures that should be implemented.”

Perhaps the solution then, is for IMO to work with its Member States and industry towards instilling a culture that looks towards best practices in achieving lower emissions – capacity building, for example.

TECHNOLOGY TRANSFER

The Paris Agreement maintains the “common but differentiated responsibilities” principle for the obligations of developed and developing countries, which has made progress on any GHG measures difficult at the IMO in the past as it goes against the IMO’s own fundamental principles of applying the same rules to all ships.

While the EEDI and SEEMP are universal, one has to wonder what implications might lie ahead for other measures, such as market-based measures or emission reduction targets.

Of course, the IMO has previously adopted special areas and emission control areas under several MARPOL annexes and MARPOL ANNEX VI respectively, but only after proposals were brought to the IMO by Member States for consideration.

“I think that the common but differentiated responsibilities issue was successfully addressed when the EEDI and SEEMP requirements were adopted including the important regulation relating to technology transfer,”
said Lim. Specifically, he pointed to the regulation referring to the promotion of technical cooperation and transfer of technology relating to the improvement of the energy efficiency of ships. “This is the means by which we can recognize that some countries may need additional capacity-building help, while still having global requirements for the worldwide industry that shipping is,” he added.

“Supporting that technology transfer through major projects such as the Global Environment Facility-United Nations Development Program-IMO Global Maritime Energy Efficiency Partnership Project is one way we can ensure that this is not just a paper regulation, but one which the IMO et al is very much involved in putting into practice.”

ROLE TO PLAY
With the supply of fuel oil being such an important factor in moving towards a low-carbon future for shipping, the bunker industry undoubtedly needs to respond to any impending regulations by IMO. However, how these regulations will affect the industry and whether the industry will have an active role to play in a regulatory regime is still up for discussion.

Lim believes that the measurement of fuel oil supplied to and used by ships will become increasingly scrutinized, and the bunker industry will be a key third-party to this. “I would also encourage the bunker industry to consider how it can contribute to research and development, and how it might participate in the two major capacity-building projects IMO is implementing,” he says.

“Through these activities, and others, IMO will be helping to transfer know-how to those countries that need it, thereby promoting wider and more effective implementation of IMO measures. This, increasingly, will be the Organization’s focus in the future, as IMO looks to play a leading role in the drive towards a sustainable maritime sector.”

This feature was based on a Question and Answer session with Kitack Lim, speaking exclusively to Platts. For the full interview go to www.bunkerworld.com/news/CO2-reporting-first-step-before-considering-cap-or-other-measures-IMO-chief-141188

IMO SUPPORTS CAPACITY BUILDING PROJECTS
IMO is already vigorously supporting capacity building through two projects intended to encourage the uptake and implementation of energy efficient measures.

The first is the Global Environment Facility-United Nations Development Program-IMO Global Maritime Energy Efficiency Partnership Project, or GloMEEP, involving 10 leading pilot countries: Argentina, China, Georgia, India, Jamaica, Malaysia, Morocco, Panama, Philippines and South Africa. Not only does this two-year project aim to create global, regional and national partnerships to build capacity to address maritime energy efficiency, but it also encourages for countries to bring this issue into the mainstream within their own development policies, programs and dialogues.

The first national workshop under the project was held in December 2015. The second project is an ambitious €10 million European Union-funded, four-year project to establish a global network of Maritime Technology Cooperation Centers, which will help beneficiary countries limit and reduce GHG emissions from their shipping sectors through technical assistance and capacity building.

Specifically, the aim of the project, said Lim, is to encourage the uptake of innovative technologies among a large number of users through the widespread dissemination of technical information and know-how, and heighten the impact of technology transfer across five regions. These regions include Africa, Asia, the Caribbean, Latin America and the Pacific. All of which have been targeted for their significant number of Least Developed Countries, or LDCs, and Small Island Developing States, or SIDS.

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DIFFERENT YEAR, DIFFERENT MARKET

Ominous portents that the party may be over for tanker owners as newbuild deliveries start to bite

BY JOHN MORLEY

IN 2015 MOST OWNERS of crude oil tankers enjoyed their best year since 2008, with the combination of rising demand and slow fleet growth enough to boost freight rates to levels not seen in many years. There have been signs that the party might be coming to an end for shipowners, though, with freight rates on a wide variety of routes in the first quarter of 2016 at significantly lower levels than they were in 2015.

Take West African VLCC rates as an example. The WAF-Far East route, basis 260,000 mt, averaged $20.48/mt in the first quarter of this year, versus $23.12/mt, $25.20/mt, $22.83/mt and $24.23/mt respectively in the four quarters of 2015.

So what is the reason for the sharp drop in rates? The key determinant of freight rates comes from the demand and supply of tankers. The demand for tankers is largely based on the supply of crude oil cargoes. In 2016 there has been no noticeable drop in cargo flow from the key VLCC loading hubs of the Persian Gulf and West Africa, with liftings fairly steady compared with 2015.

What has started to change is the supply of tankers. There were around four deliveries of newbuild VLCCs in early January which immediately began to aggressively compete with existing tonnage for cargoes and helped swing the supply and demand dynamics in charterers’ favor.

This could be a worrying sign of things to come for VLCC owners as it is only the beginning of a surge in new deliveries which is expected to peak towards the end of 2016. According to data from Affinity Research, there are a further 46 VLCCs expected to be delivered over the course of the year which will give charterers a much larger choice of ships for their cargoes.

By contrast there were just 19 VLCCs delivered in 2015, and these new ships were easily absorbed by the increase in global oil production which occurred last year.

Fleet growth is set to be high in VLCCs, Suezmaxes and Aframaxes over the next two years, according to shipbrokers. The one area which shows slow fleet growth is Handysize tankers, with the order book at just 9.1% of the existing fleet.

Despite the slower fleet growth on this smaller size of ship, freight rates have been depressed for much of 2016 due to lower cargo flow in the Baltic Sea. Russian fuel oil production was lower in early 2016 than in the corresponding period of 2015, and the lower number of fuel stems has reduced demand for Handysize tankers in the Baltic Sea.

The Baltic-UK Continent route, basis 30,000 mt, has so far averaged $13.02/mt in 2016, versus $16.15/mt in the same period last year.

IRAN COMEBACK

The lifting of international nuclear-related sanctions on Iran has been a big topic of discussion in the tanker market so far in 2016. While most sanctions were lifted in January, the process of shipowners adapting to the extra Iranian oil to be shipped to Europe has been a slow one.

Though several shipments of Iranian oil have now been made to Europe on independently owned tankers, there has been much reluctance from shipowners to call at Iran due to the difficulties they have faced in obtaining adequate reinsurance cover for Iranian shipments from the International Group of Protection & Indemnity (P&I) Clubs.

As of mid-April, the International Group of P&I Clubs had raised the reinsurance level for shipping Iranian crude to a maximum of $830 million per tanker to make up for the missing US reinsurance cover as a result of the US’ ongoing sanctions against Iran.

That is still well below the full P&I insurance cover of $7.8 billion, of course, but an improvement on the $80 million then $580 million of P&I cover made available in February then March. This could be seen as sufficient for Asian buyers such as India and South Korea, or some European importers, for their shipping of Iranian oil, according to some market sources.

So, there is still some reluctance among owners to load at Iran when full reinsurance cover is not being offered, but several owners acknowledge that the decision on whether or not to take the risk of loading at Iran also continues to be governed by market conditions and the availability – or lack of availability – of cargoes in other loading areas.

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Poland’s bunker industry wants to share the limelight with its nation’s shipbuilding sector

BY JULIAN MCQUEEN

BETTER KNOWN FOR its shipbuilding expertise, Poland has hidden talents. While not huge compared with other regional centers, the total size of the Polish bunkering market is not to be sniffed at, particularly when the focus is on MGO.

Average sales of HFO and the distillate grade are estimated at 20,000 mt/month or just under 250,000 mt/year and the twin ports of Gdansk-Gdynia account for about half of that figure.

In addition to Gdansk, Szczecin and Swinoujscie come within the orbit of the local industry’s three main physical suppliers, of which two, Ship-Service and Oktan Energy, are based in Szczecin.

Ship-Service is the only one to supply heavy fuel oil (HFO) as well as marine gas oil (MGO) to ships, although Oktan Energy is thinking of joining the fray. The third bunker company in the market is the refiner Grupos Lotos. Ship-Service is the biggest player, ahead of Grupos Lotos and Oktan Energy.

Bunkering infrastructure available to ships calling at any of the country’s four ports is impressive. Ship-Service owns and operates three bunker tankers, ranging from 1,000 deadweight tons (dwt) to 1,200 dwt, and the company says the tankers serve both Gdansk and neighboring Polish ports. One is always on station in Gdansk and Gdynia, and it can deliver MGO and high sulfur fuel oil (HSFO). The company uses its own floating storage facilities to store MGO; this facility comprises several, non-propelled river barges.

Ship-Service counts Poland’s largest refiner PKN Orlen as a majority shareholder and there is an agreement between them for product storage.

A NEW DEPARTURE

In 2015, Gdansk saw around 3,100 calls from sea-going vessels. Much of Poland’s fuel transshipment (88%) goes through Gdansk as does half of its coal transshipment as well as a third of the country’s other bulk products and 21% of grain transshipment. In addition, the country’s principal oil and container terminals are located at Gdansk.

A large liquefied natural gas (LNG) terminal is being built in Swinoujscie which could herald a new departure for the country’s bunkering industry. The project’s backstory forms part of the reaction to increasingly tight controls on shipping emissions.
In the North Europe and Baltic Sea emission control area, the sulfur cap was lowered from 1% to 0.1% at the start of 2015, thereby raising the viability of LNG as an alternative to conventional marine fuels.

The European Union is also supportive of the country’s ambitions and last year, it included Swinoujscie LNG in its Trans-European Transport program funding in a $2.28 million allocation share with the Swedish port of Trelleborg. Ship-Service is certainly upbeat about the project.

“There will be a port facility for bunkering LNG within the next five years or so, and the company intends to play a role in this,” it said.

There are a number of other factors that could constrain the bunkering part of the project, one of which is price. “There is a general perception that the future development of LNG marine market in Poland will be strongly affected by the prices of conventional fuels.”

**SUPPORTING CHANGE**

In the current price environment, conventional bunker fuel may be holding its own against marine fuel alternatives, but many in the industry believe that over time, the combination of regulatory and commercial pressure will get behind alternative bunker fuels.

Oktan Energy, which was founded in 1997, is a relative newcomer to the bunkering market in Poland. It is an established player in land-based, energy supply and distribution and is now eyeing a greater presence in the Polish bunker space.

The company has storage tanks in Szczecin with 16,500 mt capacity. It says three, new tanks, of 5,800 mt capacity each, are under construction and that by mid-2016 it will have increased storage capacity to six tanks, giving a total capacity of 34,000 mt.

Its road fleet comprises 23 tank-trucks and it has three tanker vessels of 1,600 cubic meters, 1,320 cu m, and 4,500 cu m. Recently acquired, the last and biggest ship forms part of the company’s expansion plans.

Once that ship is deployed to Gdansk, Oktan says that it is looking to increase its monthly MGO sales by 2,000 mt from the current 7,000 mt. About half of its current sales are in the Gdansk-Gdynia market.

In addition to the three tankers, the company owns and operates a coastal tanker of 1,100 cu m, which moves between Gdansk, Gdynia, Szczecin and Swinoujscie.

**THE BIGGER PICTURE**

Five, self-propelled, bunker barges – ranging from 400 cu m to 500 cu m – complete the picture, while the company says bunkering is possible by road truck or by barge.

Plans are afoot to develop a fuel terminal berth in Szczecin. With that in place, “it would be possible for the oil tankers of 10,000 dwt to reach the terminal directly,” the company said.

Oktan is also looking at the wider, regional market for MGO, aiming to compete with Skaw Roads on price. Certainly, the price range between the two markets is narrow enough to include room for competition. On April 11, 2016, for example, MGO at Gdansk was assessed by Platts at $12/mt below that on offer in Gothenburg/Skaw Roads market. However, double digit differentials are unusual and on the same day, 380 CST fuel oil was $1 under the Gothenburg/Skaw Roads price, according to the Platts assessment.

Oktan has said that it may offer HFO in the Gdansk-Gdynia market and it has in mind a monthly sales target of 2,000 mt.

Last of the three, energy company Grupos Lotos, one of Poland’s biggest firms, is based in Gdansk with a bunkering division selling MGO into the Polish bunker market. Grupos Lotos’ bunkering infrastructure is made up of two bunker tankers, with a total capacity of 1,600 mt, and a fleet of road tankers. It also includes a tank farm which is based at the group’s refinery.

The combination of services and infrastructure offered by the three suppliers, coupled with their keen desire to boost Poland’s bunkering sector will make this hub one to watch for future marine fuel developments.

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RETURN TO POWER

Previously discarded for cheaper gas fuelling options, fuel oil is now back in vogue for firing up power generation

BY NED MOLLOY

IT’S BEEN SO LONG since oil was competitive in power generation, some traders had forgotten it could happen. But the oil price crash had them scrambling for their spreadsheets to see if burning oil had become more economical than gas.

The answer? It had, in many locations. In December 2014, fuel oil loading in Northwest Europe became cheaper than LNG delivered in Northwest Europe on a spot DES basis, at $8.26/MMBtu, and remained cheaper through January 2015. Then through the first half of 2015, oil traders thought they could see signs of the market rebalancing, following the bounce in crude and products prices. However, the bounce fizzled through the first half of 2015, oil loading in Northwest Europe locations. In December 2014, fuel oil became cheaper than gas, so traders had forgotten it could be competitive in power generation, but were up 17% year on year. They used to buy one or one-and-a-half cargoes a month, now its three or four (of 30,000 mt each). I think in the Eastern Mediterranean generally it’s happening because gas is not competitive in the short term. We’re seeing more LSFO go into those markets.

A second trader said it was a regional phenomenon, particularly driven by switching from gas to fuel oil. “With cheap crude, fuel oil became cheaper than LNG, so LSFO consumption has increased for power plants.”

As well as tracking the weakness in crude prices, fuel oil has faced its own oversupply situation, with high stock levels in Singapore, Europe and the US as global demand for the heavy product shrinks.

In addition, Turkey’s gas network is reaching its capacity limits amid rising consumption. Turkish gas imports totalled 48.2 Bcm in 2015, compared to 40.6 Bcm. If consumption continues to increase across Turkey, there is no additional capacity in the country’s gas infrastructure to accommodate the corresponding need for higher imports. According to industry sources, this incentivises reaching to other fuel sources to free up spare capacity for any further demand increases.

BELARUS MAKES SWITCH

Further north, another country that has responded to low fuel oil prices in Q1 has been Belarus. Belarus’ deputy prime minister, Vladimir Semashko, told the energy ministry to switch to fuel oil use as of February, according to a government statement. “The fuel oil price, if compared with the gas price allows for a significant economic effect through using fuel oil as an alternative fuel,” the statement said. For comparison, a prime minister is running crude and petrochemicals holding Belneftekhim told Platts this could mean fuel oil exports to Europe could be up to 5 million mt less than expected, due to the increased domestic consumption.

Fuel oil prices have fallen in dollar terms along with oil prices, while the gas price for Belarus has stayed the same. Belneftekhim spokeswoman Marina Kostyuchenko said: “Fuel oil is cheaper, and its use is entirely economically feasible. Theoretically, we can allocate all of the fuel oil domestically, that is up to 5 million mt,” she said, adding the energy ministry would decide on the volume which “will be redirected from exports.”

Belneftekhim, which came up with the proposal, controls the country’s two refineries, Mozyr and Naftan. However Belarus cannot completely stop using Russian gas as 95% of its utilities run on natural gas, Kostyuchenko said.

“Fuel oil was always used as reserve fuel. Operations were running on fuel oil when all else was too expensive, and the generators switched to burning natural gas or wood. Now, the situation has changed, and the possible measures are being discussed,” she said.

Meanwhile, Belarus’ giant neighbor to the East, Russia, saw a similar trend, with traders seeing growing domestic demand from utilities for cheap fuel oil, as it undercut natural gas. Fuel oil volumes planned for export were redirected to the domestic market, exacerbating the reduction in exports in February resulting from refinery run cuts, due to extremely low freight netbacks. However Russian domestic demand for fuel oil in March dropped from February as domestic prices, which reached their lowest levels in years in January, started rising and put off some of the power generation buying. March deliveries to the domestic markets dropped by 26% from February levels to 1.411 million mt, but were up 17% year on year.

SAUDI CHANGING STRATEGY

Saudi Arabia has long strived to increase fuel oil and gas use in power generation to free up crude oil for export, as it burns vast quantities of crude to meet peak summer electricity demand, boosted by air conditioning use. Since November 2014, Saudi Arabia led the change of strategy at OPEC, of holding on to market share in the face of growing non-OPEC supply, especially from US shale oil plays, rather than aiming to support prices by cutting production. So in the current low price environment, the drive to reduce domestic crude burn has become ever more critical. Saudi Arabia needs crude export revenues to stem the draw-down of its foreign exchange reserves, and also needs to hang onto as much spare capacity as possible to maintain its diplomatic heft in negotiations; offers to “freeze” output at a certain level carry more weight if people believe it is actually capable of increasing production beyond that level at all.

In this respect, the country’s leverage is growing. The 2.5 Bcf/d Wasit gas facility at Jubail began operating in March, fed by two natural gas fields off the Persian Gulf coast. This progress was noted in the International Energy Agency’s April oil market report, which predicted that the surging oil demand growth previously seen in Saudi Arabia would completely vanish this year, due to reduced requirements for oil in power generation in the summer months as the country installed more gas infrastructure, combined with a weakening economic outlook.

With the shipping sector still in deep trouble due to slowing global trade, the responsiveness of power generation demand to low prices has helped stave off a larger collapse in the fuel oil market. In future years however, the product looks set to become ever more dominantly a marine fuel.
$22.01/mt in January and $19.39/mt in February, down February 12-23. The rate on this key route averaged New Orleans to Kashima, Japan began 2016, on January 16 was reflected in a sharp decline in freight rates. For the North Atlantic.

winter, which led to a considerable tonnage overhang in less bypassed as a major source of grain in the following summer of 2015, buying heavily from East Coast have satisfied their grain requirements over the course Gulf export a fair amount of grain cargoes, especially to region’s main bearish driver.

grain in the US Gulf was cited by shipping sources as the by lackluster trade this past winter, low demand for grain in the US Gulf was cited by shipping sources as the region’s main bearish driver.

THE WINTER OF 2015-16 was one of discontent for dry bulk Supramax owners in the Atlantic Basin. Unusually low demand across the region’s key loading areas, combined with a build-up of tonnage, led to an exceptionally negative freight environment which carried on until the end of the first quarter of this year.

While many loading areas in the Atlantic were marked by lackluster trade this past winter, low demand for grain in the US Gulf was cited by shipping sources as the region’s main bearish driver.

The final months of each year traditionally see the US Gulf export a fair amount of grain cargoes, especially to Asia. However, last year Asian grain buyers appeared to have satiated their grain requirements over the course of the summer of 2015, buying heavily from East Coast South America. As a result, the US Gulf was more or less bypassed as a major source of grain in the following winter, which led to a considerable tonnage overhang in the North Atlantic.

The US Gulf’s lack of sparkle during the winter of 2015-16 was reflected in a sharp decline in freight rates. For example, the rate for carrying 50,000 mt of grain from New Orleans to Kashima, Japan began 2016, on January 4, at $23/mt, before falling to as low as $18/mt between February 12-23. The rate on this key route averaged $22.01/mt in January and $19.39/mt in February, down 34.8% and 24.43% from their respective monthly averages in January and February 2015.

Petrocked from India, whose cement industry is a major buyer of the commodity, was insufficient in fending off the buildup of tonnage seen in the US Gulf since October 2015.

At the same time, there were periods when US Gulf petcoke producers had to compete with cheaper material from Saudi Arabia and India itself, leading to fluctuating inquiry levels for pet coke in the US Gulf early in 2016. The freight rate on the key pet coke route from Houston, Texas to Krishnapatnam, East Coast India, also suffered as a result, averaging $18.15/mt in January and $16.69/mt in February.

Across the Atlantic, minimal Turkish demand for scrap metal, used in Turkey’s steel industry, also led to a negative freight environment in the Baltic and UK-Continent regions, with January and February seeing Northern European scrap metal mostly moving to other destinations, such as Spain, Morocco and Egypt.

Sources said Turkey’s reduced appetite for scrap was in part due to low demand for Turkish steel products, such as rebar, while Turkish buyers also were purchasing cheaper alternatives to scrap metal, such as semi-finished steel products from China.

Subdued demand for dry bulk commodities in Northern Europe meant that the Handysize and Supramax tonnage count in the Baltic and UK-Continental also was high, making it difficult for freight rates to recover. The major Handysize scrap route from Rotterdam to Aliaga, Turkey, also saw a decline, falling from an average $10.87/mt in January 2016 to $9.09/mt in February.

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MODEST RECOVERY

March witnessed a period of modest recovery in the Atlantic Basin, however, for Handysize and Supramax owners. Sources said this was mainly due to a number of key loading regions seeing a concurrent uptick in demand, which helped thin down the ship count on both sides of the Equator.

While grain demand in the US Gulf saw little change when it came to cargoes heading to Asia, grain inquiry from Central America, as well as an uptick in Indian demand for pet coke, led to a recovery in freight rates. Also, US Gulf producers benefitted from less competition from Indian sellers and Saudi Arabia as the first quarter of 2016 neared its end.

Reflecting the US Gulf’s change in fortunes, the Houston-to-Krishnapatnam pet coke route rose from $16.50/mt on March 1 to $18/mt by end-March. Similarly, the 50,000 mt grain route from New Orleans to Kashima rose from $15/mt to $22.40/mt during the same period, although this had more to do with tight tonnage rather than a major push of grains to Asia.

The Black Sea also saw weaker freight rates in January and February, although this region saw more consistent demand for grain, steel, iron ore and coal cargoes, in January and February. The key grain route from Nikolayev, Ukraine, to Alexandria, Egypt, beat $35,000, averaged $9.79/mt in January, $8.78/mt in February.

However, at the outset of March the Black Sea also entered a more bullish period, which saw momentum build up not only in the Handysize, but also in the Supramax segment. By end-March, front-haul trips with grain from the Black Sea could earn Supramax owners around $8,300/d, which was level to front-haul in the US Gulf. The Nikolayev-to-Alexandria 25,000 mt route rose from $18/mt on March 1 to $22/mt by the end of the month.

Scrap metal demand from Turkey also rose at the end of the first quarter of 2016, which sources said was in part due to buyers no longer having cheap, alternative material from Asia.

By April 1, 2016, the rate for carrying 45,000 mt of scrap from Riga, Latvia, to Aliaga in Turkey stood at $15.80, up from a three-month low of $13/mt between January 26-February 18, 2016.

GRAIN EXPECTATIONS

Meanwhile, the advent of spring also brought with it hopes among shipowners and operators in the Atlantic that East Coast South America would soon see high volumes of grain moving out of East Coast South America since March, with Supramax owners able to earn close to $9,000/day plus $90,000 ballast bonus for trips with grain to the Far East by early April and up to $10,000/day for shipping corn to the Western Mediterranean.

By end-March, the tonnage count in the South Atlantic had grown quite slim, with charters also competing with Indian demand for South African coal for available tonnage. As a result, shipowners were entering the second quarter of 2016 with the upper hand when it came to negotiations with charterers, sources said.

A number of shipbrokers and operators said that, looking forward, the Atlantic Basin was in need of several loading regions to carry on offering a fair amount of cargoes at the same time for freight rates to continue rising. Also, one source said East Coast South America would receive a major boost if China began importing more sugar from Brazil in the second quarter, with Chinese demand being rather subdued during the first quarter.
GLOBAL MARKET OVERVIEW

The sluggish global shipping sector remains a major challenge for fuel oil demand this year, with slowing Chinese GDP growth, and low GDP growth rates in the West both playing a role in weakening global trade figures. Low prices have stimulated demand, with increased burning for power generation in Russia, Belarus, Turkey, and the Eastern Mediterranean generally in Q1, as fuel oil became cheaper than delivered LNG, as well as some pipeline gas.

However, demand for fuel oil has already been reduced by regulation: the lowering of the sulfur cap on marine fuels used in Emission Control Area (ECA) zones from 1% to 0.1% from the start of 2015 meant that vessels moving through them predominantly now use gasoil. This means the 800 kt a month of 1% sulfur fuel oil previously being consumed by ships in Northwest Europe has found its way into the high sulfur pool via blending, or into the shrinking number of utility shorts.

The main signs of strengthening so far this year have come from the supply side: Russian export netbacks for fuel oil – which represent the return from exports after transportation costs and tax are taken into account – fell into negative territory in January, due to weak international benchmarks and more expensive railway tariffs. This led refineries to reduce runs.

This year looks set to be a balancing act between weaker global trade and Russian refining margins: currently, the fuel oil forward curve is currently pricing in the likelihood of continued oversupply: FOB Rotterdam fuel oil inter-month barge swap spreads are trading in a contango structure all the way out to early 2020.
The Asia market for high sulfur fuel oil, with trading activity taking place primarily in Singapore, saw a slight drop of activity late April after a flurry of high trade volumes in March on the Platts Market on Close assessment process. In March, some 5.82 million mt of high sulfur fuel oil were traded, with 5.6 million mt of it being 380 CST grade, Platts data showed. The appetite to buy in March stemmed from expectations at the time that the market would be tight on supply in April. This thinking proved accurate with logistics at terminals fairly tight for the first-half of April. The 380 CST cash differential hit its highest point on March 22 when the premium had risen to as high as plus $3.33/mt, a high not seen since June 23, 2015, when it was at plus $3.68/mt, Platts data showed.

On the Platts’ MOC for the fuel oil paper market, the total volume traded was 4.96 million mt in March. This compares with previous records of 7.875 million mt traded in June last year, the second-highest volume ever reported in a month for paper MOC trade. The previous highest volume was in May 2012, at 8.27 million mt.

On the bunker fuel front, ex-wharf differentials for 380 CST cargo prices held steady at premiums of around $1.50/mt in April, with prompt loading tightness providing some support. This compared with discounts of around $1-3/mt seen during the month of March, Platts data showed.

ASIA MARKET OVERVIEW

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MIDDLE EAST AND AFRICA MARKETS OVERVIEW

In Fujairah, the cargo market has seen an influx of supply from Iran after sanctions were lifted in January this year, with some 300,000-600,000/month flowing into the UAE port since then. Premiums for Iran fuel oil cargoes have strengthened since then, from previous discounts as deep as $20/mt to the Mean of Platts Arab Gulf 180 CST HSFO assessments to end April levels of minus $2 to plus $2/mt via private negotiations.

In turn, the delivered bunker fuel market has been relatively stable since January, with spot market premiums to MOPAG 180 CST staying steady at around $20/mt or under, Platts data showed.

While supply fundamentals have improved, with more oil availability flowing more freely around the region, the increasing number of accredited bunker fuel suppliers has also been a factor in keeping recent market prices competitive. The port has seen growth from just eight accredited suppliers a few years back to the current 16 accredited suppliers.

The spread between Singapore 380 CST bunker fuel and Fujairah 380 CST bunker fuel, both on a delivered basis, has stayed at fairly stable levels under $10/mt in recent months, compared to double-digit spreads which were fairly volatile some years back. This was due to the shortage of delivery logistics and supply shared between a limited number of suppliers.

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AMERICAS MARKET OVERVIEW

The Houston bunker fuel market has remained weak in 2016, continuing a trend that began late last year. Market participants said weak demand and an abundance of supply were to blame for low to negative margins on bunker fuel relative to the residual fuel oil used to blend the finished marine fuel. Indeed, the situation only seems to have become more pronounced this year in comparison with the final months of 2015.

In the first quarter of 2016, Houston IFO 380 averaged 65 cents/mt less than the benchmark US Gulf Coast 3%S residual fuel oil assessment, which is often seen as a bellwether for regional bunker markets. That compares with a premium of about $13.65/mt over the same time period in 2015.

In the past, sources have said IFO 380 needs to be $1-$1.50/b (about $6.40-$9.60/mt) more than HSFO for blenders to make money.

Marine fuel suppliers have described bunker fuel demand as particularly weak this year though US government data suggests demand is more or less unchanged from last year. The latest US Energy Information Administration data shows US residual fuel oil days of supply – the ratio of inventory versus consumption – averaged 219 days in Q1 2016 compared with 226 days in Q1 2015.

The Houston bunker fuel market typically averages about 300,000 mt/m, on par with New York Harbor as the US’ largest bunker market.

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23–27
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6–10
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14–16
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27–28
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