THE EVOLVING BUNKER FUEL VALUE CHAIN
A distributor’s perspective

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There are currently three key options on the table to meet 2015 ECA compliance:

- **Scrubbers**: Emissions abatement technologies to clean fuel and eradicate sulphur content from HFO.
- **LNG**: Considered to be clean of sulphur content and releases less greenhouse gases than other fossil fuels.
- **Distillates**: Compliant with SOx emissions levels, requiring no upfront capital.
Option 1: Installing scrubbing technology

**FOR:**
- Enables use of cheaper fuels
- Greater uptake and confidence in tech
- Cost effective (for short sea)

**AGAINST:**
- Significant upfront costs
- Not widely tested or policed
- Only viable for ships exclusive to ECA's

**OW BUNKER CUSTOMER SURVEY:**
Only approx. 2% of customers will operate in ECA waters 100% of the time
Increased appetite for investing in LNG infrastructure; particularly in Northern Europe
Ticks all the boxes from an environmental perspective, but…

Distributor’s perspective:
• Needs rigorous development of the right handling, delivery and health and safety standards
• Will require significant investment and widespread industry and potentially, govts’ buy-in
• Viable in the longer term, but not a feasible option for 2015 – and it will come down to price
Growing consensus that distillates are the most immediately viable compliance solution:

✓ For: Widely available, no upfront capital required, existing bunker infrastructure and processes

✗ Against: Significant premium above HFO, limited refining capacity in Europe

OW BUNKER CUSTOMER SURVEY:
Almost 90% of our customers plan to burn distillates in ECA waters from 2015
A closer look at distillates

How the entire marine supply chain from refinery through to ship operator works together to address the balance between distillate supply and demand will be critical.
Supply and demand for distillates in Europe

Of the 150 refiners that will invest in building capacity for middle distillates in the next ten years, over 50% are in the Middle East and Asia Pacific.

Europe is a region of net-importers of middle distillates with no significant increase in MGO refining capabilities over the coming years.

UK Chamber of Shipping (2013):
Estimated that Europe will now need to import an additional 15-20 million metric tonnes of MGO annually to meet demand from shipping post-2015.
Developing the right procurement strategy

With a significant premium above HFO, creating the right fuelling strategies for distillate supply is fundamental to meeting 2015 requirements

- Detailed understanding of customers’ business; operations; trading routes
- Clear plan for what fuel they need, when and where

Suppliers must work with customers now to provide the most efficient, cost-effective and reliable procurement solutions possible, in line with each customer’s business needs and appetite for risk
Funding the switch

For suppliers, risk is not just about the overall amount of credit that we extend, rather who we actually extend it to. From customers we need:

- A transparent relationship
- Access to information and financial records

Access to credit and liquidity within the market is crucial when it comes to funding compliance solutions

Customers operating in ECA’s will require on average 50% more credit from their suppliers
The bunker industry is continuing to keep the shipping industry afloat by providing credit, but this comes with risks for bunker companies and their customers... Therefore we must:

- Practice thorough due diligence
- Base decisions on a transparent, open relationships with customers
- Only lend when it is prudent to do so again, our risk is tied up in who we lend to, not how much we lend
Looking beyond supply and demand

We must not underestimate the importance of ensuring the quality of the product supplied as well as the role that bunker suppliers must play in helping their customers to manage the technical considerations of switching fuel.
Guaranteeing product quality

Cat fines are not an issue in distillates as they are with LSIFO fuels (i.e. existing North American ECA)

While distillates are a ‘cleaner’ product, there are still quality issues to consider

Bunker distributors have the tools and should mobilise the resources to tackle the problem as best we can
Global Quality Standard

**OW Bunker Global Quality Control Standard:**
- Full specification analysis on physical orders
- Independent fuel analysis provider
- Delivered before the usual testing procedures

**Goal:** Drive annual global claims below 1%; in Q1 2014, we reduced global claims on physical products to 0.9%, 50% of which proved invalid

**Quality Control Department:**
- Where potential issues may arise
- Who might be impacted
- Any common trends

**Goal:** Built an operational and scalable system of real intelligence that facilitates insight and improves performance on a continual basis
2015 ECA regulation is clear: Vessels have to be 100% compliant when entering ECA waters:
- Requires a comprehensive fuel switching procedure between HSFO and distillates;
- Process can take days or as little as a few hours, depending on the vessel configuration
- Makes engines susceptible to damage
- Probability of contamination of 0.1% in the pipes is very high - throwing the product off-spec

Our Technical Support Department works with customers to plan and manage the technical process of fuel switching and develops procedures to prevent unplanned downtime or unnecessary wear and tear.
There are a number of issues in identifying products to burn and putting switching procedures in place:

- Looking at the tank and pipe configuration in considering the compatibility of fuels being switched;
- Creating changeover procedures to mitigate contamination
- Ensuring products are supplied to meet the specifications provided by the engine manufacturer
- Thorough analysis of auxiliary equipment, lubricants required and;
- Considerations regarding viscosity, lubricity of fuels and burning temperatures between HFO and gas oil
Getting the most from your fuel distributor

It is the responsibility of bunker companies to look beyond the cost of fuel and implement means for reducing costs for customers from other areas within the fuel supply chain.
Reducing costs across the supply chain

Bunker companies must look beyond just the cost of fuel and work to implement means for reducing costs for customers from other areas within the fuel supply chain

- Streamline the fuel distribution process
- Increase operational efficiencies
- Shave off unnecessary expenses
- Save money by avoiding undue risk
Improving operational efficiency in fuel distribution

To help customers manage the increased cost of compliance in ECA waters, fuel distributors must help customers save time and money by making supply as efficient and cost effective as possible.

This means taking as much control as possible over distribution, from order through to final delivery:

- Using Coriolis Flow Meters to ensure accuracy in quantity of product supplied
- Using vessels with fast pumping rates
- Using experienced crews and having technical insight into the distribution process
- Taking greater control over the product supply chain and designing out inefficiencies
- Working around customers’ operational requirements by going to them, where possible
There are some significant practical changes that we as an industry must overcome in order to manage the transition to 0.1%

These are not insurmountable challenges

But we must act now
Thank you for listening