WHO AM I?

- Henrik Zederkof
  - 45 years old, living in Middelfart
- Background:
  - Higher commercial examination
  - Started as Bunker Trader in Dan-Bunkering in 1990
  - Promoted Team Leader in 1998
  - Promoted Sales Manager for the Middelfart office in 2006
  - Promoted CEO for Dan-Bunkering Group in 2009
  - Completed the INSEAD Executive Management Programme in 2011-2012
  - Board member of International Bunker Industry Association (IBIA)
THE FORMULA FOR THE PERFECT STORM

- The freight market is historically low
- The shipowners are challenged by new environmental standards, i.e. sulphur and ballast water
- Insecurity about the "durability" of the suppliers
- The shipowners are suddenly experiencing new challenges in regards to bunkers, e.g. double or triple payments
- BIMCO terms on bunkers are affecting the market
- The trust is low – who can you rely on?
- Contracts are renegotiated
THE INDUSTRY IN 2016

• Freight rates are historically low
• +80% currently has a deficit on operations
• All segments are affected; no "blue oceans"
• Increasing demand in regards to environment increases the pressure
• Double or triple payments after the OW and Bunkers Int. collapses became reality for many shipowners
• Supply and demand in tonnage is not in balance
• Increase in tonnage in the years to come will increase this
• New players who are not obstructed by old debts and expensive ships are entering the scene
THE INDUSTRY IN 2016

... and credit is still granted!
Clients are looking for a guarantee for security and protection from surprises to a greater extent
Questions in regards to suppliers’ business model
  • What is the difference?
  • Pledging
  • Our industry suffers from bad reputation
  • What actually caused the collapse of OW?
  • BIMCO Bunker non-lien clause and the consequences of same
  • Outlook second half 2016
  • Hope on the horizon
TRADERS, BROKERS & PHYSICAL...

• ...are only headlines – there are may things that differentiates each company
• It is impossible to say on headline level what lies beneath

• One example: Pledging!
TRADERS & PHYSICAL

- Trader 1: Financed against pledging of invoices
- Trader 2: Financed without collateral
- Physical 1: Financed against pledging of invoices
- Physical 2: Financed without collateral
What does it mean to ‘pledge’ your invoices to a bank?
• The bank has security in your invoices against the loans it gives to you.
• This is a form of collateral for the bank against the loan they provide to the company.

What does it mean to the buyers if the company goes into bankruptcy?
• It means that the bank(s) to which the invoices are pledged will demand payment from the buyer which the invoices are raised toward.
• It also means that the bankruptcy estate will claim for the same money separately from the buyer which the invoice(s) are raised toward.
• In other words, if a company has pledged their invoices to a bank, the customers of the company are exposed to a double claim if the company goes bankrupt.
Bunker's International Files for Bankruptcy

Bunker industry haunted by banking ghost

It was a year ago after the collapse of Ocean Bunker, the global merchant marine's largest bunker fuel company, that the industry forced to deal with its fallout. The collapse of Ocean Bunker has cost millions of dollars in losses, forced hundreds of companies to restructure their operations, and left the industry reeling from the impact. This week, the company filed for bankruptcy, the latest in a series of industrywide scandals.

The collapse of Ocean Bunker has had a profound impact on the industry, with many companies struggling to survive. The industry has been forced to reevaluate its business practices and seek new ways to stay competitive. The filing for bankruptcy is a significant development, and it is likely to have far-reaching consequences for the industry.

The bankruptcy filing is just the latest in a series of scandals that have rocked the industry in recent years. The industry has been plagued by a series of financial problems, including widespread corruption and fraud.

The industry is facing a number of challenges, including increasing regulation and the emergence of new competitors. The bankruptcy filing is a wake-up call for the industry, and it is likely to lead to significant changes in the way that it does business.
IBIA Chairman calls on bunker industry to expose fraud

SUPPLIERS: There will be more whistleblower cases in the bunker industry going forward, projects new IBIA Chairman Robin Meech. More cases need to be exposed, he tells ShippingWatch and points to the top priorities for the international bunker industry.

BY KATRINE GRONWALD BAUN
Published 10.05.16 at 10:09

Robin Meech is an experienced figure in the international bunker industry – an industry where irregular practices, cheating, is an not an unexpected element of the business. And this needs to be eliminated or at least reduced, he says in an interview with ShippingWatch about a month after taking over as Chairman on the International Bunker Industry Association, IBIA.

In the coming years, the industry will likely see a new trend emerge, says Robin Meech when ShippingWatch meets him at a bunker conference in Copenhagen and just shortly before one of the key decisions is expected in the legal aftermath of the OW Bunker bankruptcy.

"We will see more cases involving whistleblowers, and I would like to encourage this. Suppliers need to be exposed, and perhaps this is something that IBIA should take up," says Robin Meech.

"More cases need to be brought to light, but it's very difficult to prove this type of fraud. Ultimately, one can't completely change human nature, but we have to develop some better instruments."

Some players in the sector are in effect trying to change these ethics, or the lack thereof, by introducing the use of mass flow meters. This technology measures how much fuel is transferred from the bunker barge to the receiving vessel, but this does not alter the attitude of certain employees in the sector, it just makes it more difficult to cheat, explains Robin Meech.

"I believe we have to curb this through elements such as training and education. It’s the long road, but it's important to create professionalism and a career path in our industry where there is a constant need for management," he says, stressing that IBIA does not only represent suppliers in the bunker industry but offers a balanced viewpoint.

Thrust suffered a setback

Following OW Bunker's surprise bankruptcy, the sector became more well-known in the common sphere beyond just the shipping industry. The aftermath continues in all parts of the world through court cases aimed at determining who can claim what, not least in terms of fuel delivered from OW Bunker.

Even though bunker volume fraud has been known for years, trust in the sector suffered a major setback after the collapse of OW Bunker, says Robin Meech. The many incidents have increased the distrust between buyer and seller, an element that was less pronounced before. On Wednesday, the UK Supreme Court will issue a verdict in one of the key cases in the OW Bunker legal aftermath.

"Now comes the OW verdict all carriers are waiting for.

May will also see the beginning of another case in the bunker sector, namely against a Danish bunker supplier accused of severe fraud, with criminal charges filed against the company and several of its senior executives. The already challenged trust could suffer another setback following this case should the company be found to be guilty, says Meech.

Robin Meech has been in the industry for decades as head of independent consulting firm Marine and Energy Consulting, which works with the transport sector and the bunker industry in particular. Among other things, he and others have played a part as consultants in relation to the sale of Danish and Singapore based companies. Major oil companies, the largest ship operators and the testing companies are also included in the consultant’s client portfolio.

A little over a month ago he took over as the new Chairman of the International Bunker Industry Association, IBIA. Robin Meech succeeded Denmark's Jens Madsen, who works at Oldendorff and who has spent the past two years fighting for, among other things, increased bunker quality.

Ethical problems

There is no doubt that the bunker industry is facing an ethics problem, says Robin Meech. A fact that was further illustrated by a recent survey among the association’s members, as 94 percent of the members stated that ethical behavior and standards have become a top priority. Robin Meech elaborates:

"We know that some of the biggest shipowners budget with having up to two percent less fuel delivered. If they are to take delivery of 100 ton, they get 98 ton. So how do you improve ethics? We can’t ignore the industry’s poor reputation any longer. Cheating is acceptable as a way to remain competitive," he says, pointing to the tiny margins in the bunker industry.

Under-delivery is even systematized. Robin Meech points to a company at which the CEO, according to him, openly talked about the company’s policies, which stated that it was not allowed to under-deliver more than one fourth of a percentage. According to Meech some might consider this an ethical company.

"And this does not just apply to volumes, it concerns quality as well. For instance, one can dilute the bunker with water and remain within spec. So, yes, we need to change that."
WHAT CAUSED THE OW COLLAPSE?

• Two major events:

1) Speculation in papers without any business to support same
   • +1 million tonnes only against a belief in the market development

2) Exceeding credit limits to Tankoil with USD 125 millions
   • Did focus on growth make OW blind for risks…?
SUPPLIERS IN 2016

- The insecurity hit like a tsunami
- However, the collapse in November 2014 created a tsunami with several repercussions with both winners and losers
- In the wake of the bankruptcy of OW Bunkers, smaller players followed

Wiljo
(1946 - 2015)

OW Bunker
(1980 - 2014)

Bunker Intl.

Who will be next?
SUPPLIER IN 2016

- The consequences are:
  - More caution on the bunker market
  - Fear of having to pay the same invoice two or three times
  - The trust was gone
  - Everyone was looking at everyone
  - Credit lines were suspended
  - The risk of overreacting is high
BUT: OUR POINT OF VIEW

- We are supplying a product which is indispensable for a vessel to move
- As part of the service, bunker traders are granting credit, i.a. due to the possibility of making potential claims
- Often the oil has been used after 2-3 weeks… before the invoice is actually due
- We are in a very small margin business with a great risk
BIMCO Bunker Non-Lien Clause for Time Charter Parties (27.11.2014)

(a) The Charterers will not directly or indirectly suffer, nor permit to be continued, any lien, any encumbrance, or any rights of any kind whatsoever over the Vessel in respect of the supply of bunkers.

(b) The Charterers shall:

(i) prior to ordering any bunkers for the Vessel inform the sellers of the bunkers in writing (the "Non-Lien Notice") that the bunkers to be supplied to the Vessel are solely for the Charterers’ account, and that neither the Vessel, the Owners nor the Master is a party to the bunker supply contract and no lien, encumbrance or any rights shall arise on the Vessel; and

(ii) after ordering bunkers inform the Owners in writing of the name and contact details of the sellers of the bunkers and, if the Owners so request, provide Owners with a copy of the Non-Lien Notice.

(c) If the Charterers fail to comply with sub-clause (b)(ii), the Master shall be entitled to refuse to allow the bunkers to be supplied to the Vessel and if the Master so refuses hire shall continue to accrue and any extra expenses arising out of or in connection with such refusal shall be for the Charterers’ account.

(d) If in compliance with any of the provisions of this Clause, anything is done or not done, such shall not be deemed a deviation, but shall be considered as due fulfillment of this Charter Party by the Owners.

(e) As soon as possible after the due date of payment for bunkers for each supply made during the charter period, the Charterers shall provide the Owners with written evidence or acknowledgement of payment from the bunker sellers.

(f) The Charterers shall procure that this Clause shall be incorporated into all sub-time charters.

FACTS:

- BIMCO Bunker clause 2015 is independent of this clause
- It was started by P&I Club before OW collapse
- Increased protection of the shipowners
- Not a direct consequence of the OW collapse… however, the timing is good!
BIMCO

- No right to arrest in case of non-payment for the bunkers will change the present business model
- 80% will be met by requirements of:
  - C.I.A.
  - L.C.
  - Freight assignment
  - Guarantee
- What economical effect does this have?
- How does this put the buyers in terms of competition?
- Can the industry work without the financing from the suppliers?
ALTERNATIVE SOLUTIONS

• Why do the shipowners not just ask for documentation for payment of bunkers e.g. after 40 days in their charter party?
• Or why is bunker purchasing not something which the shipowner is in charge of in a TC contract, if possible via Bunker Management?
• The responsibility of the choice of charter is the owner’s choice
• TC is paid in advance to lower risk
• Does this release the owner from any further responsibility?
• Bunkers are today being traded on credit – lots of credit
OUR POINT OF VIEW:

- USD 10-20 billion are today financed by bunker companies worldwide
- Can the buyers overcome this financing themselves?

- OR is the bunker industry an indispensable part of running a shipping company in 2016?

YES!
POSSIBILITIES / CHALLENGES POST OW

- Possibilities:
  - Natural acquisition of clients and contracts after OW Bunker’s collapse
  - New experienced employees
  - New ways of looking at the market
  - Less competition

- Challenges:
  - Less trust in the market
  - Poor credit terms
  - Increasing distrust in the system
  - Challenges in terms of trust
OUTLOOK SECOND HALF OF 2016

- Oil Price: Stable +USD 50/barrel
- Freight market: Low
- Credit availability: Down
- Counterpart risk: Up

- Conclusion: Last half of 2016 will remain as challenging as we fear
• Oil prices have gone from USD 30/barrel to USD 50/barrel – this supports higher activity
• Chance that oil & gas projects are being activated, increase activity in the offshore sector
• Further consolidation will happen in all segments and parts of the business
• Modern fleets will increase overall effectiveness and ensure lower running cost to compensate for the low freight market
• We are getting used to this market level and are adapting to the present market
THANK YOU