

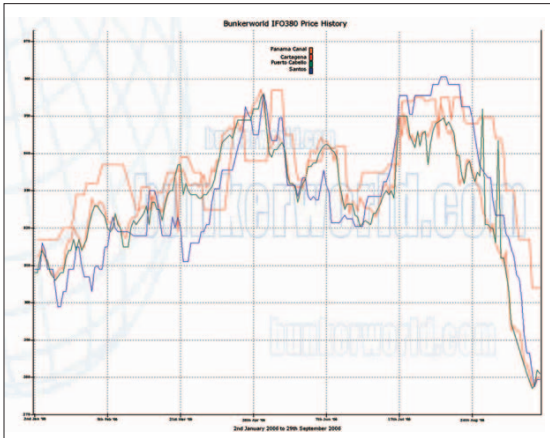
Brazil may open bunker market to new competitors

With high-quality fuel and good sources of supply, Brazil's bunker market has the potential to expand. But critics say that Petrobras' local monopoly is holding the market back.

Brazil's bunker market is widely regarded as a market that has enormous potential for expansion. Ports are expanding and shipping traffic is increasing, local bunker fuel is of a high quality with a low sulphur content, and there are good supplies from local refineries.

There are, however, a number of factors holding the market back from expansion, according to market insiders spoken to by *Bunkerworld*. One of those factors is the monopoly on supply currently enjoyed by Brazil's giant oil company Petrobras, even though the company would probably remain dominant in a competitive market.

Total bunker sales in Brazil's ports are estimated at 3.5 million metric tonnes (mt) annually (although there are estimates of 4 million mt), with a third of sales taking place in the port of Santos. Calculations have put the number of ship calls in all ports at 20,000 per year, but only around 7,000 are estimated to stem bunkers - and often only small parcels.



Competitive prices in 2006

"Brazil should be doing better," a market source told *Bunkerworld*. "Prices are competitive regionally and the quality is good."

Indeed, Santos often has bunker prices that are very competitive with regional ports such as Panama and key ports

in Colombia and Venezuela. Sometimes it will even give Houston a run for its money.

The problem, according to *Bunkerworld's* information, is product availability.

Bunker avails in the main Brazilian ports this year have been tight at certain times, with key grades often simply not available.

"Overall, avails are probably pretty good," a source explained. "But there is an unpredictability that makes it hard for buyers to plan, and to

ensure they can get large stems."

Fuel oil production in Brazil is estimated to be around 15 million mt annually, with 5 million mt used by local utilities and other users. This leaves 10 million mt for export or for the bunker market.

Surpluses are often exported, and this is commonly cited as a factor in the tight bunker avails situation in Brazil. But some market observers suspect that lack of bunkering infrastructure, particularly storage terminals and barges, is a more important reason for making Brazil at times an unreliable supplier for buyers wanting to rely on supply and timely delivery.

Petrobras Bunkering is the oil giant's bunkering arm, which has a virtual monopoly on supply. The monopoly is not preserved in law, but the company has access to supply sources from its parent company and also owns all the infrastructure, which would make the task of com-

peting suppliers very difficult.

The market has been characterised by some as unregulated, rather than regulated, with a lack of rules, transparency, and oversight helping to maintain Petrobras' monopoly position.

This may be about to change. Sources told *Bunkerworld* that the national oil agency Agencia Nacional do Petroleo (ANP), which regulates energy markets, is holding consultations with bunker industry players, including Petrobras, shipowners, wholesales, and at least four external bunker companies, to discuss regulations for the market that could allow new suppliers to start supply operations.

According to insiders, the main task of the regulations would be to ensure a transparent pricing process between Petrobras' refining and bunkering arms so that the the company as a whole was not able to price competitors out of the market.

"Access to supply would be the key factor for any supplier wanting to set up shop in Brazil," a market observer told *Bunkerworld*. "Without that, there wouldn't be any point anyone investing in new infrastructure."

Ironically, in a more competitive future market, observers expected that Petrobras Bunkering would have significant advantages as the company already has its supply source, terminal and barge infrastructure, and well-established market visibility.

While it is not yet clear what the outcome of the consultations led by ANP will be, some have suggested that changes could be put in place in 2007.

This could potentially allow new suppliers to enter the market as early as next year. This could, according to observers, see a big boost to Brazil's sales if buyers can rely on greater volumes of fuel being available on a regular basis in local ports. ■



Infrastructure needs to be expanded to boost supplies