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Welcome notes

I would like to welcome delegates to *Bunkerworld*'s New York 'Squeezing the bunker barrel' forum as well as regular readers to the *Bunkerworld* magazine.

There is arguably more risk potential and volatility facing bunker fuel sellers and buyers than ever before and this forum intends to look into why this new risk exposure has developed and understand how it might be anticipated and controlled.

In planning this forum and working closely with *Bunkerworld*'s editorial department it has been self-evident that the characteristics of marine fuel pricing have changed beyond recognition from ten, even five, years ago.

Prices used to be a reliable benchmark for a day, often a week, but today we see many major ports change immediately in reaction to global geopolitical events often completely unrelated to fundamentals affecting the market.

The element of control that traders and suppliers once enjoyed in terms of price quoting has gone as information has become more transparent.

What control the fuel purchaser had, has also been removed, as bunker fuel price volatility leaves event the shrewdest ship manager at the mercy of trends, investment patterns and high speed information providers.

Such is the extent of outside factors now affecting the market, analysts argue, that a jump in crude can lead to suppliers withdrawing prices and even stop quoting altogether until the impact on the crude oil price from becomes clear to the market.

The aptly-titled *Bunkerworld* Forum: 'Squeezing the bunker barrel', has attracted an array of expert speakers to discuss and debate risk management, market intelligence and fuel efficiency; in other words a means of mitigating risk and sustaining efficiency.

Welcome to New York

I would like thank all of our speakers, many of whom have travelled a long way to be with us this week. I would especially like to thank our sponsors for their support of this event.

Bunkerworld has strived to tailor its forums to the topical issues facing the marine fuel market and not stray from relevant and insightful issues - our sponsors support means that we can continue to look at raising the standard in this market through continued discussion and debate.

While I am on the subject of debate and discussion, there will be a number of opportunities for delegates to participate in Q&A at the New York forum. There is a 15 minute Q&A allowance for Thursday's sessions, with that expanding for our specialist panels on Friday to 45 minutes.

If you have questions to put to any particular speaker, please fill-out Q&A form at the Help Desk and it will be used in the relevant session - time allowing.

Lastly, it is my pleasure to introduce Gerry Bushey, our chairperson for the forum. Gerry is a unique breed; he has both bought and sold bunker fuel and so can offer us a rare insight into what makes both buyer and seller tick.

Gerry is currently Manager of Fuel Purchasing at General Maritime Corp. - based here in New York. We are delighted he has agreed to chair the forum. ■

Event Director

The highs and lows of bunker pricing

Bunker prices rose on average 60% in 2005, and 2006 saw record highs achieved in bullish markets. *Bunkerworld's* Guy Wilson-Roberts reports on the impact on shipowners of these spiraling costs.

The numbers tell the story. As can be seen from the graph on this page, key fuel oil bunker grade IFO380 opened 2005 at around $140 per metric tonne (pmt) in Rotterdam. After peaking at $300 pmt during the year, early 2006 saw the price hit nearly $340 pmt, before dropping to just under $290 pmt in September.

At the minimum, a 100% increase in fuel costs over the last 18 months, and at times an even higher figure.

The impact on shipowners this year has been profound, with a succession of companies reporting on the effect of such price increases on their accounting bottom lines.

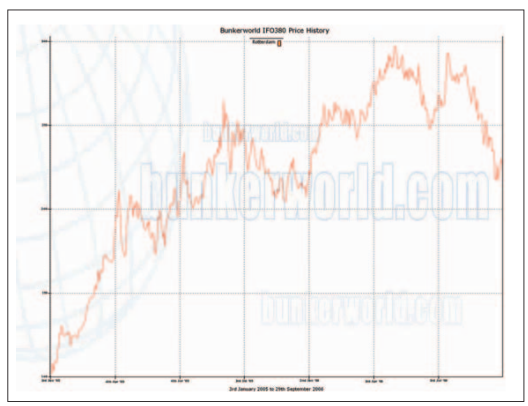
In May, Japanese shipping giant NYK reported lower profits due to fuel costs with the bunker bill having shaved $242 million off its profit, according to the company.

Taiwan's Evergreen saw a second quarter loss this year as the company was caught between rising fuel costs and falling freight rates. China Cosco Holding, China's largest shipping line, suffered a similar pinch when its fuel bill rose 70% in the first half of 2006.

Danish shipowner A.P. Moller-Maersk saw a $607 million loss from its container arm, Maersk Line, for the first half of the year, which was attributed to a variety of factors including a 50% rise in bunker costs.

It has not just been container and cargo lines that have felt the impact.

In July, cruise ship company Royal Caribbean blamed a 21% fall in second quarter profits on an average 36% increase in fuel costs while Carnival Corp., the world's largest cruise provider ahead of Royal Caribbean, reported a 43% increase in fuel costs for its second quarter and a $74 million reduction in profit for the period.



Rotterdam: 18 months' price history

In a statement to *Bunkerworld* last month, Maersk Line summed up the impact of rising fuel prices as follows: "The price rise in bunkers over the past 18 months is a serious concern as it has added significantly to our cost base both for ship bunker fuel and for all intermodal costs."

Smaller shipowners have also felt the effects. "Fuel prices are a subject of concern for virtually everyone today," senior vice-president of California-based Matson Navigation Co., Dave Hoppes, said earlier this year. "With bunker fuel prices hitting unprecedented record highs, transportation companies have been particularly negatively impacted."

Shipowners have responded to ballooning fuel bills with a variety of cost-cutting measures, which have included lower vessel speeds and adding new ships to service routes to allow more efficient scheduling. Also used have been fuel surcharges, added on a per container or cargo unit basis to recoup increased costs.

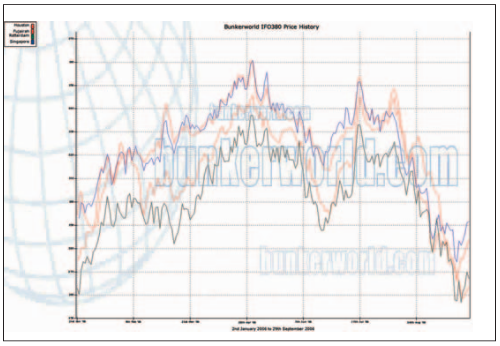
"The most effective way to deal with this situation is to pass the costs on to the customer through variable charges such as surcharges," Maersk Line told *Bunkerworld*.

Matson Navigation's surcharge system provides an interesting window into the calculation process for shipowners. On its trans-Pacific service the company raised its surcharge to 15% in

January, to 18.5% in April, then to 21.25% in June - following a 16% rise in fuel costs for that month alone, according to the company.

"With the current world situation, we need to have the flexibility to respond to steep fluctuations in bunker fuel prices as merited. We will continue to monitor fuel prices and make adjustments, upward or downward, accordingly," Dave Hoppes said at the time.

Shipowners have seen surcharges as a means to track changes in fuel rates. "This solution provides transparency to our customers and allows the rates to fluctuate up or down as the prices of fuel change," Maersk Line explained to *Bunkerworld*.



Major bunkering ports in 2006

Indeed, lower bunker prices seen over the past few months have allowed surcharges to come down. Matson Navigation cut its rate by 1.5% in September then by a further 1% in October, while the Europe Canary Islands Conference (ECIC) dropped its rate by 5.35% in September.

The Trans-Atlantic Conference Agreement (TACA), which includes lines such as Maersk Line, NYK, and OOCL, announced a reduction in its Bunker Adjustment Factor (BAF) in October. The reduction included the BAF being cut to $395 for a twenty-foot container in US East and Gulf Coast ports from $467, and down to $593 from $700 for Pacific Coast ports.

While lower fuel prices have allowed additional charges to come down, the impact of fuel price movements on profits and losses for shipowners remains a complicated process. Shipowner sources spoken to by *Bunkerworld* said that surcharges have been useful, but have not always been able to keep up with rapid fuel price increases.

But while costs are a key factor, so are freight rates - the ability of ships to generate income. "We've been caught between rising fuel costs and falling freight rates this year," a source told *Bunkerworld*.

Maersk Line, for example, reported an average decrease in freight rates of 5% for the first half of 2006, as well as a slowing down of overall trade growth.

Which is why, with fuel costs, surcharges, and freight rates all thrown into the mix, shipowners' wider views on the seriousness of bunker fuel prices are mixed.

"It's a cost of doing business," T.L. Garrett from industry association the Pacific Merchant Shipping Association (PMSA) told *Bunkerworld*. "We're not getting a lot of feedback from members expressing real concern over prices."

Sources spoken to by *Bunkerworld* suggested that freight rates in the future, which were related to capacity issues in the world's shipping fleet, as well as demand for shipping based on economic growth in key exporting and importing countries, were all part of a much larger picture that would determine bottom-line results for shipowners at the end of 2006.

But with bunker costs as an overall percentage of operating costs rising for shipowners, sources said that prices were still an important factor. And with crude and bunker markets seeing increased volatility and record prices in many ports this year, future prices were very much the case of gazing into a crystal ball.

One shipowner, however, has made a prediction. In its forward outlook for the final quarter of 2006, cruise operator Carnival Corp. was expecting some consistency in bunker prices: "The company's cost guidance for fuel is based on recent forward prices for the balance of the year which are in line with the average prices for the fourth quarter of 2005."

This would put the price of popular grade IFO380 between $240 and $290 (pmt) in Rotterdam, a similar level to where it was at the time of publication. ■

Session 1 of the Squeezing the Bunker Barrel features Bill Rooney from Hanjin Shipping (Americas) presenting on the effect of fuel prices on the shipping sector, as well as Xavier Cronin from Platts on rising bunker prices.

High-viscosity fuels save buyers big money

Higher-viscosity bunker fuels at cheaper prices are becoming popular with buyers who have been increasingly under pressure from high fuel costs this year.

Market figures for bunker sales in August in Singapore showed a 20% increase from the previous month, up to 265,000 metric tonnes (mt), for IFO500 cst (500 cst), or just over 10% of the 2.5 million mt in monthly sales.

In Hong Kong, BP joined ExxonMobil Marine Fuels (EMMF) in July in offering the grade on a trial basis, according to market sources.

Brazilian supplier Petrobras Bunkering recently boosted its supplies of high-viscosity IFO420, 500, 600 and 700 grades in the port of Rio Grande due to increased customer demand.

Petrobras typically indicates that IFO500 is around $7 cheaper per metric tonne than IFO380 and IFO700 at $16 pmt cheaper, a substantial potential saving for buyers taking large stems.

Earlier this year, *Bunkerworld* reported that IFO500 was gaining popularity in US markets, particularly in container ports where newer container ships were able to burn the 'rougher' fuel grade.

Sources told *Bunkerworld* that enquiries for IFO500 were around 15% of the market in New York and closer to 20% in Los Angeles and Long Beach.

San Francisco has also seen a number of large stems sold. On one day in September, for example, a major supplier sold stems to four Maersk Line ships of IFO500 and IFO700 in quantities from 1,800 to 4,000 mt. Prices were lower by $7-11 pmt compared to IFO380, according to sources, so a 4,000 mt stem would have saved the shipowner $28-44,000.

Maersk has been a big buyer of high-viscosity fuels

"500 cst has commercial advantages for shipowners and operators because it is less costly to produce than lighter grades of fuel oil, yet the quality and energy values are largely unchanged in comparison with the more traditionally used products," EMMF technical manager in the UK, Steve Walker, told *Bunkerworld* earlier this year.

"The higher viscosity handling issues are more than offset by the savings," Walker said.

The Maersk ships taking the stems included two recent container newbuilds, the *Karen Maersk* and the *Maersk Gairloch*.

The 318-metre, Post-Panmax *Karen Maersk* was built in 1996, with a 6,000-TEU capacity and a Mitsui B&W engine and on a trans-Pacific sailing schedule including San Francisco and Los Angeles/Long Beach across to Yantian and Kaohsiung; the 292-metre Panmax *Maersk Gairloch* was built in 2003, with a 4,300-TEU capacity and a MAN B&W engine with a similar West Coast schedule but calling at Shanghai and Ningbo.

Offsetting the savings for fuel oil grades, however, was the announcement by Maersk in May this year that its container ships would switch to distillate fuel grades in main and auxiliary engines when in California waters.

"There is an additional cost ranging from $2-3 million per year," a spokesperson for the company told *Bunkerworld* at the time.

Maersk said that from July this year, all 35 of its trans-Pacific ships calling in California ports would switch to 0.2% sulphur marine gasoil as part of the environmental measure.

Despite increasing interest in the higher-viscosity grades, however, conventional grades still remain the most popular choice for buyers. Singapore's August figures showed that IFO380 was 70% of all marine fuel sales, including distillates. ■

Bunker buyers moving away from spot market

Oil price volatility is forcing shipowners to rethink their bunker buying strategies, according to the head of World Fuel Services (WFS).

Paul Stebbins, Chairman and Chief Executive Officer of the global marine and aviation fuel marketing company, said managing fuel costs was no longer an operational concern for the shipping community, rather a strategic concern.

"With the changes in the market, the shipping community has to take a far more strategic approach in their procurement," Stebbins said in a recent media interview.

He said that with prices moving all the time, ship operators found it hard to get a clear view of what was going on.

Stebbins had earlier told delegates at the Singapore International Bunkering Conference (SIBCON) 2006 that shipowners recognised they were exposed to significant bunker price risk.

Because of the tremendous oil price volatility, he said, the market was moving away from the traditional, spot-oriented, style of bunker procurement.

He added that although bunker prices had softened in the weeks preceding SIBCON, the falls had not kept pace with weakening freight rates.

Stebbins calculated that 380 centistoke (cst) bunker material in Rotterdam had averaged about $305 per metric tonne this year, 30% higher than last year and double the average price 2004. ■

WFS's Wade DeClaris, Vice President of Business Development, will feature at Session 4 of the Bunkerworld Forum, Squeezing the Bunker Barrel, with a presentation entitled: 'Negating high costs and volatility: Shifts and patterns in fuel procurement strategies.'