

# Aggressive strategy brews price war in China's bunker market

In a rare interview with Bunkerworld, Brightway's Chairman & President Raymond Sit reveals the company's aggressive expansion plans, including key developments in Shanghai Port, launching an IPO in Hong Kong and turning physical in Singapore.



Raymond Sit Kwong Lam, Chairman & President of Brightway.

A price war is brewing in China's bonded bunker fuel market with the entry of one of the largest privately-owned petroleum companies in southern China.

Brightway Petroleum Group (Holdings) Co Ltd, currently selling bunker fuel in the Shenzhen Port region, has already been quoting prices competitive to its neighbouring port of Hong Kong.

With future expansion plans into Shanghai, the independent Chinese firm is aiming to sell bunker fuel at international prices that would be cheaper than the posted prices quoted by state-owned bunker supplier Chimbusco.

## Chimbusco has 'no special monopoly'

"Our plan in the very near future is to bring our bunkering services to Yangshan port in

Shanghai, and the ports of Ningbo and Zhoushan, to cater to our customers' requirements," said Raymond Sit Kwong Lam, Chairman & President of Brightway.

Apart from the ports mentioned above, Brightway's ambition is also to expand its bunkering services to all other ports in China by the end of next year, said Sit.

The chain of bunkering services to be established would provide 'customer convenience' as ships will be able to buy from various locations along China's east coast, he pointed out.

In Shanghai, Brightway has secured a lease for a 60,000-tonne of oil storage capacity, while exploring the option of building its own terminal.

"With our experience, building an oil terminal is not a problem," Sit explained. "We'll look at the level of bunker demand before making a final decision."

Brightway's future entry into Shanghai

clearly indicates it is in outright competition with monopoly bunker supplier Chimbusco.

State-owned Chimbusco currently supplies about 95% of China's annual bonded bunker sales volume.

"Chimbusco has no special monopoly," said Sit. "Now we're just going through the normal administrative procedures to set up business in all other Chinese ports."

With more bunkering ports of service in the pipeline, Brightway is targeting to sell 3.5-4 million metric tonnes (mt) of bunker products from 2008 onwards.

This year, Brightway is expected to post slightly over 1 million mt of bunker sales.

"Chimbusco has no competitor to-date, so China's bunker sales volume has been stifled," Sit pointed out. "With our booming Shenzhen Port bunker activities, the country's bunker sales volume will definitely increase."

Chimbusco posted 1.7 million mt of bonded bunker sales from January to June this year, a 19% year-on-year increase.

Sources familiar with the Chinese bunker market have estimated bonded bunker sales in 2006 to hit about 3 million mt.

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China's bunker sales volume has lagged behind its neighbouring Asian ports of Hong Kong and South Korea, which moved about 6 million mt and 10 million mt each year respectively.

Sit said that China's low bunker sales volume is because shipowners are "not used to buying in China as they have no prior experience about the services being offered."

He explained that high bunker prices set by Chimbusco and the underdeveloped image of Chinese ports have resulted in bunker buyers turning away from China.

Brightway is aiming to offer spot bunker prices in other Chinese ports at levels similar to those quoted in Shenzhen.

Prices at current levels quoted by Brightway would give it a competitive edge compared to Chimbusco's posted prices.

"With Shanghai set to become the world's number one container port, and Yantian as the world's number four, growing bunker sales volume is definite," he said.

"If there are no credible bunker services in line with port growth, shipowners will not find Chinese ports convenient. Our next step of development is precisely to address this customer need and credibility for China."

### IPO in Hong Kong

As well as aggressively expanding into other Chinese ports, Brightway is also planning to launch an Initial Public Offering (IPO) in Hong Kong some time in 2008.

"Both the Shanghai Port expansion plan

and going IPO will be carried out hand-in-hand," said Sit.

Hong Kong is the preferred location for Brightway's listing because the territory is financially mature with a sound legal system in place, he said, and the territory's strong economy and active bunker fuel trading market are plus points for an IPO launch.

Sit, who owns 100% of Brightway, intends to release 10% of his company shares to strategic partners and about 30% to an IPO, but preferred not to reveal further details about the dealings with strategic partners at this stage.

"We will have more concrete details once our year-end revenue and profit are out," he said.

The company, which has \$1.3 billion in assets, prefers not to reveal its financial performance.

Sit is also a member of The National Committee of The Chinese People's Political Consultative Conference.

### New 6,300 dwt double-hulls

In Shenzhen Port, where Brightoil first started as the area's exclusive international duty-free supplier of marine fuel products, buyers are able to buy 380 centistoke (cst) bunker material at prices competitive to Hong Kong.

Brightoil Petrochemicals Co Ltd is a wholly-owned subsidiary and bunkering

arm of Brightway and the three bunker ports of service by Brightoil in Shenzhen Port are Chiwan, Shekou, and Yantian.

The average monthly price for Hong Kong 380 cst in June was recorded at \$367 per metric tonne (pmt), higher than Shenzhen Port price at \$364.50 pmt, according to *Bunkerworld* data.

In July, the average price for Hong Kong 380 cst was pegged at \$396 pmt, still showing higher values compared to Shenzhen Port price at \$394 pmt.

Brightoil is also able to offer high-viscosity 500 cst upon customer request.

It currently operates six bunker tankers and is awaiting another two double-hulled vessels before the end of this year.

"We're building another 10 double-hulled bunker tankers for delivery over the next two years," said Sit.

All of the bunker tankers will be 6,300 deadweight tonnes (dwt) in size and will be built in China with equipment parts imported from abroad.

In Dapeng Bay in Shenzhen, it owns and runs oil depots for petroleum products with a total capacity of 400,000 cubic metres (m<sup>3</sup>), with 200,000 m<sup>3</sup> set aside for bonded storage for marine bunkering.

An additional 600,000 m<sup>3</sup> is planned by 2008, bringing its total oil storage capacity to 1 million m<sup>3</sup>.

### Singapore developments

"Our Singapore office will aid us in

achieving bunker sales of 3 million mt next year," said Sit.

Brightway had opened its Singapore branch in December last year, and has been actively recruiting experienced bunker players from the industry for its new marketing office.

The Chinese firm is also interested to invest in building oil storage terminals in the island-state, the world's largest bunkering market.

"Singapore still holds a lot of potential in being the leader of bunkering," Sit explained. "We're constantly searching for opportunities to become a physical supplier in Singapore."

Apart from being especially interested in terminal projects, Brightway is also prepared to deploy its bunker tankers in Singapore.

Sit saw precedent for involvement, such as the joint venture between China's PetroChina and Singapore bunker supplier Hin Leong Trading in building a 2.3 million m<sup>3</sup> Universal Terminal on Singapore's Jurong Island.

In other areas of development, Brightway has ambitious plans to import fuel oil cargoes from the Middle East or Europe directly to Shenzhen.

"We intend to start this area of business in August this year," he said, and the company intends to charter instead of buying VLCCs for the fuel oil transportation. ■



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**Port Of Services / Locations**  
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**Products**  
Gasoil  
MFO Cst 180  
MFO Cst 380

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