

# Closing windows, opening doors for fuel oil trades

Despite complaints about Platts' market-on-close methodology, an alternative fuel oil index from Argus has done little to change trading patterns. Bunkerworld's Unni Einemo finds out why.

**A**n alternative pricing service for the Rotterdam fuel oil barge trade appears to have had a limited impact on the way fuel oil and bunker traders do business in Rotterdam, even if many have been expressing continued frustration with the Market-on-Close (MOC) methodology adopted by dominant price benchmark provider Platts.

The Argus Fuel Oil Bulletin Board (AFOBB) was introduced by Argus Media at the beginning of 2007 in response to industry requests for an alternative index to fuel oil pricing in Rotterdam.

In April 2003, Platts ceased to routinely report and include barge trades done during the day and moved its European barge market trading system to a single MOC price assessment.

While Platts closed the window on day-time trades for its Rotterdam fuel oil price assessment, Argus decided to open the door for two daily trading assessment periods and a different methodology.

The AFOBB is used to calculate a daily volume-weighted average (VWA) index for Rotterdam fuel oil barges, reflecting the average of trades concluded between 11:00-11:30 UK time and 15:45-16:45 UK time.

The AFOBB reports bids, offers and trades all day, but will report information during the two half-hour assessment windows "in a speedy and expedited manner," Peter Caddy, Business Development Director at Argus told *Bunkerworld*.

Initial market feedback for the Argus alternative to Platts for pricing fuel oil was promising, with some describing a 'groundswell' of support.

With not one, but two, daily trade assessment periods, the AFOBB seemed particularly suited to the needs of bunker market operators in Rotterdam. Many saw the launch of it as an opportunity for some of the big players that had been unhappy with Platts to stop using the dominant pricing benchmark.

But by early May this year, sources active in the Rotterdam bunker market told *Bunkerworld* that the AFOBB had long since stopped reporting trades in the 11:00-11:30 time window, and that even the most die-hard Platts critics had returned to the Platts MOC trading platform.

The lack of activity during the midday trade assessment window seemed particularly disappointing given its potential relevance for the bunker market.

Despite these observations, Argus reported record activity on May 11 this year, when 170,000 metric tonnes of high-sulphur fuel oil (HSFO) barge deals were



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submitted by traders from more than 20 companies.

Although the AFOBB has two sessions for market participants to report fuel oil barge deals, Caddy said that, in practice, it turned out the massive majority of deals were reported in the afternoon.

"I think people get used to certain markets operating in certain ways," Caddy replied when asked about the lack of trade during the first of the two AFOBB sessions, adding that "if people are happy to do that, then we cannot force them to change."

One market participant commented that the Rotterdam HSFO barge trade market continues to be led by a handful of trading "powerhouses", causing others to be nervous about committing to trades before the end-of-day session.

Caddy also noted that market participants "seem to be comfortable reporting deals in the afternoon."

According to Caddy, the two key features provided by the AFOBB service is market transparency as it makes bids and offers visible to users, and the volume-weighted average (VWA) index for the Rotterdam HSFO barge market.

"The element people really seem to like is the volume-weighted average," Caddy said. "What they want from the AFOBB is the ability to see a robust price index being generated."

"The AFOBB does that very well," he

said, pointing to a daily average of about 40 transactions and 200 entries (bids, offers and deals) posted on the system.

Some bunker market participants have singled out the lack of trade in the earlier of the two AFOBB windows as a sign that Argus is losing ground against dominant pricing service Platts.

But Caddy said it didn't really make any difference to the AFOBB's ability to produce a solid and transparent VWA index in a way that sets it apart from the Platts MOC methodology.

"The intent was to provide a price index that market participants can use in third party contracts," he told *Bunkerworld*.

Jorge Montepeque, Global Director of Market Reporting at Platts, told *Bunkerworld* that the decisions of when, with whom to trade, and how to benchmark those transactions are always the decisions of the market participants.

There have been complaints that by pushing trading activity to the end of the day, the Platts fuel oil pricing service provides no direction for bunker sales during the day.

In response to that, he said any deal information supplied to Platts during the day can be found in the news on Platts Global Alert and other news pages.

Moreover, critics have argued that the MOC-methodology, "due to the narrow

assessment window at the end of the day, has made the benchmark price more open to manipulation.

"Because we respect the faith that our customers have placed in us, we have some of the most rigorous quality protocols in the price reporting industry to ensure that we produce the most independent, most impartial, most market-reflective prices available," Montepeque said.

"To maintain the integrity of our prices, we reserve the right to omit any information that does not live up to our quality protocols.

"From time to time, we receive information that is 'outside' the prevailing market and which does not meet our guidelines of 'repeatability', 'executability', 'incremental step' or other factors. When this occurs, such information is omitted from the Platts daily price assessment and the individual or company supplying the information is notified of this fact and the reasons why," he explained.

It seems unlikely that Platts will move away from the MOC methodology.

"After much research and experience, Platts has determined that MOC is the best methodology for securing the best market-reflective price in the physical oil market because it does not distort as averages and volume-weighted and other

assessment methodologies can, especially in terms of intra-market and other commodity to commodity spreads. MOC is based on the fact that price is a function of time," Montepeque observed.

He concluded: "While historically, we had used other methods in oil; our experience has shown that MOC in the oil marketplace produces the most reliable market-reflective price."

So what is the market verdict?

Bunker market players have noted that while the AFOBB continues to be a good information source for trading activity, its importance in the market will remain limited as long as most companies continue to price off Platts.

Argus "missed a window of opportunity" by not launching its alternative platform two years ago, when negative sentiment about Platts' new MOC methodology was still riding high, one bunker supplier told *Bunkerworld*.

By now, the whole market has adapted to the MOC pricing methodology, he said, as witnessed by the lack of barge trade during the daytime price assessment window on the AFOBB.

The success of the new Argus fuel oil benchmark will only really be known toward the end of the year when 2008 contracts are negotiated, according to Caddy.

Only then will it become apparent if the market is ready to make use of the Argus Rotterdam fuel oil price benchmark as an alternative to Platts. ■

## Rotterdam congestion highlights supply chain control

One of Rotterdam's leading bunker suppliers says the only way to guarantee timely bunker deliveries to end users in the port is for a supplier to have full control of the bunker supply chain.

"The recent reports on barge congestion in the Rotterdam bunker market highlights the issues of dealing with 'suppliers' who do not fully control the supply chain," Adrian Tolson, Chemoil Corporation's Vice President, Sales and Marketing, told *Bunkerworld*.

"When the 'chain' breaks down at any point, such as the current issues with the long waiting times for loading barges from third party RMG 380 tanks at the Vopak terminal, it is inevitable that problems will occur, leaving customers dissatisfied," he commented.

Loading delays at Royal Vopak's Europoort terminal has been a recurring theme in the Rotterdam bunker market, and June this year saw particularly acute problems.

Some players estimate that more than half the material loaded into bunker barges in the Amsterdam-Rotterdam-Antwerp (ARA) bunker hub comes from this terminal, where fuel oil traders lease tank space.

Loading delays of up to a week were

reported at the Europoort terminal in early June, with congestion subsequently said to have spread to other loading terminals for bunkers.

Bunker players who depend on the terminal to meet their supply obligations largely blame the traders leasing storage space for over-selling and then not meeting agreed loading dates. Some have also criticised the terminal operator.

Royal Vopak told *Bunkerworld* that it was reviewing loading rules at Europoort.

Unpredictable loading times can ultimately cause a barge to miss pre-arranged bunker delivery times to ships.

"But these issues can be avoided if customers work with suppliers that have their own physical assets including controlling their own oil in their own tanks as part of a global supply chain. This way the physical delivery and quality of fuel supply can be guaranteed at all times, with no reliance on the performance of third parties," Tolson observed.

"Going forward, this issue will become even more critical with the increase in demand for low-sulphur fuel oil. Some suppliers market themselves as being able to supply LSFO, even though they truly act as traders with no direct

physical control over the fuel itself. In doing so they will not only jeopardise the supply of the product, they will also potentially compromise the quality," he continued.

Chemoil, Frisol, and Petroval are among the independent bunker suppliers in Rotterdam who currently control their own bunker fuel storage, while several long-standing operators in the port rely on the so-called Rotterdam barge market to obtain their product cargoes.

Both suppliers with storage, and those without, participate in the Rotterdam barge trade, as well as a number of international fuel oil cargo traders using Rotterdam as a hub. Loading congestion tends to worsen whenever a large cargo trader is in the middle of discharging or loading large volumes.

One player involved in the barge market told *Bunkerworld* last week that the loading delays were really hitting the bunker industry and were damaging the port's reputation.

"If 'delays are damaging the good name of Rotterdam', customers should ask what is the root cause of the delays and why are some 'suppliers' not able to deliver on what they promise," Tolson concluded. ■

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