

# Bunker firms face credit woes in South Korea

**South Korean oil refiners are turning away from the country's marine fuel market to focus on the export market, resulting in a squeeze in credit lines being offered to bunker trading firms. Lee Hong Liang finds out why the country's bunker sales volume also hinges on the direction taken by the refiners.**

Opening credit lines with South Korean oil refineries has proven to be the biggest challenge for international bunker trading firms trying to establish a foothold in the market.

This year alone, three international bunker trading firms have established offices in the country: Chimbusco, Cockett Marine, and O.W. Bunker.

Bomin also has a representative office that is negotiating with the local refiners for credit lines to operate as a trading house out of Korea.

## Credits from refiners

"It is very difficult to get credit from Korean refineries," a Korea-based bunker trader told Bunkerworld.

Another Korean source commented: "Even those international trading firms who have a bank guarantee may still not be given credit by the refineries."

Trading firms who fail to secure credits from the refiners will have to go through the local suppliers to trade their volumes, the source said.

The latest entrant, O.W. Bunker, is currently negotiating credit lines with local oil refiner GS Caltex.

Five oil refiners - GS Caltex, Hyundai Oil, Incheon Oil, SK Corp and S-Oil - are the suppliers of marine fuel to the local market.

Cockett Marine is also trying to get credit from the refiners, but a company official declined to reveal further details.

"It would be difficult because Korean refineries are now focusing more on producing and exporting higher quality fuel, away from pumping more bunker fuel products to local suppliers or international traders," the source said.

Chinese state-owned Chimbusco has managed to open credits with all five Korean refiners based on its strong capital assets and established reputation in the market.

"Due to Chimbusco being a big company, the refiners only need Chimbusco Beijing's guarantee letter to approve the credit lines," said a market player, who preferred to remain anonymous.

The Chimbusco office started operating as a trader in Korea from January 1 this year, primarily to service Cosco vessels.

Chimbusco Korea and World Fuel Services (WFS) both have credits with all five refiners, while others usually managed to work with only one or two.

The market player said Chimbusco Beijing has plans for its Korean office to develop as a physical supplier in future.

The prerequisite for a foreign firm to operate as a physical in Korea is to have onshore storage assets and bunker tankers.

## Bunker prices too high

Surging bunker prices in recent times have added to the woes of trading firms negotiating for credit lines.



South Korea's bunker market may see bunker sales volume shrink in the near future.

Credit ceilings given by the refiners are usually low even if the trading firms did managed to secure it.

With global bunker prices jumping to record high following crude oil prices, Bunker 380 centistoke (cst) bunker grade prices rallied to more than \$500 per metric tonne (pmt) in November.

The monthly average of Bunker 380 cst in September was pegged at \$404.50 pmt, before climbing about 10% to October's \$443.50 pmt, Bunkerworld data showed.

By November 9, the monthly average of 380 cst grade had soared 17% to \$517 pmt from October levels.

"This year, bunker prices are very, very high, making credit amounts very small," a Korean trader noted. "Credit amounts are always full for local traders, so there isn't enough to sell to other traders."

"This makes it ever more difficult for international traders to trade, unless the refiners decide to increase their credit line."

## Shrinking bunker market?

Korean oil refiners are sizing down their supply of bunker fuel products and expanding their output of higher-quality oil products for the more lucrative export market.

This would, in the near future, result in a fall in Korean bunker sales volume as the

local refiners reduce their output of high-sulphur fuel oil (HSFO).

"Korean refiners are changing their focus to concentrate on selling big amounts of cargoes for exports to other countries like China and Japan," a local source said.

This 'new policy' by the refiners has gradually taken place but a major change is expected by January 2008, he added.

Higher quality fuel such as low-sulphur fuel oil (LSFO) and marine gasoil (MGO) will be produced in larger quantities than rougher grades of marine fuel such as 380 cst.

"Big traders may even try to establish oil terminals for the purpose of working with the refiners to import and export cargoes," he said.

According to the Busan Customs House, bunker sales for Busan port were recorded at 5.27 million metric tonnes (mt).

Official statistics for 2006 bunker sales from the customs were not available yet, but the Busan Port Authority (BPA) estimated the port's bunker sales at 5.34 million mt, a marginal increase year-on-year.

The port authority remains optimistic on Busan's bunker sales, forecasting the figure to hit 5.5 million mt this year and 6.02 million mt in 2010.

Asked by Bunkerworld, local bunker players, however, are anticipating bunker

sales in the country to fall gradually in the long-run.

Busan accounts for slightly over 50% of total bunker sales in South Korea, which were estimated at about 10 million mt last year.

## SK Corp's new focus

South Korea's top refiner SK Corp is awaiting the coming online of its new desulphurising unit for it to process residual fuels into higher-value products, mainly gasoline.

By second-half 2008, more fuel oil parcels will be imported by the refiner to meet its commitments to produce higher-value products and meet demand from domestic bunker and industrial customers.

The new units will soak up about one-third of the refinery's fuel oil production, leaving about two-thirds for the domestic and international bunker fuel markets.

A source from SK Corp said bunker supply volume for foreign-going vessels is expected to fall as the refiner's focus shifts to the more profitable export market.

The move to import fuel oil, which is not a usual practice for Korean refiners, also hints that SK Corp wants to maintain its share in the bunker fuel market.

SK Corp currently produces about 1.12 million tonnes of fuel oil per year, of which about 34% is exported, mainly to China. ■