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Energy giant targets growth

As bunkering expands in Russian ports, new entry Gazpromneft Marine Bunker is looking for a 30% share of the market.

The Russian bunker market is continuing to expand as two impressively-resourced players maintain their drive into the sector. Russian energy giant Gazprom Neft announced in October last year that it was entering the bunker market. It established its bunker division, Gazpromneft Marine Bunker, in the first quarter of 2008.

"The main task set by the company is to develop its own port infrastructure," said a Gazpromneft Marine Bunker official, quoted by a Russian news service. The official specifically mentioned developing bunker terminals.

The company recently gave figures for its sales for the first six months of 2008. Gazpromneft Marine Bunker LLC Lid said it sold 260,000 mt of bunker fuel and marine lubricants from January to the end of June.

The 2010 target for its newly created bunkering arm is for annual sales of 1.6 million metric tonnes (mt) of marine fuel. A Gazpromneft Marine Bunker official, speaking to the Bunkerworld, said its longer-term aim was to have a 30% share of the Russian bunker market by 2020.

Consolidation

Gazpromneft Marine Bunker's own projections are that, by 2020, the Russian market will have grown from its current 8.4 million mt to some 15 million mt. A 30% share would give Gazpromneft Marine Bunker annual sales of 4.5 million mt.

Gazprom Neft is one of the two Russian oil majors that are in a position to transform the country's bunker market. Together with the bunkering division of the oil major Rosneft, Gazprom Neft holds key positions in the country's energy infrastructure.

Observers agree that the Russian oil giants have huge potential as bunker suppliers, given their access to pipelines



Gazpromneft very active in St. Petersburg.

storage facilities and, crucially, to product. If the companies come close to achieving their targets, say sources, smaller players will be squeezed to the margins.

"Some of the smaller players have already been leaving the market," the Gazpromneft Marine Bunker source told Bunkerworld and said that the new players could only grow their market share at the expense of existing operators.

"There will be consolidation," he predicted.

Gazpromneft Marine Bunker already supplies in major Russian ports including St. Petersburg, Primorsk, Murmansk, Kaliningrad and Vladivostok. The company is also looking at opportunities in southern Russia, including the Black Sea oil port of Novorossiysk.

The scale of Gazpromneft Marine Bunker ambitions were reflected in reports that it wants a 40% share of the Kaliningrad bunker market, and 20% share of the Murmansk market, by the end of the year.

St. Petersburg undercuts

Gazpromneft Marine Bunker's initial focus has been on St. Petersburg, Russia's largest bunker port. Players told Bunkerworld in June that Gazprom was "very active" in the port and that, together with Rosneft, had already made the market much more competitive.

Among other developments, Gazpromneft Marine Bunker was reported to have won a contract to supply fuel to cruise liners visiting the port.

St. Petersburg has seen a proliferation of suppliers in the last ten years, helping make it one of the most price competitive bunker ports in the world. Prices for 380 centistoke (cst) product in St. Petersburg were well over \$100 per mt below Rotterdam for much of June and July.

Prices were kept low by access to Russian fuel oil at refinery gate levels and by competition between the port's suppliers. Few players are prepared to predict, however, as to whether the port's

comparatively low prices would survive a period of consolidation among suppliers.

Low-sulphur fuels

Among its other advantages, Gazpromneft Marine Bunker is in a strong position to supply low-sulphur fuel oil to the bunker market. From its refinery in Omsk in Western Siberia it has access to straight-run residual product with a sulphur content below 1.5%, and even below 1%.

This is a vital consideration for any supplier in St. Petersburg as the port lies deep inside the world's first sulphur emission control area (SECA). The overwhelming bulk of Gazpromneft Marine Bunker's intermediate fuel oil (IFO) supplies in the port are of low sulphur product.

And as IMO regulations push the global market towards lower sulphur fuels, Gazpromneft is likely to find supply opportunities well beyond Russia. ■

Nick Jameson

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HORIZON TERMINALS

Horizon Singapore Terminals Pte Ltd
Tel: +65 6303 8200 Fax: +65 6303 8230
www.horizon-terminals.com

Russia - Black Sea Special

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Port profile: Arkhangelsk

Despite being one of the most northerly ports in the world, Russia's Arkhangelsk keeps its bunker market operating year round.

PUBLISHER

Petromedia Ltd.
 Gainsborough House
 59/60 Thames Street
 Windsor
 Berkshire SL4 1TX
 UK

EDITOR

Guy Wilson-Roberts
 Tel: +1 604 692 2552
 guy@bunkerworld.com

PUBLICATION MANAGER

Paul Davis
 Tel: +1 876 567 6151
 paul.davis@bunkerworld.com

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 RATES:**

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**EUROPE & AMERICAS
 SALES:**

David Post
 Tel: +44 (0)1753 272 250
 Fax: +44 (0)1753 272 251
 sales@bunkerworld.com
 Petromedia Ltd
 Gainsborough House
 59/60 Thames Street
 Windsor, Berkshire SL4 1TX
 United Kingdom

ASIA SALES:

Nic Tan
 Tel: +65 6324 0920
 Fax: +65 6327 8743
 sales@bunkerworld.com
 Petromedia Pte Ltd.
 91B Tanjong Pagar Road
 Singapore, 088512

PRODUCTION

Vivian Chee
 Tel: +44 (0)20 8995 5540
 chee@btconnect.com

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Although average winter temperatures well below freezing, Arkhangelsk (formerly known in English as Archangel) is an important bunkering hub, supplying marine fuels throughout the year.

The city lies on the banks of the Northern Dvina river, near its mouth on the White Sea, and has an extensive port area with Annual bunker sales are estimated at around 400,000 metric tonnes (mt).

One of the major suppliers in the port is JSC Bunker Company. The supplier began operations in 1996 and estimates that it has a 40% share of the market. Other suppliers include Rosneft-Arkhangelsknefteprodukt a subsidiary of Russian state oil company Rosneft.

Storage for bunker product is provided by on-shore and off-shore facilities, and JSC Bunker Company has storage space for 10,000 mt of bunker product. Rosneft-Arkhangelsknefteprodukt, which began supplying in the port in 2002, has dedicated bunker stor-

age space at the Rosneft oil loading terminal.

Bunker prices in Arkhangelsk are generally above St. Petersburg, but anything up to \$50 per mt below Rotterdam.

by pipe at the company's berth of by road tank wagon (rtw). Its bunker vessels cover the the port area and its barges have a pumping rate of between 70 to 100 cubic metres per hour. The sup-

less than 2% or below 1%.

They say the size of the bunker market is unlikely to grow significantly in the next few years.

Cargo turnover in the port grew slightly in 2007 to total 1.5

The price differential can fluctuate depending on the season. Winter prices tend to be higher because of the need for ice-breaking services and to cover the costs of heating intermediate fuel oil (IFO) in preparation for delivery.

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JSC Bunker Company owns a fleet of ice class three bunkering vessels. It can also make deliveries

throughout the year.

Players say the marine fuel supplied in the port is roughly 50% of IFO and 50% of distillate products. Grades supplied include IFO380 and IFO180 as well as lower viscosity products. DMA-grade marine gasoil is available with sulphur content

million mt, just up on the previous year. Dry bulk cargoes including coal, timber and metal accounted for the majority of the port's throughput. Container traffic totaled just over 20% of Arkhangelsk's volumes. ■

Nick Jameson



JSC operates 24 hours a day throughout the year.

Russian bunker industry seeks tanker compromise

The Russian bunker industry is fighting to limit the negative impact of the government's unexpected decision earlier this year to ban single-hull tankers in the country by the end of 2008.

A spokeswoman at the Russian Association of Marine and River Bunker Suppliers (RAMRBS) told Bunkerworld in July that they could not comment on developments as they were in "intensive consultations" with the Ministry of Transport.

Bunker suppliers in Russia have warned that the move, which would bring Russian regulations into line with the International Maritime Organization (IMO)'s MARPOL regulations, would paralyse the country's bunker market.

More than 90% of bunker tankers currently operating in Russian waters are said to be single-hulled, and it would be unfeasible to introduce sufficient double-hulled tonnage in the 600 to 5,000 dwt size range by the end of 2008.

RAMRBS recently sent an open letter to Russian Prime Minister Vladimir Putin, asking him to intervene and warning that the single-hull tanker ban would have a negative impact on both the Russian shipping industry and Russia's economy as a whole.

"Everyone understands that from one



Intensive consultations underway over Russia's bunker tankers.

point of view MARPOL regulations should be implemented and from the other it shouldn't produce bad impact on the industry. That means we have to find a compromise solution," the RAMRBS spokeswoman told Bunkerworld.

In the letter to Putin, the RAMRBS suggested that it would take 3-5 years for the country's bunkering fleet to undergo a gradual modernisation.

The Association has just started to work out special programme of modernisation of the Russian tanker fleet together with financial institutes and middle-size shipyards in the country, the RAMRBS spokeswoman told Bunkerworld. But she added that this process was only "at the very beginning" and there were no details yet available publicly.

The proposed ban on single-hull

tankers was announced by the Russian government in May this year and was met with disbelief by bunker suppliers in the country.

Companies in St. Petersburg told Bunkerworld that the port has about 40 bunker barges working to supply fuel to ships, all single hulled tankers.

"Not many believe it will happen," a source at a leading bunker supplier in St. Petersburg told Bunkerworld at the time.

According to Jonathan D Morley, Lead Specialist and head of MARPOL section at Lloyd's Register (LR), Russia has 221 tankers in the 600-5,000 dwt size category, of which just two were built with double hulls.

The Kerch Strait fuel oil disaster last November, involving a 1978-built, single-hulled Russian river tanker, is seen as the reason behind the unexpected government decision.

In St. Petersburg, competitively priced bunkers are one of the port's main attractions for foreign vessels, according to local supplies who suggested that while a single hull ban was inevitable, a more realistic deadline was essential to keep Russia's bunkering industry afloat.

The MARPOL convention leaves room for local authorities to grant extensions to the timeframe prescribed for phasing out single hulled tankers. ■

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JSC Bunker Company

163035, Deznevtsev Street 34/1,
Archangel, Russia.

Tel: +7(8182)667793 Fax: +7(8182) 420327

E-mail: arkh@jsbunker.ru Website: www.jsbunker.ru

Port profile: Murmansk

In northwest Russia, oil and gas exports will drive growth in the medium to long term with bunker volumes expected to double.

The port of Murmansk lies at the extreme northwest of Russia, close to oil and gas resources on Arctic shelf. It is one of the most important seaports in the Russian north and it is expected to see a surge in oil and gas exports in the coming years.

Transshipment cargoes in the port totaled 24.7 million metric tonne (mt) in 2007, according to local officials. A Russian government development plan calls for cargo turnover at the port to double in the next four years and to keep growing to 2015, possibly reaching an annual figure of 60 million to 70 million mt.

The main cargo currently handled by the port is coal, which accounted for almost 42% of throughput last year. But coal exports are expected to be overtaken by crude oil from Russia's northern oilfields and gas from the gasfields now being developed in the Barents Sea.

There are also plans for a new container terminal.

The port's bunker market is already selling around 500,000 metric tonnes of fuel a year but players expect those volumes to increase sharply. One source, close to the market, said annual volumes could climb to 1 million mt in the medium term and to

2 million mt when gas and crude oil exports begin to reach their potential.

An indication of the port's significance as a bunker hub is the profile of its suppliers. There are five bunker suppliers regularly delivering in the port; three of them are bunker divisions of the Russian oil majors, Gazprom Neft, Rosneft, and Lukoil. Gazpromneft Marine Bunker said in June it wanted a 20% share of the Murmansk market by the end of this year.

The other two suppliers are independent. The longest established bunker company is Scadar LLC, which has been a physical supplier in Murmansk since 1998. It has two chartered barges and, as well as delivering in the port, makes offshore deliveries in the Barents Sea.

The other supplier in port is the Russian physical supplier Bunker Company Flagship.

Most of the bunker product supplied in the port is intermediate fuel oil (IFO), although there some distillate fuel is supplied to fishing fleets. There are currently no facilities for ex-pipe deliveries and all bunkers are supplied by barge.

Prices are generally well above St. Petersburg but very close, or slightly below, those in Rotterdam.

One of the issues to be faced by Murmansk's bunker players is a lack of storage capacity.

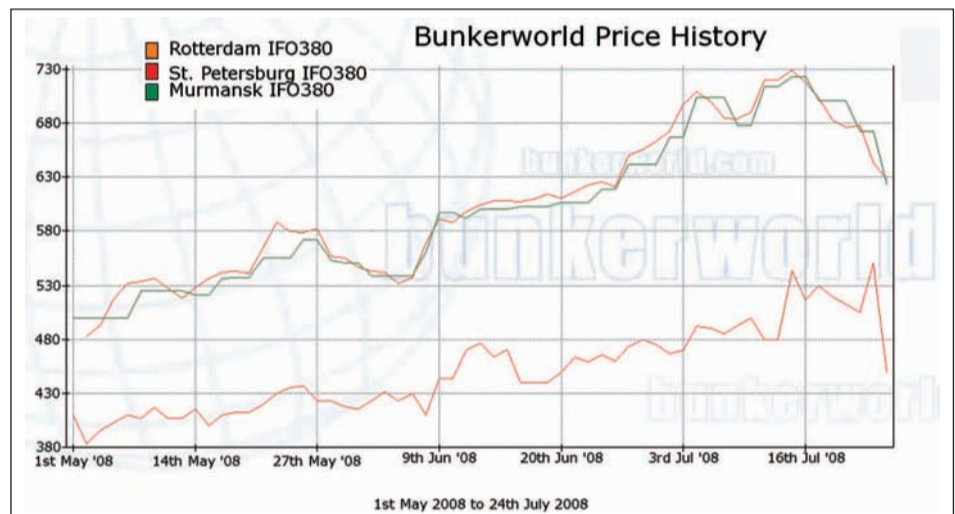
"This is one of the biggest problems at Murmansk," a source told Bunkerworld. "Nobody has adequate storage facilities of their own. No one, including the majors, wants to invest because at the moment they do not have high enough volumes."

Murmansk's proximity to the oil and gas fields of the Arctic shelf make its

future as an export hub secure, but there is another factor exciting long-term interest.

As global warming advances, the prospect of a northern shipping route from Europe to Japan, a 'North Sea Way', becomes increasingly viable. For bunker players ready to take the long view, Murmansk could become a refueling point on a major sea lane.

Nick Jameson



Murmansk prices often follow Rotterdam.

SCADAR

SCADAR was established in Murmansk in 1998. We are physical suppliers at the port of Murmansk and carry out offshore delivery in the Barents sea. We are pleased to offer all bunker buyers top quality service and the following range of products, which are well within the ISO8217 quality standards, with full respect for correct sampling procedures.

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**Office 12 Polyarnye Zory 39
183038 Murmansk
Russia
+7 815 247 4377
+7 815 247 4490
scadar@com.mels.ru**

Rosneft outlines ambitions

The Russian oil giant Rosneft has set itself the target of supplying 1.5 million to 1.7 million metric tonnes (mt) of bunker fuel this year, and to be seeing sales of 10 million mt by 2015.

Rosneft first entered the bunker market in 2002 when a subsidiary, NC Rosneft-Arkhangelsknefteprodukt JSC., began offering bunkers from the company's Archangelsk oil terminal. It was not until late last year, however, that the company signalled its intention to become a major bunker player.

Two Divisions

The company has two bunkering divisions, Rosneft Marine and RN Bunker.

RN Bunker provides logistics, blends bunker material to ISO 8217:2005 specifications, charters bunker tankers and makes deliveries to foreign ship owners. It also covers trading operations at Russia's domestic market.

Rosneft Marine is developing Rosneft's overseas bunker business overseas. Its operations include offshore bunkering in the Baltic, Mediterranean and the Far East as well as supplying to fishing fleets in the Pacific and Atlantic Oceans.

Rosneft itself coordinates operations, allocates refinery resources for the production of bunker material and provides

transshipment, storage.

It is also responsible for the operation of Rosneft's terminals at Nakhodka, Tuapse, and Arkhangelsk.

Vertically Integrated

Rosneft says it wants Russia to develop a stable bunker market, without seasonal variations. It also wants Russian ports to be more closely integrated with the

world bunker market.

It claims its 'vertically integrated structure' as an oil major will help it achieve its aims.

A company spokesperson predicted that the Russian market might see the share of the sector held by vertically integrated companies, such as Rosneft, Gazpromneft and TNK-BP, grow to between 70-80% "with certain variance depending on the region."

Rapid Growth

The spokesperson predicted the rapid development of Russia's transport infrastructure in Russia, including the upgrade of port facilities and the construction of new terminals.

"All this will lead to increase of general and transit cargo transshipment and vessel calls to the Russian ports.

"We therefore believe bunker volumes will grow significantly," said the spokesperson adding that alongside the increase in cargo turnover, bunker sales were likely to be stimulated by "the high quality of our services and fuel, replacement of the outdated bunkering fleet.

"We hope that the total volume of the Russian bunkering market by 2020 will be 50 million to 60 million per year," said the spokesperson.

Low-Sulphur Crude

Russia has huge reserves of low-sulfur crude oil. This should place Russian suppliers at an advantage as demand for low-sulphur bunker product.

"Should there be more market demand for straight-run, low-sulfur fuel oil, we may consider construction of specialised refineries with the refining depth sufficient for the output of bunkering fuel components," said the Rosneft spokesperson. ■



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mail@fsfst.com

www.fsfst.com
+74012592053

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