

bunkerworld

www.bunkerworld.com

November/December 2008

Credit crisis clouds bunker markets

A credit crisis as a result of global financial turmoil was the key talking point at this year's SIBCON event in Singapore. Bunkerworld reports on the 'unprecedented change' facing the industry.

Worries over a global financial credit crunch were the main talking points at this year's Singapore International Bunkering Conference (SIBCON), attended by more than 900 people from the shipping and bunker industries.

The heads of several oil and shipping firms expressed concerns over a slowing economy gripped by credit challenges, coupled with extreme volatility of oil and bunker prices. The price of Singapore 380 centistoke (cst), for instance, rose from under \$400 per metric tonne (pmt) a year ago to more than \$760 pmt in July this year, according to Bunkerworld data.

Market volatility also saw prices plunge briefly below \$300 pmt towards end-October as crude oil prices took a dive from \$147 per barrel in July to less than \$70 per barrel for a large part of the second half of October.

Credits 'evaporating'

The current global credit crunch and its impact on liquidity has led to what was termed a "shipping crunch" by Isabella Loh, CEO of Shell Marine Products.

"We're going through a time of unprecedented change," she said in her SIBCON opening speech.

Echoing her view was Clyde Michael Bandy, Chairman and CEO of Chemoil Energy Limited. "The evaporation of banking credit and credit account around the world is beginning to spill over to our industry and need to be resolved quickly," said Bandy.

Near-term bunker demand and long-term growth of the bunker market could be hit by the current global credit crunch and possible worldwide economic recession, the industry executives warned. Paul H. Stebbins, Chairman and CEO of World Fuel Services Corporation (WFS), said the slowdown in growth of the bunkering sector "will be going on for some time now".

His comments were echoed by COO of BP Marine Fuels Graeme Alexander, who told Bunkerworld on the sidelines of SIBCON that the oil major now expected a slump in global bunker demand. It could take up to two years before demand for marine fuels recovers to current levels and maybe longer for a return to year-on-year growth in

sales, he predicted. A near-term dip in bunker sales would come as shipping faced falling demand for transport of goods and raw materials. Fall-out from turmoil in the financial markets will inevitably hit global trade, and ships will be taken out of service if they have nothing to carry, said Alexander.

A paper presented by Linda K. Wright, Global Director for ExxonMobil Marine Fuels, showed that the annual average growth in global bunker demand between 1995 to 2009 was 3.5%. Between 2007 to 2020, annual bunker demand growth could fall to 2.4%.

Market consolidation

The tightening of credit is likely to drive consolidation in the marine and bunker industry as smaller companies with limited capital will struggle to survive, industry heads pointed out during SIBCON.

Bandy from Chemoil observed that changes in oil prices over the past year and the rapid decline in financial markets had both occurred "with startling speed". It has made liquidity and price

volatility among the biggest challenges faced by bunkering companies. For many companies the credit crunch "could be the final straw," said Bandy. He predicted that consolidation will come with smaller players closing down.

Oil majors have the financial clout to survive, but they will "choose which markets they will continue to compete in," he said. He pointed out that making and selling marine fuels is not a core business for oil majors, hence their commitment to the bunker industry will vary.

Independents currently account for 46% of global marine fuels supply, Bandy said, proving that they are 'a viable alternative' to oil majors. But the days of smaller independents with limited capitalisation may be numbered. In the current economic climate, he predicted that the "new breed" of global independents with marine fuels as their core business and global aspirations would prevail.

Apart from struggling with their own capitalisation, bunker suppliers and traders are currently deeply concerned about the financial situation of their customers. Already, some shipping companies such as Svithoid Tankers and Industrial Carriers Inc have collapsed as a result of the credit crisis, leaving unpaid creditors in the wake of bankruptcies.

Singapore's optimism

Amidst the gloomy outlook staring at the global bunker industry, Singapore's port authority made an encouraging forecast that the republic, currently the world's largest bunkering port, will stay as the leader on an expected fresh bunker sales record this year.

The Maritime and Port Authority of Singapore (MPA) expects bunker sales to hit 33-35 million metric tonnes (mt) in 2008, up from 31.5 million mt last year.

"Even with the (global economic) slowdown, we expect bunker sales to reach at least 33 million mt," Gerald Loh, Assistant



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

Focus on Africa

Credit crisis:

Credit crisis clouds bunker markets - 1

The credit crunch by Adam Dupré - 2

The role of a third party - 4

Africa:

Progress in Nigeria as task force prepares to meet - 6

NAFTAL looks to regional growth - 7

African bunker fuels cause few quality concerns - 8

Bunkering in the Indian Ocean - 9

Bunker fuel quality set for major changes - 10

Conference Roundtable - 11

VIP Profile - 12

Regional news from:

Europe - 13

Middle East - 16

Asia - 18

Americas - 20

Sustainable shipping - 21 - 22



Will shipping weather the storm?

bunker world

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: +44 (0)7899 886982
paul.davis@bunkerworld.com

BUNKERWORLD ANNUAL SUBSCRIPTION RATES:

Magazine: \$95
For online subscriptions
to Bunkerworld, see:
www.bunkerworld.com/store

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

No part of this publication may be reproduced or stored in any form by any mechanical, electronic, photocopying, recording or other means without the prior written consent of the publisher. Whilst the information and articles in Bunkerworld are published in good faith and every effort is made to check accuracy, readers should verify facts and statements direct with official sources before acting on them as the publisher can accept no responsibility in this respect. Any opinions expressed in this magazine should not be construed as those of the publisher.

Director of Marine Services at MPA, said during SIBCON.

MPA's figures showed the total bunker sales volume from January through September this year stand at 26.4 million mt, about 12% higher year-on-year. The value of Singapore's bunker sales in 2007 was estimated at S\$15 billion, according to Loh. In 2008, turnover is expected to range between S\$15-20 billion, he said.

The MPA also announced a

new national bunker standard applicable to both bunker suppliers and surveyors. The new standard, Singapore Standard SS 600:2008 - Code of Practice for Bunkering, sets out guidelines and procedures to ensure that the correct quality and quantity of bunkers are being delivered safely and efficiently.

SS 600, to be enforced in the second half of 2009, will replace the two current standards: SS CP

60:2004 (Bunkering by Bunker Tankers) and SS CP 77:1999 (Bunker Surveying). Key changes in the new standard include insistence on conformity to International Maritime Organization regulations on prevention of air pollution from ships, enhancing sample integrity, and standardising all bunkering documents to reduce disputes.

Furthermore, a new infocomm technology to be launched in the

second half of 2009 will seek to improve the efficiency of bunkering operations at the Singapore port. The new technology, BunkerNet, will automate processes and improve communication between the various parties in the bunker supply chain, allowing the industry to benefit from faster processing of bunkering transactions and payment. ■

Lee Hong Liang

Credit crunch

With the financial crisis dominating the headlines, Bunkerworld asked Adam Dupré to assess the implications.

The world's financial structures are imploding. People with good understanding of what is happening are working hard to produce viable solutions, but the problem is that the solution may go far to exacerbate the cause. Governments are shovelling unimaginably large amounts of money (borrowed from the taxpayer or just printed) into the black hole in the international banking system caused by poor judgement and lemming-like juggling with derivatives over several years.

What are they trying to shore up most of all? Confidence. So that we will leave our money in the hands of those very institutions whose speculations have finally blown up in their faces, contrite and hand wringing as they might be now. And everybody knows that if we do not leave our money with them, that if we convert what we have to cash and sew it up in the mattress, it will be worth even less and rigor mortis will set in the world financial system.

Burst bubble

It really does seem almost as bad as that, and the problem is of course that it is already impacting on the shipping industry and therefore on the bunker markets. Commodities are losing their value, so transporting them has also lost its value. The bubble has burst. And the shipping companies may soon enough find they just can not earn enough money to pay their finance costs and their fuel bills - even though the latter seem to have fallen through the floor too!

Already we have heard of at least three shipping companies going under recently and the rumours frantically circulating the market are saying that even

the massive international independent bunker trading companies have been damaged. The rumours respect no national boundaries - we have heard them in China, in Europe and in the United States: big problems for big traders and suppliers as bunker buyers begin to default on their payments.

So, in all this anxiety and what sometimes looks suspiciously like panic, what are the consequences going to be for credit in the bunker sector - the one hydrocarbon traded unsecured? Already suppliers are talking seriously about reducing credit terms from 30 to 15 days. Most people feel this will not stick until there have been a few more company collapses; but even if it does, no one is yet talking seriously about insisting on cash in advance, or even demanding secured payment. No one is yet talking about not giving credit - just trying to give less and for a shorter time.

Generally speaking, compared to the multi-layered structures of the financial and derivatives markets, now in chaos, shipping is a relatively simple business. FFAs and fuel price hedging notwithstanding, a concrete service is given and paid for. A 'real' cargo is loaded onto a real ship that is fuelled by real oil and operated by real people - and it all has to be paid for.

Negative equation

The problem for the shipping sector is that before even the land-based credit crunch started to hit seriously at the roots of the world finance and insurance markets, it was already undergoing, and still is undergoing, its own crisis in the cost/revenue stakes, with fuel leaping from around 20% of the operating costs of a ship up to over 60% at

its height. Now the bunker price has collapsed of course, along with the rest of the commodity prices, but freight has arguably fallen even further. So the same negative equation is in play - revenue low, costs high.

Now it is possible that costs (fuel at any rate, but also crew, with fewer and fewer trainees signing up, and also insurance) will tend to stay on the high side - if one smooths out the ups and downs of volatility. There are a number of factors that, normal volatility aside, suggest the price of oil will range indefinitely around the \$100 mark even though we are seeing it drop as low as the early \$60s now. So fuel at least may stay dramatically costly.

But the general look of the world economy suggests that demand could slow in the face of rising costs of living, and eventually lead to a fall in world trade, with an even more unhealthy bias towards China (which itself is even slowing down), and so, again, to a further fall in revenue for shipowners.

Experienced owners will have been shoring up during the boom for the bust they know will follow. But what if the bust is longer than usual? Even if a lack of financing means that a proportion of the huge number of ships currently on order are never delivered, there is still likely to be a net growth in the capacity of the world fleet that will further depress rates, and if fuel cost stays high, the winter of discontent could be longer than any in living memory.

This will have an impact on the bunker fuel market, of course. With smaller traders perhaps struggling to finance higher and higher traded values and more vulnerable to payment default,

and possibly with consolidation of the bunker sector into a relatively smaller number of very large and strong players, the market could swing in favour of the supply side, with suppliers and traders in a better position to demand tighter terms. Credit will likely remain available, but it is almost certain to become harder to come by, and there will be a premium on records of good performance and transparency, and the suppliers who survive will be better positioned to select (and know) which shipping companies are the safer risks.

New era

A shipping company whose debts are insurable will have a distinct advantage. But to be insurable they will have to disclose their positions to the assessors of commercial risk - the credit reporting agencies. Already these agencies support the decisions of credit insurance underwriters. As things get worse in the market, they could be at the eye of a storm of change, where shipowners who work professionally and openly could fare better in securing bunker credit, the blood they must have to survive.

Could the era of tight secrecy in shipping be coming to close because the world financial markets have hit very troubled times? The era of secrecy may not be dead, but it has received a body blow. If the choice is to be more transparent and get credit or stay opaque and go under, most companies are likely to opt for the survival option. ■

*Adam Dupré is managing director and CEO of Ocean Intelligence Pte Ltd.
www.oceanintelligence.com*