

The role of a third party

Duncan Jeffcock explains how the current financial turmoil is impacting on the bunker sector and how introducing a third party into the bunker transaction could solve some of the problems caused by the credit crunch.

The July/August issue of this publication carried an interview with Adam Dupré, CEO of Ocean Intelligence Pte Ltd, who said of bunker suppliers: "credit is the blood they must have to survive". But in today's climate of reduced financial liquidity and limited inter-bank lending it seems that this vital blood supply is in danger of drying up. Although the Federal Reserve and other national banks are continuing to reduce interest rates making credit cheaper than it has been in a long time, its overall lack of availability is becoming a real issue to all businesses and particularly to those operating in the bunker sector.

chartering a ship has, in some instances, fallen by up to 90 per cent, forcing some owners towards liquidation and others to accept unprofitable charters. With margins so tight, some ship-operators are finding it harder to pay for their bunkers, making them much more of a credit risk than they were only a few months ago.

The saving grace is that the recent drop in the oil price has been matched by a similar drop in bunker prices, thus lowering the cost of the average stem. But many analysts believe this to be a temporary blip. Robin Meech of Marine and Energy Consulting Ltd. believes that "we must not think short-term, the underlying trend for

that shipping is now viewed by underwriters as being more risky than it was. This has been evidenced by at least one leading provider of credit insurance withdrawing from the marine sector. As the market continues to worsen, Robin Meech believes that demand for cover will increase dramatically as suppliers begin to lose confidence in their customers' ability to pay. But, he warns, "in this climate adequate cover will be more scarce, premiums will rise rapidly and the conditions attached will be necessarily more onerous".

So what can ship operators and fuel suppliers do to manage costs, increase their available income, and improve their

bunker suppliers, a third-party financier protects a supplier's credit portfolio and offers them faster payment. This would provide a supplier with additional liquidity to fund their daily operations or more cash to expand their business." In effect, a third party acts as a clearing house, guaranteeing rapid payment to the supplier and vastly improving their chances of maintaining a line of credit from their own financial source.

Moreover, a third party with sufficient financial strength could allow the bunker buyer more time to pay for their fuel. Most buyers typically expect to be given payment terms of around 30 days but the impact of the credit crunch is reducing these terms in some regions to 21 or even 14 days. With profits down, obtaining extended credit terms for delivered fuel is fast becoming a necessity. Michael Bandy, CEO of Chemoil Energy, recently told Dow Jones: "Many small players could find tightening credit lines and volatile prices are the final straw." A lack of credit could spell disaster for the ship operator, particularly as the prevailing low freight rates make cash-on-delivery arrangements impossible. The option of using a higher priced supplier is not attractive, but neither is having the ship detained in port for lack of fuel.

Having a strong third-party financier involved in the bunker transaction to provide extended credit terms to the buyer could also be a useful differentiator for the supplier. In a largely commoditised industry, a supplier working with a third-party bank could set itself apart from its competitors by offering 36 or even 43 days credit: a life-saver for many ship-operators. And if that supplier is guaranteed payment from the bank for that same stem within 10 days it is not difficult to see how easily a win-win situation would develop.

The bunker industry has not escaped the impact of the credit crunch and the end result is likely to be fewer players active in the market. Uncertainty over bunker prices and freight rates coupled with the ongoing turmoil in the banking sector will leave very few bunker players unscathed. But those suppliers and buyers who can protect their own lines of credit and maintain financial security are more likely to thrive in the challenging times ahead. ■



The bunker industry has not escaped the impact of the credit crunch, according to Duncan Jeffcock.

With the exception of the oil-majors and the larger national oil companies, most bunker suppliers rely on the availability of credit from their financial backers to continue to operate their businesses. But today, many are finding that credit lines are tightening and more stringent lending criteria are being applied. In order to qualify, financial houses are demanding that suppliers demonstrate a robust credit portfolio and this often means proving that the customers to whom they offer credit are able to pay their bills. This is becoming much harder to achieve.

A lack of cargoes coupled with a downturn in commodity prices and an oversupply of ships has driven down freight rates across all shipping sectors. The cost of

bunker prices continues to be upwards with a reasonable expectation of reaching an average of \$900 a ton by 2025. The requirement for lower sulphur emissions will force prices to rise, irrespective of the crude oil market."

Uncertainty over future bunker prices coupled with the recent free-fall in freight rates has forced many bunker suppliers to think hard about extending credit to many customers. The supplier must be sure that their customers are financially sound in order to demonstrate that they themselves are worthy of credit with their banks.

Taking credit insurance is the traditional method of guaranteeing payment but obtaining cover is not as straightforward as it used to be. Falling freight rates mean

access to capital? According to Greg Foust, Senior Vice President of Corporate Payment Systems Risk Management at US Bank - the 6th largest commercial bank in the United States -introducing a well-capitalised, trusted third party into the transaction would ease a number of problems. He says, "by providing credit directly to



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