# How bunkering is affected by the global credit crunch

**Bunkerworld asked Adam Dupré, Managing Director of Ocean Intelligence, to comment on the importance of knowing the financial position of your customers.**

The international banking failure that precipitated the current financial crisis has led to a collapse of trust across all sectors in the maritime industry. A new era in maritime credit has literally forced its way through, with no one immune to the wide-reaching credit crunch.

As the credit squeeze tightens to the core, it is pushing all shipping players towards unprecedented levels of transparency. Repercussions of the credit crunch continue to spread, and the full magnitude of impact, whether positive or negative, will take much longer to manifest itself. We have reached new depths of risk aversion – credit issues are now paramount for everyone, with the risk of counterparty default topping the list.

Though some sectors have seen rates twitching towards a manageable level, freight on the whole are still worryingly low and empty or laid-up ships are clearly visible at many of the world's major ports. Before the land-based credit crunch shook the ground of the world finance sector, maritime operational overheads had already caused a crisis of their own due to high and volatile oil prices.

Now, in countries where the maritime industry is vital to the economy and foreign finance is essential, restoring banking confidence in the shipping sector is critical to preventing further significant collapses in the industry. The path towards recovery is much harder when banks shut off credit lines on both sides of the supply/demand equation.

While banks are rightly evaluating credit risks with increasingly sharp scrutiny in the face of extreme market conditions, they will be aware of the dangers of 'knee jerk' reactions, but in the face of a recession that seems to defy precedent, it will be hard for them to work with the present market as if it were a 'normal' point in the traditional shipping cycle.

New situations demand new approaches and measures, but some fundamentals remain – and among them the need for trust in the financial cycle of the shipping sector. Shipping will not work efficiently as a purely cash economy, but traditional forms of financial security also do not fit well. Somehow, the bridge of trust between the supplier and the buyer, and the banks which lubricate the relationship with liquidity, has to be restored.

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The easiest (practically if not psychologically) way to do this is to increase transparency. Though it has been forever anathema to shipping, the hated 'visibility' seems to be the only way to restore trust and get things moving again.

There are already precedents for this as the younger generations of owners, Harvard MBAs in their pockets, have realised that they need wider and deeper sources of ship finance than the traditional methods of their ancestors could get, and have gone to the stock markets, and have borne well the glare of disclosure this has forced upon them. Transparency is not entirely new to the industry.

Of course, turning on the lights reveals the bad as well as the good, and in many cases it is the fear of exposure that makes some owners grasp the cloak of invisibility tightly around themselves. But this need not distract or put off the solid and reliable players with no skeletons in their cupboards. For those who can appreciate it, financial openness is a responsibility for any entity that wishes to survive in the short term and succeed on the long road to recovery. It is not a luxury, but a necessity if things are to get going again.

Undoubtedly, the shipping industry has never before in history faced the seemingly insurmountable magnitude of challenges it faces now; caused by an amalgamation of unparalleled factors from inside and outside of the industry.

And while these woes continue to bite deeper, environmental legislation such as the timeline for sulphur restrictions set by the International Maritime Organization (IMO) and increasing talk of Emission Control Areas (ECA) in the US and even in parts of Asia, are putting further financial pressure on already beleaguered shipping companies and bunker suppliers.

However dealt with – burning lower sulphur fuel or installing emission reduction technologies – there are significant costs involved at a time when these seem to be least bearable. This is another situation where strong business cases will have to be put forward to persuade the financial community to lend enough to do the necessary. Here again, transparency will be the key to unlock vital credit.

On the supply side, as has been frequently pointed out recently, smaller and less financially stable players are beginning to suffer as they cannot get sufficient credit from their lenders to cover interim financing to pay their own suppliers while waiting for their customers to cough up. The situation is likely to spawn a re-engineering of the bunker supply sector, with the strong getting stronger and the weak falling by the wayside. Again, this is a global situation, like the financial crisis itself – there is no clear geographical epicenter.

Looking at bunker traders in particular, the global crisis has highlighted those with a solid base for growth as well as those with inherent weaknesses. The keys to survival seem to be careful cash management and the discipline to maintain adequate reserves, along with ever vigilant, insightful and strict credit assessment systems. These players will not give credit where the fundamentals of a business are opaque, and soon there may not be any refuge of supply for the ship owners at the lower end of the market who refuse to show their hands.

In fact, the creation of a core basis of adaptive and incisive business and financial management is no longer optional but critical to the survival of suppliers in today's climate – businesses need to consider very carefully whether the competitive value of the intelligence that is essential to transparency is more grossly underestimated than the current market can afford.

The fundamental instrument to execute this strategy of transparency is reliable and resolute market intelligence. And, most importantly, using this to manage counterparty risk stands out as the most significant and urgent issue that needs to be recognised and resolved. Every bunker player now needs to know in greater depth just who they are doing business with – how are customers performing, how are they handling their debts, and will they go bust before they can pay. This is a significant factor in determining how suppliers can keep ahead amidst tough market conditions and tightened competition to ensure they remain players in the future.

This deeper, more qualitative level of market intelligence is now a necessity in ensuring genuinely effective counterparty risk assessment and minimisation in an increasingly demanding environment. It has serious implications now and in the future, because the constituent parts of the bunker industry have been thrown in the air and they will land again in a very different configuration.

It is distinctly possible that truly understanding the value of maritime credit intelligence may well result in the suppliers and shipping companies that will survive emerging stronger after these tough times. ■

*Adam Dupré is Managing Director of Ocean Intelligence, a leading company in international maritime credit risk analysis that is headquartered in Singapore and is the largest marine credit reporting company in Asia. He will speak on the above topic at the 30th International Bunker Conference at Oslo on April 22-24, 2009.*