China: The price needed for growth

Chimbusco has expressed confidence in seeing a drastic fall in China's bunker fuel prices, which could eventually retreat to levels in line with those in Hong Kong and South Korea. An internal 'healthy' competition brewing within the Chinese bonded bunker market itself has given rise to this potential price advantage.

China's bonded marine fuel market is relatively undeveloped compared to the mature regional bunkering markets of Singapore, Hong Kong, South Korea and Japan. As China realised its market potential with increasing bonded bunker sales volume over the past few years, its players are now trying to further the growth by removing one of the stumbling blocks – high bunker prices.

Chimbusco, China's number one bonded bunker supplier, seems to have acknewledged the country's price disadvantage, and has sought to reverse the country's price uncompetitiveness.

Spot pricing

In a surprising move by government-controlled Chimbusco, it shifted from publishing posted bunker prices to offering spot prices from July 1, 2009. On the same day that Chimbusco changed its pricing strategy, rival bunker supplier, privately owned Brightoil Petroleum (Holdings) Limited, expanded its operations into Shanghai port.

The move by Chimbusco is obviously aimed at fending off competition in its stronghold in Shanghai and other nearby ports, but the company is also aware that bunkering based on spot prices can trigger long-term growth in marine fuel demand at the ports.

"Posted and spot pricing are both a form of price offers for the market, though spot pricing is a more effective method for international orders," Chimbusco told Bunkerworld in an email interview. "By using spot pricing, we are able to follow more closely with the trend of the market and offer our customers more flexibility in terms of competitive prices and services."

Chimbusco's price indications for three ports – Shanghai, Ningbo and Zhoushan – are now subject to enquiry, depending on the amount of bunkers to be lifted and the ship arrival schedule. Players are also able to see the price indications for the three ports on the Bunkerworld website, which gets updated on a daily basis. Previously, posted prices from Chimbusco could remain unchanged for up to a few days, or they could change once or twice within a day, depending on the volatility of the global bunker market.

Compared to South Korea's Busan and Hong Kong ports, IFO380 in Shanghai used to command bunker premiums of $12-15 per metric tonne (pmt) and $5-10 pmt respectively, according to Bunkerworld data.

"By continuously improving our fuel oil logistics system and supply chain, Chimbusco aims to gradually reduce the bunker price spread between Chinese ports and neighbouring ports in Hong Kong and South Korea," Chimbusco said.

Since late-July to mid-August, Shanghai premiums have narrowed to $3-4 pmt against Hong Kong while prices have been on similar levels with Busan, with some days undercutting the Korean port.

"The price differential, over a certain period of time, will narrow to zero and the bunker price levels among the ports will be in line," according to Chimbusco.

If Shanghai prices can dip to Hong Kong levels, the former will be competitive to Busan prices as Hong Kong prices are traditionally cheaper than Busan.

Shanghai wants to become more competitive.

Shanghai's steep bunker prices due to a lack of competition at the port have been cited as one of the main reasons for its relatively small marine fuel market. Shanghai is one of China's main bunkering port, where Chimbusco sold approximately 800,000 metric tonnes (mt) of bonded bunkers in 2008.

Ningbo and Zhoushan are considered the third busiest bunkering ports in China, after Shanghai and Qingdao in the number two spot and Shenzhen in number one position, according to data from C1 Energy, a China-based industry news agency.

Other than Chimbusco and new entrant Brightoil, Shanghai port houses two other Chinese suppliers – China Shipping & Sinopec Suppliers Co Ltd (Sinobunker) and China Changjiang Bunker (Sinopec) Co Ltd. Both companies are wholly owned subsidiaries of China's state-owned Sinopec Group. Sinopec Zhejiang Zhoushan Petroleum Co Ltd, another bonded bunker supplier and subsidiary of Sinopec Group, is also eyeing to enter Shanghai and Ningbo ports by 2010.

Singapore venture

Apart from being the number one bonded bunker player in China, Chimbusco has cast its sights overseas, with Singapore under its radar. Sources have told Bunkerworld that the Chinese state-run supplier has intentions to become an accredited bunker supplier in Singapore by running through an application with the local port authority.

While Chimbusco did not confirm the license application in Singapore, it has affirmed its interest to establish a presence in the city-state.

"As an international corporation in the bunkering industry, it is necessary for Chimbusco to participate in Singapore's marine fuel market. It would allow us to compete in prices and provide a more comprehensive port supply service to our customers," the company revealed.

Singapore, the world's largest bunkering port, sold 34.9 mt of bunkers in 2008 with contributions from more than 70 accredited bunker suppliers.

While it may be easy for Chinese firms to venture overseas, the reverse could prove difficult or unlikely, according to Chimbusco. Due to the relatively huge potential of China's bunker supply market, some foreign oil firms have been eyeing to set up their own branches in China, and to get involved in the country's marine fuel operations.

"But judging from the national policy (of China), we think there is slim possibility for foreign oil companies to establish their own branches in China," Chimbusco observed.

Bunker sales forecast

Chimbusco's bonded bunker market share in China has fallen from to 97% to 60-70% since the market was opened to competition in 2007. The company sold slightly over 4 million mt of bonded marine fuel in 2008, out of a total of 6.3 million mt.

"We aim to promote China's key bunkering ports to become the bunker hubs in Asia-Pacific, and lifting China's bunker sales to a substantial figure," the company said.

Chimbusco has forecast global bunker fuel consumption into 2015 to make a four-fold jump in sales for China to 26 million mt from 6.3 million mt in 2008. The increase is attributed to lower purchasing costs of fuel oil and better port infrastructure for China by then.

Existing imports of cheap Venezuelan fuel oil have also greatly benefitted China, as it is now the world's second largest oil consumer after the US. At present, China buys most of its fuel oil from Venezuela, and some from Singapore, Japan, Thailand, Taiwan, Hong Kong and others.

By 2015, China will become the world's second largest bunkering market after Singapore, which will retain its dominance with sales of 33 million mt, according to the forecast.

Fleet upgrade

Chimbusco owns 103 ships for the transportation of oil products and operates 18 oil tanks in domestic major ports with a total capacity of 1.3 million cubic metres. It intends to enhance its fleet of bunker tankers through newbuildings or modifications during a time when ship building costs are low, the company revealed.

"Older ships and aging equipment require a higher intensity of safety checks, so it is our intention to renew our fleet such that it meets international safety standards," Chimbusco stated.

Chimbusco or China Marine Bunker (PetroChina) Co., Ltd. is a 50-50 joint venture between China's largest shipping firm COSCO Group and oil giant PetroChina Company Limited.

The joint venture firm has contracted bunkering agreements with some international shipping and oil companies and also incorporated several overseas subsidiaries in Hong Kong, the Netherlands, Singapore, South Korea and the US to act as bunkering agents for Chinese ocean-going ships. ■

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