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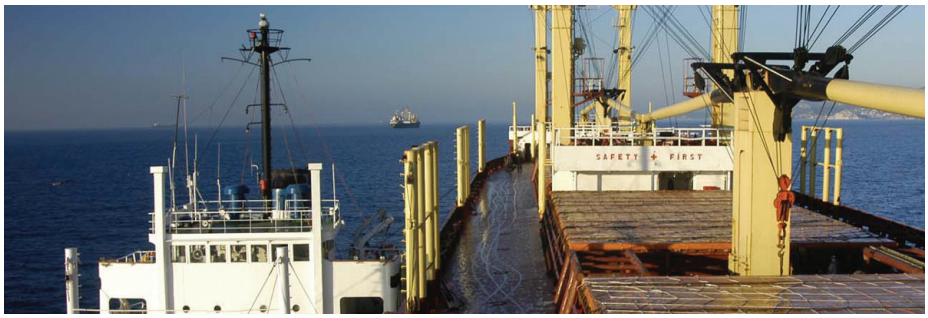
Singapore bunkers suppliers face hard choices in a harsher market



SINGAPORE'S BUNKER SECTOR, the world's largest, is haemorrhaging supply companies as a combination of tightened regulatory oversight and fierce competition drives margins lower despite rising overall volumes.

Three of Singapore's top 10 bunker suppliers by volume — Universal Energy, Panoil Petroleum and Transocean Oil — have been forcefully ousted after their licences were either revoked or not renewed by the Maritime and Port Authority of Singapore. They were found to have severely aerated bunkers, to have made unauthorised alterations on bunker tankers' pipelines and to have falsified records respectively. A similar fate was meted out to smaller players Seaquest Tanker, Vermont UM and AC Oil.

Others have left voluntarily amid increasingly difficult market conditions that have forced established players to re-examine their business models.

Uni Petroleum, which has been largely inactive in the market, did not renew its licence this year, while Aegean last month decided to exit the physical supply market altogether in Singapore as part of broader cost-cutting measures.

Two key factors are driving change — stringent oversight by the authorities and the requirement to deliver via mass flow meters that measure more accurately and reduce the possibility of the aerated bunkers or the so-called cappuccino effect, which is the frothing that ultimately means less fuel is delivered.

Supply remains unaffected by the recent exits, so shipowners have broadly welcomed the consolidation as a driver towards stronger counterparties. But for bunker suppliers, hard choices lie ahead as the old way of doing business no longer applies.

Explaining the push for a different business model, World Fuel Services chief executive Michael Kasbar said low pricing and a lack of volatility had pushed the traditional reselling and underwriting model to a supply and transportation model. This shift in the market was being felt particularly acutely in Singapore, where the introduction of MFMs has accelerated the trend.

Simon Neo, Asia regional manager for the International Bunker Industry Association, said: "Before MFM, there were things like pilferage and even cases where they [some suppliers] buy at $300 and sell at $290. They can't do that any more. They have to quote above the buying price and add operational costs."

As the world's biggest bunkering hub, Singapore is a market leader and often sets the standards for other hubs such as Fujairah and Rotterdam. If that follows, a global implementation of more stringent standards may lead to a broader round of bunker supplier consolidation.

With the greater transparency and oversight, and the severe penalty of losing the bunkering licence in the event of cheating, cost and efficiency now form the battleground for bunker suppliers.

One way is to increase turnarounds. Instead of eight turnarounds a month, some bunker suppliers may increase it to 10 turnarounds, Mr Neo said. Bunker delivery speed has increased by up to 15% with the use of MFMs.

While some are moving to become vertically integrated with end-to-end supply, others have been trying to save on commissions by doing away with the traders or middlemen, and deal directly with customers.

Aegean Marine Petroleum has opted to end physical supply activities in Singapore altogether from 2018 but will focus on back-to-back bunker trading and its lubricants business in Singapore and Southeast Asia. Back-to-back bunker trading is an asset-light model and reduces cost by not having to hold inventory.

For the bigger operators, other related businesses can offer a silver lining. World Fuel Services believes that if prices continue to move up, the sale of derivative additions to customers can pick up quickly. This business had suffered in recent years amid an overall lack of volatility.

Prices of 380 cSt fuel oil on a per tonne basis have gradually weakened from a high of $732 in 2012 to a low of $166 in 2016. They were at $320 per tonne in July this year amid oversupply of crude. As an industry veteran explained, a 1%-3% margin for $50 crude is a lot different from a 1%-3% margin for $100 crude.

Nevertheless, more players may yet have to exit the industry if they are not able to adjust and adapt to the new conditions amid more stringent lending by banks. French bank Société Générale had some $56.7m owed by bunker supplier Universal Energy when it filed for liquidation last month.

Competition is particularly fierce in Singapore due to the fragmented nature of the market.

Singapore is currently home to around 50 bunker suppliers, while Fujairah has seven to eight operators and does 20m-odd tonnes per year.

Fujairah handled 24m tonnes in 2016, which on a per supplier basis would amount to 3m tonnes. Singapore's volume was 48.6m tonnes, which works out to less than 1m tonnes per operator.

"The pressure is from competition and they [bunker suppliers] can make $3 to $4 per tonne at the most," Mr Neo said.

Shipowners expect consolidation to lead to a stronger bunkering sector

Despite the turmoil for bunker suppliers, shipowners have broadly welcomed the competition.

Singapore Shipping Association president Esben Poulsson said the association believes the sector will continue to remain buoyant and resilient.

"SSA's members would want a level playing field where buyers and suppliers have full confidence that the bunkers delivered in Singapore are of the right quantity and quality," he said.

Singapore's bunkering volumes increased 4% year on year to 38.02m tonnes in the January-September period from 36.56m tonnes in the corresponding year-ago period amid the consolidation, with existing operators picking up the volumes of players who leave. The stronger players in the industry will ultimately be able to act as stronger counterparties for customers.

NEWS

Has the shipping industry reached an LNG landmark?

NEWS that CMA CGM has bitten the bullet and gone full steam ahead with plans to equip its 22,000 teu newbuildings with engines burning liquefied natural gas took many by surprise. But has the decision finally solved the long-standing 'chicken and egg' standoff that has stunted the development of this alternative fuel?

Without the necessary infrastructure in place, the argument from carriers has been that any such switch to LNG would not be feasible. On the flipside for those looking to invest in LNG bunkering facilities, the absence of LNG-powered ships in the deepsea trades made any move to establish LNG bunker facilities equally futile.

However, DNV GL's Martin Wold, a senior consultant within its environment advisory, says that endorsement from a household boxship operator could prove the catalyst for change.

Although there has been plenty of speculation about orders for large LNG-fuelled containerships, few had expected a breakthrough to arrive this year.

So CMA CGM's decision marks a significant turning point for LNG as a fuel.

CMA CGM has made a firm pledge to use LNG in its newbuildings, which are due to delivered in 2020, from day one.

That is in contrast to United Arab Shipping Co, now part of Hapag-Lloyd, which announced in 2015 that its 18,000 teu ships would be LNG-ready.

But those vessels, now all in service, currently burn conventional fuel, and would have to have LNG tanks retrofitted.

Since those vessels were delivered, the supply situation has changed considerably, says Mr Wold, with major players including Total, Shell, Gas Natural Fenosa, ENN and Statoil all announcing plans for new LNG bunker vessels. These are likely to operate in key locations in northern Europe, the Middle East, the Gulf of Mexico, Singapore and the Mediterranean.

Government-backed initiatives are also underway in China, South Korea and Japan, as these countries strive to meet ambitious national targets for combating local pollution and reducing greenhouse gases.

Until now, though, no major shipowner has made as decisive a move as CMA CGM, which is prepared to pay a considerable premium to build a new generation of ultra-green ships.

With container lines often quick to follow each other, CMA CGM's commitment to LNG could prove a landmark in the long run for this alternative fuel.

ANALYSIS

Dandong's default demonstrates why it's still too risky to be a private player in China's port sector

THE recent default of Dandong Port Group on its Yuan1bn ($151m) bond has stoked concern over the solvency of the broader Chinese port industry. But fear not — it was just an individual case.

DPG's failure to meet its debt payment has reflected a string of problems that can also be found at other Chinese port companies, namely the excessive regional competition and hefty financial burden incurred from aggressive expansion efforts in building new facilities.

But perhaps the more critical cause of DPG's tumble this time was that the company is privately-owned — a rather rare case in China's generally state-owned port industry. Moreover, the chairman of the private business has been in some 'trouble' in the eyes of the state.

That might well explain why DPG bondholders have all opted to exercise their put options, forcing the issuer to pay back the principle before maturity, which partially led to the default.

Now the big question is who will help.

One likely white knight is the Liaoning government, but it handed over the role of port restructuring to state-owned China Merchants Port Holdings and talk of them acquiring DPG is doing the rounds.

It seems that the asset-heavy industry, requiring massive long-term investment, is perhaps still too risky for a private player to stand firm in China, unless they can remain commercially and politically correct.

OPINION

Don't play games with seafarer training

THERE is little doubt that crew competence has seen a steady decline over the past decade. Partly this is related to consecutive years of low profitability squeezing training budgets. While providers of online training solutions believe they hold the answer to the recruitment and retention dilemma, this might not be obvious to seafarers still at the sharp end.

Rachit Jain, managing director of Safe Lanes Consultants and winner of the Next Generation honour at the Lloyd's List Asia Pacific Awards, believes "digital transformation has taken away the understanding of basic seamanship skills". Capt Jain adds that the move to outsource training means that only minimum standards are met.

What could he mean? A clue comes in observations made by Mark Woodhead, senior vice-president at KVH Videotel. Speaking at the seafarer forum CrewConnect Global in Manila this week, Woodhead made the reasonable observation that training should aim for excellence rather than for minimum standards. Further, he noted that continuous learning offers the opportunity for seafarers to improve skills and standards whether they are "onboard, onshore, or online".

Then comes the bit that should worry us all: Mr Woodhead's company has embraced new technology "including virtual reality and gamification" to make its training relevant and engaging to young seafarers working their way through the ranks.

Gamification — "the process of adding games or game-like elements to something (such as a task) so as to encourage participation" (Merriam-Webster definition) — aims to take the boredom out of long training sessions by gamifying the entire process. Although there are certain aspects of training that can be replicated virtually under game-like conditions, basic seamanship skills remains an experience that must be gained first-hand.

No one can adequately gamify a crisis situation and no one should try. Gamification may recruit youngsters, but they'll soon want to move on the next level — out of shipping.

MARKETS

Saudi crown prince is the biggest bear this winter

SAUDI Arabia's crown prince Mohammed bin Salman is turning out to be the biggest bearish factor for very large crude carrier markets this winter, dealing owners the double blows of rising oil prices and reduced cargo supply that mainly result from his policies.

Prince Mohammed signalled in later October that the existing Organisation of the Petroleum Exporting Countries' production cut — behind which he is a driving force — would be extended beyond March 2018, firming up oil market sentiment amid worries over falling Iraqi and Venezuelan supply.

Then, the heir to Saudi throne orchestrated arrests of tens of princes and ministers on alleged corruption over the weekend, triggering a spike in

oil prices to levels not seen in two and a half years due to fears over potential political instability in the oil-rich kingdom.

According to market participants, a higher price, along with an oil market moving into backwardation, could generally curb consumption, reduce floating storage and increase vessel speed — all bearish for tanker markets.

Trump's LNG ambitions could boost long-haul tanker trades

US President Donald Trump, currently on his longest foreign excursion so far as head of state, began the Beijing leg of his Asian tour on Wednesday. It is very probable that he will be negotiating an increase in US liquefied natural gas exports to China as part of the agenda.

Any deals that are inked will most likely be in the form of a memorandum of understanding rather than a concrete sales purchasing agreement. Such an arrangement would be politically expedient, yet give Chinese buyers the option to quietly back away from the deal down the line.

Any such move would be a significant development for shipping as it would boost trade in one of the main routes for long-haul LNG cargoes: from the US — the world's fastest-growing energy exporter — to China — the world's fastest-growing energy market.

At China's end, demand for liquefied natural gas is growing. Wood Mackenzie estimates that demand for LNG could reach 330bn cu m by 2020, up from 206bn cu m in 2016.

Underpinning this uptick is Beijing's aim to increase the role of natural gas within the country's energy mix from 6% in 2016 to 8%-10% by 2020. However, China's rapidly growing demand will be met by a combination of domestic supply, pipeline imports and LNG.

Dry bulk freight rates set to improve from second quarter of 2018, says Drewry

FREIGHT rates in the dry bulk shipping sector are expected to improve in the second quarter of next year as iron ore demand in Asia picks up, according to Drewry.

It says Chinese steel production is expected to be ramped up by the end of the winter, when production curbs will have been relaxed.

At that point next year, robust infrastructure and construction activity will provide another boost to steel consumption.

In the meantime, Chinese authorities are shutting down less productive and more-polluting steel mills, which should allow more-efficient facilities to fabricate higher-quality steel, and in turn increase demand for high-grade iron ore imports, Drewry says in a new report.

NEWS IN BRIEF

Wilbur Ross fully divested from Diamond S and is almost out of Navigator

WILBUR Ross has started to sell his investments in shipping that the businessman-turned-politician originally planned to keep when he was appointed US Commerce Secretary.

Citing government officials, several media reports said Mr Ross had fully divested from Diamond S though they did not provide details on the timings and the reasons behind the sales. Some critics earlier expressed worries over potential conflicts of interest as the product tanker owner received Chinese investments.

A US official confirmed to Lloyd's List that Mr Ross had indeed sold all his holdings in Diamond S and had nearly completed selling all his shares in Navigator.

Shell has inked a bunker barge charter deal with Q-LNG Transport

SHELL Trading (US) Company has sealed a long-term charter deal with Q-LNG Transport for a liquefied natural gas bunker barge as part of its drive to ramp up LNG bunkering activities in

the Americas as more shipowners look for cleaner-burning fuels to meet more stringent emissions regulations.

A Shell spokeswoman told Lloyd's List that the vessel, which will be owned and constructed by Q-LNG Transport and managed by Harvey Gulf International Marine, is expected to be operational by 2020.

When completed, the ocean-going barge with 4,000 cu m capacity will supply LNG fuel to marine clients along the southern east coast of the US, mainly cruiseship operators, as demand for cleaner marine fuel alternatives grow.

It will take six months for Maersk to recover after its cyber attack

MAERSK Line operations will not be fully back to normal after last summer's cyber attack until the first quarter of next year.

The Danish carrier is still in the final stages of recovery, with extra ships on charter to reposition empty containers back to Asia.

AP Moller-Maersk said on Tuesday that the cyber attack in late June had cost the group between $250m and $300m, with its transport and logistics division of Maersk Line, APM Terminals and Damco severely affected.

Restoring IT systems probably took about a month, Maersk Line chief commercial officer Vincent Clerc told Lloyd's List.

CSSC has offered lease financing to Dynagas for two FSRUs

CSSC (Hong Kong) Shipping, the leasing arm of state conglomerate China State Shipbuilding Corp, has signed a leasing agreement with Dynagas, the George Prokopiou-led owner, for two floating storage regasification units that were ordered last year.

Details of the agreement were not disclosed.

CSSC said the price for building FSRUs in the international market was between $230m and $260m, but costs would go down if the ships and the equipment can be built in China.

Lloyd's List broke the news about the ordering of the duo in June 2016, when Mr Prokopiou confirmed the deal, saying the vessels would offer "great flexibility and compatibility for 120 ports around the world".

The FSRUs will be built at Hudong-Zhonghua Shipbuilding, a CSSC subsidiary yard, the company said. Delivery is scheduled for 2019 and 2020 respectively, Lloyd's List has been told.

Maersk has won regulatory approval from China for Hamburg Süd takeover

MAERSK Line has confirmed that it has received clearance from China's Ministry of Commerce for its takeover of Hamburg Süd and is now just waiting on South Korea and Colombia to give the green light for it to complete its acquisition.

Approval is subject to conditions, "which are that Maersk Line commits not to extend Hamburg Süd's membership of a vessel sharing agreement currently active on the Far East Asia-west coast of South America trade route, and that Maersk Line commits to terminate Hamburg Süd's membership of a vessel sharing agreement currently active on the Far East Asia-east coast of South America trade route on the earliest date permitted by the vessel sharing agreement. Maersk Line further commits within five years of closing, not to enter into vessel sharing agreements with its main competitors", a Maersk spokesperson told Lloyd's List.

DSME managed to stay profitable in the third quarter

SOUTH Korea's Daewoo Shipbuilding & Marine Engineering reported a profitable third quarter, following losses in same period of last year, partly owing to sales efforts and reduction of human resources costs.

It posted a Won45.7bn ($41.9m) net profit for the third quarter ended September 30 versus a Won283bn net loss for third-quarter 2016.

Operating income for the period was in the black at Won206bn, compared with a Won187bn operating loss in the year-ago quarter.

However, revenue fell 19.8% to Won2.14trn from Won3.19trn.

All of five offshore projects had been delivered to their owners, said DSME in a statement, thus improving earnings as well.

Bunker supplier Aegean Marine is warning of $3.4m-$4.4m losses for the third quarter

NEW YORK-listed Aegean Marine Petroleum Network, which recently decided to exit the physical bunker supply business in Singapore, expects to report a net loss of $3.4m-$4.4m for the third quarter as challenging market conditions continue.

The company said the oil markets and the marine fuel sector remained under great pressure despite modest improvement in some segments of the shipping industry. "A combination of three hurricanes and a serious refinery fire

compounded what was already a tough environment in the third quarter," it added.

Korea and Japan set for biannual meetings to bolster their shipbuilding industries

SOUTH Korea and Japan have agreed to hold a biannual meeting as they seek further co-operation in bolstering the shipbuilding industry.

In their first meeting, held on November 2, both countries shared the view that it was necessary for them to work together to come up with concrete measures to deal with issues of vessel oversupply, said Japan's Ministry of Land, Infrastructure, Transport and Tourism in a statement.

The two nations also discussed the necessity of encouraging China to follow international efforts to cease government-backed subsidies provided to yards, which they believe could distort the market balance.

Separately, Japan expressed its concerns over South Korea's recent government subsidies being injected into shipbuilding companies, according to the ministry.

Japan and the European Union have repeatedly urged the Organisation for Economic Co-operation and Development to investigate Daewoo Shipbuilding & Marine Engineering's series of government bailouts over the past few years.

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