

Fifty Shades of Preparedness for IMO 2020

When January 1, 2020, arrives and the global 0.5% sulfur cap comes into force, it will trigger the biggest and most sudden change the shipping industry has ever seen. Overnight, about 90% of global demand for bunker fuel must switch from HFO to low-sulfur alternatives and no one knows quite what will happen. The closest event in terms of seismic change was when the sulfur emission control areas (SECAs) came into effect in January 2015, but that only affected about 6 to 7% of total fuel consumption.

It is impossible to be fully ready for something that has never happened before and every shipowner and operator must assess their own risks and make their own preparations. Each will be unique with its own nuances; there will be at least ‘50 shades of preparedness,’ so to speak.

What Can you Expect?

Some owners and operators have installed scrubbers and plan to continue using heavy fuel, but they need to consider where they will find HFO in the future. Ask yourself: “If I were a fuel supplier, would I really stock a fuel whose price is expected to crash as its demand slumps?”

The majority of ship owners plan to use low-sulfur fuels, but there is currently no agreed specification for these new fuels – apart from the maximum sulfur content. And anyone hoping to conduct early trials to assess the suitability of a particular new fuel will have been sorely disappointed: none is as yet readily available. As this is a new product, each refinery will produce a product which has its own unique composition that will need to be tested. The onus is on shipowners. Some of the oil majors say they are ready to begin supplies, but they will only do so on a contract basis; they are not offering it on the spot market.

While low-sulfur fuel will start to become available later this year, there are about 350 locations worldwide where bunkers are supplied and the logistics needed to transport the new products to each of them by January 1 simply does not exist. This means that, with the exception of about 10 to 15 major ports, there will inevitably be shortages in the first half of 2020 – certainly in small and remote places. That means bunkering will not be cheap; where supplies are limited, they will go to the highest bidder.

Any owner or operator that has not yet started planning their low-sulfur fuel procurement strategy should begin now. It is essential to have a robust plan in place by the end of the second quar-

ter of this year, as low-sulphur bunkering will commence around September 1, giving four months to bring the strategy into effect. A key component involves assessing whether any modifications are needed to their ships, but the biggest impact for most companies will be on how they buy their bunkers and interact with suppliers.

Until now, the marine bunkers market has been a niche sector – little more than a sulfur sink for oil refineries. HFO has effectively become a commodity and although bunker buyers might be spending huge sums of money each year, they are working with an established supply chain that is geared to deliver an established product.

With the arrival of low-sulfur fuel, all of that will change dramatically. The process of buying and trading bunkers will resemble the global oil markets and will attract new entrants with a more sophisticated approach to business. In many cases, today’s bunker managers will struggle to compete unless there is a recognition that the bunker buying is evolving into energy management.

In oil market trading, for example, if the quality of oil delivered is better than that contracted, a premium would be paid. Or if the delivered product is worse, a discount would be expected. That is light years away from how bunkers are bought and sold. We do not expect bunker trades to ever match that particular level of comparability, but shipping companies need to use some of the time over the next few months to prepare their bunker buying strategies to be able to compete in this new environment. This requires a complete behavioral change; it will not be possible to continue current practices and expect the same results.

The Way Forward

Inatech provides system solutions to both the marine bunkering and oil trading sectors. As bunker management becomes more like oil trading, new risks will need to be managed, such as price volatility, product availability and complex supply chains. Last minute bunkering will lead to increased working capital being required and this will impact the bottom line. Additional market data will be required and systems and resources must be put in place to analyze this data and to manage new workflows.

One practical change is to move away from buying on spot. That makes bunker managers simply price-takers, with no influence over the price that the supplier gives. Instead, they should establish contracts with suppliers.

For ships on regular liner services, this is straightforward, but tramp ships can also benefit since these vessels buy roughly 70%

Get ready for unprecedented disruption as 2020 nears, says Alok Sharma, Senior Vice President at Inatech.



of their fuel from about 10 ports of origin. On that basis, they should set up contracts with suppliers in those locations. It requires a more disciplined and transparent approach to bunker buying but it is worth it: the cheapest fuel tends to be in the major ports.

Away from the office, owners need to prepare their ships in good time, especially if their bunker tanks need cleaning. There are two ways to blend the new compliant fuel: either from dirty residual fuel or from gasoil. In either case, a lot of work will be needed, since the ship has been loading what is effectively a dirty product and must now accept a much cleaner fuel.

Choosing fuel will become more complicated, because blend-

ing bunkers is like blending wine. There are many ways to do it and every supplier tries to minimize their costs by spending as little as possible on materials, feedstock and the blending process. As a result, we are entering a brave new world where we will have no idea how our fuel has been produced or to what specification it will arrive at the market with.

Defining that specification is not as simple as, for example, taking the ISO parameters for a 3.5% sulfur fuel and expecting to keep them all the same but with less sulfur content. Because the new fuels are blended, it will not just be their sulfur content that is affected in the manufacturing process. This makes compar-

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ing offers difficult and it will no longer be enough simply to take the cheapest.

Instead, bunker negotiations should center on ‘energy procurement’ by taking account of the energy content and factors such as their calculated carbon aromaticity index (CCAI), which is a measure of ignition quality. All of this data should be available from the supplier. This approach is the only way to create a level playing field on which to compare fuels that have

been blended using different techniques.

The market will take time to adjust its pricing and supply chains but it will soon settle. There is no shortage of oil so, in the long term, supply will not be an issue, but watch for availability. It will be the period from the fourth quarter of this year and into the second quarter of 2020 when we will see the most disruption, with more stability emerging from June next year. By then, it should be clear which regions will

see the greatest demand for these fuels and the supply chains will be in place to avoid congestion at the busiest bunker ports.

What is certain is that these new fuels will be more expensive, but how much their price will rise and whether it will peak and fall back remains to be seen. But with new supply chains needing to be established, the premiums over crude oil are likely to remain high. Globally, the industry’s total extra costs for complying with the sulfur cap will be an estimated \$60 billion in 2020, according to S&P Global Platts Analytics.

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This makes the need to prepare even more urgent if the extra costs are to be addressed in time. With a strategy in place, there’s no reason for the sea change in regulations to leave anyone drifting aimlessly at sea.

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is the Senior Vice President at Inatech, a Glencore company that provides oil trading and bunker fuel management solutions for the marine and oil industry. For Shipping, Inatech’s Shiptech platform, with the Smart Trader module, is the market leading system for bunker fuel procurement, with daily usage by a combined fleet of over 2,000 vessels. For more information, go to www.shiptech.com