Who are the winners from the IMO global sulphur cap?

Inatech chief executive Jean-Hervé Jenn offers his five winners from the International Maritime Organization's 2020 crackdown

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by Jean-Hervé Jenn

Jean-Hervé Jenn, chief executive of Inatech, a unit of Glencore, argues that IMO 2020 will benefit African producers of sweet crude oil and advanced refiners on the US Gulf coast and China. His list of five key winners is headed by Asian and African children

AFRICAN AND ASIAN CHILDREN CAN CATCH UP WITH THOSE IN NORTH AMERICA AND NORTHERN EUROPE WHOSE HEALTH ALREADY BENEFITS FROM LOW-EMISSION COASTAL ZONES.

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THE International Maritime Organization's crackdown on the amount of sulphur permitted in shipping fuel from January 1, 2020 will cost the shipping industry tens of billions of dollars in extra fuel every year.

But it will also provide big opportunities for the maritime and oil industries — and, indeed, for humanity. Here's my list of the top five winners:

1) Children living in coastal regions of Asia and Africa

According to health experts, we are about to see millions of children get healthier. While those in North America and northern Europe already benefit from low-emission coastal zones that have seen sulphur dioxide levels plummet since 2015, it's time for the rest of the world to catch up.

Given the effects of air pollution on brain development and the health of our lungs and hearts, what we're about to experience is a global health bonus, and on a scale that has never happened before.

Of course, pollution needs to be tackled also from cars, power plants and industry, but these tend to be dealt with on a regional level. The impact of global regulation cannot be underestimated. As a country, shipping would rank as the sixth-largest greenhouse gas emitter, between Germany and Japan.

2) Africa's major oil producers

Nigeria, Angola, Algeria and Libya are all major producers of low-sulphur or "sweet" crude, and therefore stand to benefit from increased demand for low-sulphur refined products.

Even the more conservative estimates of a $2 per barrel increase in the premiums for sweet crude over international benchmarks would bump up annual revenues by over $1bn each for Nigeria, Angola and Algeria, while Libya would be boosted by at least half that amount. And that's based on current production; if African producers expand export capacity, they can win on both price and volume.

Conversely, Saudi Arabia, Venezuela, Canada and Russia will see their predominantly sour crude discounted versus international benchmarks — costing billions of dollars each year. For US shale, the impact of 2020 is probably neutral: while low in sulphur, US shale is too "light" — rich in naphtha and gasoline — for 2020-compliant fuels.

3) Quality suppliers and intermediaries

The marine bunker fuel business is about to experience its biggest revenue increase in years thanks to demand for higher-quality fuels from 2020. This will create winners and losers. While many shipowners have used low-sulphur blends within Emission Control Areas since 2015, others will need assurance that these fuels are reliable, and will turn to suppliers with a track record of reliable supply contracts, and in-house knowledge of the compatibility of fuel types.

Suppliers with access to storage tanks for “clean” products — refined distillate fuels — will be in hot demand. More power still to companies that know their customers' routes and can assure the supply of compatible fuels for the full length of voyage.

While some companies have come out in advance of 2020 to announce compliant fuels, most of the independent bunker suppliers have failed to clarify in advance whether they will have access to cleaner fuel supplies. In the face of competition, keeping your customer in the dark does not usually make good business sense.

4) Complex refineries

Large advanced refineries that can convert discounted heavy sour crude into valuable products stand to profit from IMO 2020.

Such refineries are spread over parts of Europe, Asia and the Middle East but it’s Texas and the US Gulf coast that stand to benefit most because of their “coking” capacity. Cokers are high-pressure, high-temperature units that extract products from residues of earlier stages in the refining process, leaving solid petroleum coke that can be used as inputs for steel and aluminium. For these companies, the relative drop in price for high-sulphur fuel oil as feedstock should dramatically improve margins.

Key refining centres in China, India and South Korea will similarly enjoy boosted margins, encouraging them to increase production of diesel, jet fuel, and distillate marine bunker fuels. However, Singapore, the world's largest bunkering hub, could come under severe threat if shipowners can buy cheaper low-sulphur marine fuel at other locations on Asian routes.

5) Fuel-saving technologies

Super-efficient hulls and wind-assisted propulsion technologies that reduce fuel consumption have been around for years. But the post-2020 premium on gasoil will provide far greater financial imperative to invest.

It’s not just the bean counters that will be pushing on fuel costs. Efficiency and emissions reduction will become ever more business-critical to shipping as customers start demanding “green freight” on deliveries. Carriers that can offer cleaner freight services to their customers will win business from those who can’t.

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