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Argus Fuel Oil Summit:
Speaker Q&A with BIMCO

Peter Sand is **Chief Shipping Analyst** at shipping association BIMCO, which he joined in 2009. He is responsible for analysing the commercial markets for dry bulk vessels, tankers and container ships, and assists management teams, association members and clients with insights into the many different aspects of the global shipping industry. Peter's regular reports, analytical articles and insightful comments on the shipping market are widely read and have often been referenced in the global mainstream media. Before BIMCO, he worked for dry bulk and products tanker company D/S Norden. Peter holds a Master's in Economics from the University of Copenhagen. He is also a teacher of Maritime Economics at the Danish Shipping Academy as well as guest lecturer at the Copenhagen Business School.

What level of compliance do you expect from shipowners in 2020?

BIMCO has consistently pointed out that availability of compliant fuel oil where ships need to bunker is what determines the level of compliance come 2020. While we see daily announcements from refiners and suppliers about local initiatives, it remains open to question whether overall supply of compliant fuel can meet demand.

What are shipowners doing to best protect themselves in future charter contracts from potential fuel quality problems?

Being the world's leader of standard contracts for the shipping industry, BIMCO has developed a series of bunker clauses dealing with specific issues related to 2020.

Specifically, shipowners should review bunker provisions under new and existing charter party contracts to see if they have adequate wording. In addition to our 2020 clauses, BIMCO has a wide range of bunker-specific clauses. Among these are clauses dealing with such issues as quality control, sampling and fuel testing.

It is also highly important to check bunkering contracts and ensure that there are time bars on quality disputes that allow for the fuel to be tested. It is also recommended that the ISO 8217 standard applies to any fuel delivery as there is a convenient catch-all phrase stating that "The fuel shall be free from any material at a concentration that causes the fuel to be unacceptable for use in accordance with Clause 1 (i.e. material not at a concentration that is harmful to personnel, jeopardises the safety of the ship, or adversely affects the performance of the machinery)."

How do you think dirty product tanker owners will handle the drop in HSFO shipping demand in 2020? How easy is it for them to clean their tankers to move diesel or LSFO?

As the fall in demand for HSFO shipping will be substituted by an increase in demand for shipping LSFO or other compliant fuel, it will change trade lanes and perhaps also ship types and sizes. IMO 2020 brings with it a dynamic and multi-faceted change to oil tanker shipping trade lanes. A full and clear overview cannot be presented, but it will unfold as the 2020 progresses.

The bulk of HSFO will not suddenly and mysteriously disappear. The volumes that shipping will no longer purchase will have to find new homes. This requires transportation, and dirty product tankers will be the ones to transport the fuels. Still, one could argue that compliant 0.5pc blended fuel is not particularly clean, and those fuels will also need transportation. It looks like this is not a zero-sum game for tanker owners, but we'll have to see.

Cleaning of cargo tanks happens all the time, while cleaning of fuel tanks requires something special. But anecdotal evidence suggests it won't be the massive problem that some foresaw early on – fortunately.

What fuel-hedging techniques might shipowners utilise? Will increased fuel prices be passed down to their customers?

The hedging techniques are all the same ones we know about today – and have known about for several years. But with any use of financial derivatives comes risk. Owners and operators are aware that they shift one risk for another when going down the hedging road. Using hedging is often done based on specific contracts like a COA, and when the uncertainty is known and use of fuel may be quite accurately estimated. But hedging costs money, which means a lot of operators opt for passing on the extra cost to its customers. That is a strategy that comes with different risks, because you may only be able to pass on all the extra cost under specific market conditions.

Do you see two-tiered freight rates shaping up — for tankers with scrubbers and tankers without scrubbers?

Any shipping market is multi-tiered by nature, as only a few ships are considered identical. Age, size, conditions, position is never the same. In the spot market, I see only one market, but for time charters we already see a premium for ships that have a scrubber installed.

Do you think more countries will follow Indonesia's example and allow vessels to continue to burn HSFO in their territorial waters in 2020?

Does it really matter? Now, international trade will have to be compliant throughout. That matters!

Remember, the case of Indonesia is relevant for domestic shipping. Yes, there is the issue of a level playing field if foreign flagged ships engage in competition with domestically flagged ships under such circumstances. We believe such cases will be few.

Could a shipowner submit a fuel oil non-availability report (FONAR) and still get fined for non-compliance? If so, under what circumstances?

Short answer – yes. A FONAR is a structured form for submitting evidence that may mitigate actions by Port State Control (PSC). Yet the regulations also require PSC to take appropriate actions to make non-compliant fuel compliant. A fine could be the least of the worries. There is also the case of the carriage ban coming into force by 1 March 2020 — preventing a ship from departing in non-compliance.

What do you think will be the new 2020 oil tanker arbitrage routes for diesel, low-sulphur residual fuel oil (compliant with IMO 2020), and for sweet crude?

Forecasting where arbitrages will occur is mission impossible. The only thing that seems certain is that Europe will be lacking compliant fuels. As the Antwerp-Rotterdam-Amsterdam area is a massive fuel hub, this means oil products will flow in from Middle East and US. As for crude, I'm not so sure that any changes to existing trade patterns will add much positive to tanker freight rates. Hopes are high in the industry that IMO 2020 will give a demand boost, and we believe this will be the case. With estimates all over the place, BIMCO's appear to be among the most modest.

What are BIMCO's top initiatives for 2020?

From a market analysis perspective, we have been vocal about the conditions that must be met in order to pass the extra bunker cost down the supply chain — the better the balance, the more you can pass on.

The IMO 2020 sulphur cap will come into force 1 January and IMO have released all the guidance they have been able to provide. No previously IMO regulation has been followed by this amount of guidance. Now it is up to the flag states, coastal states and port states to ensure robust and uniform enforcement through national regulations. BIMCO will follow global implementation closely.

BIMCO is ready to guide its members in connection with the carriage ban that enters force on 1 March 2020. Our clear advice to members is to ensure that they comply when the carriage ban enters into force.

We still wait to see the key fuel properties of the new compliant VLSFO. BIMCO will in general keep an eye on any increased variability of compliant fuels available on the market when we hit 1 January 2020 and especially as we begin to see to what extent the fuels available are incompatible with each other.

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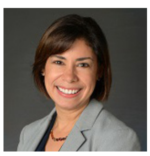
With critical insights from:

Carl Ellett
Senior Economist
PBF Energy

Samuel Danus
Port State Control Oversight
US Coast Guard

Peter Sand
Chief Shipping Analyst
BIMCO



Silva de Marucci
Executive Manager Economic Analysis & Market Research
Autoridad del Canal de Panamá

John Ghio
Deputy Captain of the Port
Gibraltar Port Authority

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