# FUEL BUYERS LOSING MILLIONS A YEAR AS BUNKER INDUSTRY’S SHAME CONTINUES UNABATED

January 1st, 2017 was a massively important day for the bunkering industry; the day on which Singapore, the world’s largest bunker market, mandated mass flow meters (MFMs). The Maritime Port Authority of Singapore (MPA) had prepared for years for this event, designing specific standards for MFM introduction, certification, and stringent regulations to ensure compliance and enforcement. Overnight the structure of the Singapore bunker market and the global bunker industry seemingly changed forever. In an article published in late 2020, I speculated that this decision had saved the buyers in Singapore about $1.7 billion in fuel costs in less than four years!

There is no doubt that the introduction of MFMs in Singapore financially benefited the buyers of fuel. It also removed from the supply picture short deliveries of bunkers, by unscrupulous means or otherwise. In conjunction with this, it established a financial logic to the market, making it impossible anymore to seemingly buy delivered bunkers below the cost of the original cargo, enabling prices to follow a consistent pattern where the ex-wharf bunker price was higher than the wholesale (MOPS) price and where the delivered price was higher still. Under the pre-MFM era it was commonplace to see delivered bunker prices below wholesale prices as a clear sign of some form of malpractice.

Prior to 2017, the Singapore bunker market had a poor reputation and it was not alone; arguably many of the world’s major bunker ports and a good number, but not all physical suppliers, in those ports carried an “equally as bad” reputation for short delivery. So, given the recognition of Singapore’s success in rebuilding reputation through the introduction of MFM regulations, one would assume that five years later, every major port would have adopted the same practices. However, this is not the case. In fact no port, large or small, has joined Singapore in their efforts.

There has to be a logical explanation as to why port authorities, as well as ship owners and operators have not jumped at the chance. Instead, they continue to make the decision to take delivery using archaic methods of gauging quantities that they would not accept for a delivery of heating oil or gasoline for cars. Port authorities often cite their lack of authority (offsetting responsibility), don’t acknowledge the challenge in their ports or reference the lack of complaints from fuel buyers. After all, if the buyers don’t complain, then how can there be a problem? It’s a fair point.

The explanation for lack of action by both port authorities, local and national governments and buyers is a complicated one, although denial, cronyism, corruption and ignorance all play their part, as well as a lack of evidentiary proof and misguided buyer performance incentives. However, it is hard to turn away from the simple, economic facts.

During recent weeks Blue *Insight* has conducted research for a global report on this challenge with a view to publishing a broad study later this year that lays out the causes and damage, financial or otherwise created by this issue within the bunkering sector. To fully understand the magnitude of the challenge research was conducted on the ports of Rotterdam and Fujairah, the second and third largest bunkering ports in the world. In both locations bunker licensing regimes exist but mass flow meter regulations are not (as yet) mandated.

We started by making one key assumption; that for an extended period of time (in this case the calendar year 2021) no supplier will continue to operate below an economic breakeven. The only logical exception to this would be a location where a local refiner decides to sell product below retail market values. While this does happen and there are refiners near each location where this could apply, there is no evidence this was practiced and that a refiner would be willing to suffer the opportunity cost of this strategy relative to higher returns of selling into wholesale market. The cost components for both Rotterdam and Fujairah are based on Blue *Insight’s* professional knowledge and understanding of each of these markets, with significant inputs from suppliers, buyers and surveyors active in those locations. Every effort has been made to represent the average supplier economics in this analysis, although there will be exceptions (both above and below the average). We believe that no supplier will consistently sell below breakeven and if they do so they must be supplementing margin by volumetric gains on barge deliveries and a variety of other means generally against the interests and at the expense of the receiving vessel, its owner, the buyer and the charterer.

We have also used published pricing data where this is available and reliable. Lastly, before presenting our findings, we have chosen to analyse each port based on the economics of VLSFO. The research shows that HSFO has similar findings and MGO is generally worse than the outcome illustrated below for both Fujairah and Rotterdam

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| FUJAIRAH |
| Cost Component | $/MT Dlvd |
| Cargo Cost (FOB Purchase Price - MOPS+) | $5.00  |
|  |  |
| Terminal Loading Loss | $2.00  |
| Barge T/C (5 Rotations per Month)+Fuel | $8.50  |
| WC Financing (45 days)+Credit Cost | $3.30  |
| Operating Overhead | $1.45  |
| Inspection/Port Cost/License | $1.20  |
|  |  |
| Operating Break Even (FOB Purchase Price - MOPS+) | $21.45  |
|  |  |
| Bunkerwire VLSFO Premium Over MOPS (2021 Prices) | $8.30  |
|  |  |
| **Supplier Operating Loss per MT** | **$(13.15)** |
|  |  |
| **Total FJ $ Impact (Total FJ 2021 - 7,659,639 MTs)** | **$(100,724,253)** |
|  |  |

# Table 1: Fujairah - True Bunkering Economics

Table 1 illustrates that in Fujairah the average supplier is or should be operating $13.15/mt below a true breakeven. When this is calculated over the entirety of 2021, Fujairah volume indicates a total loss of approximately $100 million for buyers, charterers and owners. Suppliers cannot operate this way and the assumption is that the negative margin is supplemented.

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| ROTTERDAM |
| Cost Component | $/MT Dlvd |
| Cargo Cost (FOB Purchase Price - MOPS+) | $4.00  |
|  |  |
| Terminal Loading Loss | $1.50  |
| Barge T/C (4.75 Rotations per Month)+Fuel | $12.20  |
| WC Financing (45 days)+Credit Cost | $3.10  |
| Operating Overhead | $1.45  |
| Inspection/Port Cost/License | $0.50  |
|  |  |
| Operating Break Even (FOB Purchase Price - Barges+) | $22.75  |
|  |  |
| Published Bunker price VLSFO Premium over Barges 0.5% (2021) | $12.20  |
|  |  |
| Observed VLSFO Premium over Barges 0.5% (2021) | $7.00  |
|  |  |
| **Supplier Operating Loss per MT** | **$(15.75)** |
|  |  |
| **Total RT $ Impact (Total RT 2021 - 9,592,145 MTs)** | **$(151,076,284)** |
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# Table 2: Rotterdam - True Bunkering Economics

Table 2 illustrates that in Rotterdam the average supplier is or should be operating $15.75/mt below a true breakeven. When calculated over the entirety of 2021, Rotterdam volume indicates a total loss of approximately $151 million for buyers, charterers and owners. In the case of Rotterdam, we have identified underreporting of published bunker prices by approximately $5/mt when compared to the actual price data from suppliers. We did not find this issue in Fujairah. Even when this underreporting is ignored, the total loss still exceeds $100 million.

# Conclusion

We believe the evidence is clear; that the buyers of fuel in both ports are disadvantaged and are not receiving the volume of bunkers they are being billed for. This is largely due to intentional volumetric shortages as well as legacy operational and attitudinal practices in shipping and bunkering that need to evolve. To help address this breadth of factors, we do believe that the introduction of properly certified mass flow meters in combination with a robust licensing, certification and enforcement regulation will do much to eliminate these issues. Blue *Insight* will report later in the year once a global analysis has been completed on the true extent of this problem and a continuing challenge that serves to impact the sector’s reputation.